7 February 2019

Länsförsäkringar Hypotek

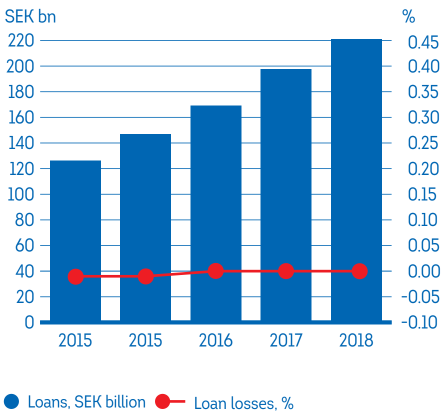
Year-end report 2018

The year in brief, Group

- Operating profit increased 33% to SEK 1,084 M (813.0) and the return on equity increased to 7.7% (6.9).
- Net interest income increased 16% to SEK 2,434 M (2,101).
- Credit losses amounted to SEK -1.3 M (0.0), net, corresponding to a credit loss level of -0.00% (0.00).
- Lending increased 12% to SEK 221.1 billion (197.7).
- The Common Equity Tier 1 capital ratio amounted to 18.3% (54.5*) on 31 December 2018.
- The number of customers rose 7% to 274,000 (255,000).
- According to the 2018 Swedish Quality Index customer satisfaction survey, Länsförsäkringar is the player on the market with the most satisfied retail mortgage customers.

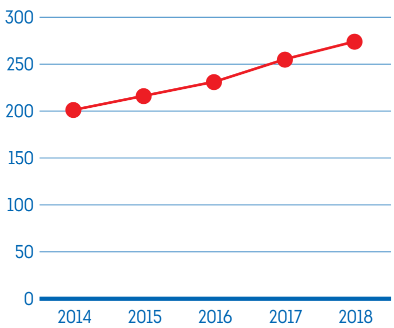
Figures in parentheses pertain to the same period in 2017.
* Pertains to 30 September 2018. As of 31 December 2018, the application of the risk weight floor for Swedish mortgages will change, which consequently reduces the capital ratios for the current period.

Loans to the public



Customer trend

Number of customers, 000s



President's comment

Our strategy of strong local presence together with leading digital services continues to be successful and we can see that customers appreciate our mortgage offering. This can be seen particularly in terms of customer satisfaction where Länsförsäkringar has the most satisfied retail mortgage customers according to the 2018 Swedish Quality Index. The number of customers is continuing to grow and market shares are gradually increasing as we further strengthen our position in the mortgage market. Länsförsäkringar Hypotek continued to perform well and we delivered strong operating profit for the year. Lending growth is stable, while credit quality remains high and credit losses very low. The Swedish economy remained buoyant and household finances are favourable despite some macroeconomic risks becoming more tangible over the year. The housing market was again a focal point and based on the price trend we can summarise the year as relatively stable.

Anders Borgcrantz
President of Länsförsäkringar Hypotek

Länsförsäkringar

lansforsakringar.se/finansiellthypotek

Key figures

	Q 4 2018	Q 3 2018	Q 4 2017	Jan-Dec 2018	Jan-Dec 2017
Return on equity. %	7.3	7.8	7.3	7.7	6.9
Return on total capital. %	0.44	0.46	0.44	0.46	0.40
Return on total assets. %	0.35	0.36	0.34	0.36	0.31
Investment margin. %	1.01	1.04	1.05	1.04	1.03
Cost/income ratio before credit losses	0.09	0.09	0.10	0.09	0.11
Common Equity Tier 1 capital ratio. %	18.3*	54.5	56.3	18.3*	56.3
Total capital ratio. %	19.4*	57.8	59.8	19.4*	59.8
Share of credit-impaired loan receivables (stage 3). %	0.07	0.08	–	0.07	–
Reserve ratio for loan receivables stage 1. %	0.00	0.00	–	0.00	–
Reserve ratio for loan receivables stage 2. %	0.08	0.07	–	0.08	–
Reserve ratio for loan receivables stage 3. %	1.06	1.02	–	1.06	–
Reserve ratio for loan receivables stage 3. incl. withheld remuneration to regional insurance companies. %	5.29	5.12	–	5.29	–
Credit loss level. %	-0.00	-0.00	0.00	-0.00	-0.00

* As of 31 December 2018, the application of the risk weight floor for Swedish mortgages will change, which consequently reduces the capital ratios for the current period.

Income statement, quarterly

SEK M	Q 4 2018	Q 3 2018	Q 2 2018	Q 1 2018	Q 4 2017
Net interest income	611.9	624.0	612.2	585.4	561.4
Net commission	-327.7	-304.9	-285.4	-321.7	-309.3
Net gains/losses from financial items	8.7	-15.9	5.2	0.0	11.8
Other operating income	0.0	0.0	0.0	0.0	0.0
Total operating income	**292.9**	**303.3**	**332.1**	**263.8**	**264.0**
Staff costs	-3.2	-3.4	-3.8	-4.5	-3.3
Other administration expenses	-24.5	-23.0	-23.4	-23.2	-22.4
Total operating expenses	**-27.7**	**-26.3**	**-27.2**	**-27.7**	**-25.8**
Profit before credit losses	**265.2**	**276.9**	**304.8**	**236.1**	**238.2**
Credit losses, net	0.1	0.5	0.5	0.3	-0.6
Operating profit	**265.3**	**277.4**	**305.3**	**236.4**	**237.6**

Market commentary

The global economy performed relatively well in 2018, with growth of just under 4%. However, global growth slowed in the second half of the year following the economic boom and high growth in GDP of the last few years. The US reported the strongest trend with healthy GDP growth and high confidence among both consumers and companies. The most important driver was the expansive fiscal policy that includes tax reductions.

The Fed lifted its key interest rate by 0.25 percentage points four times during the year and has indicated that two additional hikes can be expected in 2019. The US economy is expected to contract going forward in line with both fiscal and monetary policy becoming less expansive. Growth in China declined slightly in 2018, mainly driven by new regulations that slowed credit growth. Due to the weaker economic outlook, both fiscal and monetary policy changed track in a more expansive direction in a bid to stimulate the economy. The growth rate in the Eurozone clearly decelerated but is still expected to end up at close to 2%. The ECB left its key interest rate unchanged at 0% during the year and indicated that the first hike would not be until the second half of 2019 at the earliest. Nonetheless, the ECB unwound its monetary stimulus programmes by gradually reducing its net purchases of bonds and subsequently ended them at the end of the year.

2018 was a significantly more dramatic year for the financial markets than the real economy appeared to suggest. The trend in the financial markets for the first three quarters of the year was relatively stable, but the last quarter was dominated by uncertainty and considerably higher volatility. The change in sentiment was driven by such factors as concern for growth related to the trade war between the US and China, uncertainty surrounding Brexit and Italy's government finances. Stock markets tumbled sharply in the fourth quarter and the Stockholm Stock Exchange ended the full-year at almost minus 8%. This trend resulted in lower expectations about future key interest rates, falling long-term government bond rates and greater differences between rates for corporate and government bonds. Rates on covered bonds also declined during the year.

The Swedish economy performed relatively well, with both growth and employment reporting positive trends, and unemployment declined despite a growing labour force. The housing market stabilised during the year following a weaker initial trend and housing prices are expected to have risen slightly for the country as a whole. Construction was strong at the start of the year, but later slowed and is expected to end with about the same number of completed housing units as in 2017. In December, the Riksbank raised the repo rate by 0.25 percentage points to -0.25% since inflation and inflation expectations were deemed to have established at about 2%.

2018 compared 2017

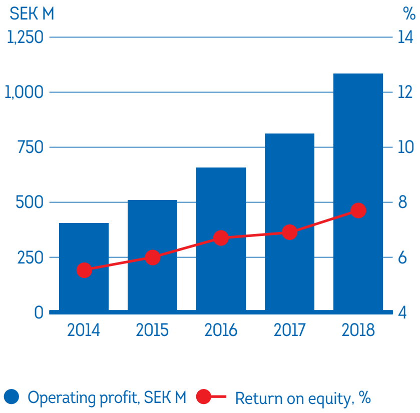
Growth and customer trend

Loans to the public rose 12%, or SEK 23.4 billion, to SEK 221.1 billion (197.7), with continued very high credit quality. The number of customers rose 7%, or 19,000, to 274,000 (255,000), and 88% (87) of retail mortgage customers have Länsförsäkringar as their primary bank.

Earnings and profitability

Operating profit increased 33% to SEK 1,084 M (813.0), primarily due to higher net interest income. The investment margin strengthened to 1.04% (1.03). Profit before credit losses rose 33% to SEK 1,083 M (813.0). Return on equity strengthened to 7.7% (6.9).

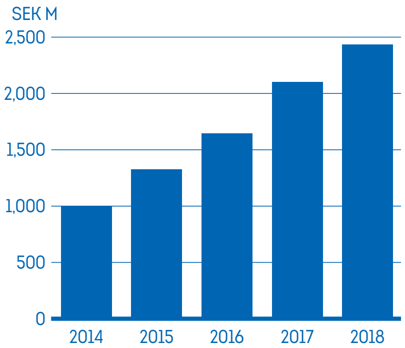
Operating profit and return on equity



Income

Operating income rose 30% to SEK 1,192 M (916.4), due to higher net interest income attributable to increased volumes and lower refinancing costs. Net interest income increased 16% to SEK 2,434 M (2,101). Net losses from financial items amounted to SEK –1.9 M (–43.0). Net commission amounted to SEK –1,240 M (–1,141), as a result of increased remuneration to the regional insurance companies related to higher business volumes and the strengthened profitability of the business.

Net interest income



Expenses

Operating expenses amounted to SEK 109.0 M (103.4). The cost/income ratio was 0.09 (0.11) before credit losses and 0.09 (0.11) 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 –1.3 M (0.0), net, corresponding to a credit loss level of –0.00% (0.00). Credit-impaired loan receivables (stage 3) before provisions amounted to SEK 153.6 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 153.6 M. The total recognised loss allowance for loan receivables under IFRS 9 amounted to SEK 5.6 M, of which SEK 1.6 M pertained to credit-impaired loan receivables. The reserve ratio for credit-impaired loan receivables amounted to 1.06%. In addition to the recognised loss allowance for loan receivables, SEK 22.2 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 6.5 M pertains to credit-impaired loan receivables. Including the withheld remuneration to the regional insurance companies, the loss allowance for loan receivables totalled SEK 27.8 M. The reserve ratio for credit-impaired loan receivables, including withheld remuneration to regional insurance companies, amounted to 5.29%.

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 12%, or SEK 23.4 billion, to SEK 221.1 billion (197.7). The credit quality of the loan portfolio, comprising 71% (72) single-family homes, 25% (24) tenant-owned apartments and 4% (4) multi-family housing, remained favourable. On 31 December 2018, the market share of retail mortgages had strengthened to 6.7% (6.3) according to Statistics Sweden.

Cover pool

The cover pool, which forms the basis of issuance of covered bonds, contains SEK 211.4 billion, corresponding to 95% of the loan portfolio. The collateral comprises only private homes, of which 72% (72) are single-family homes, 26% (26) tenant-owned apartments and 2% (2) vacation homes. The geographic spread throughout Sweden is favourable and the average loan commitment is low at SEK 1.25 M (1.20). The weighted average loan-to-value ratio, LTV, was 59% (57) and the nominal, current OC (overcollateralisation) amounted to 35% (35). Länsförsäkringar Hypotek's cover pool has a healthy buffer to manage any downturns in housing prices. In a stress test of the cover pool based on a 20% price drop in the market value of the mortgages' collateral, the weighted average LTV amounted to 66% (65) on 31 December 2018. No impaired loans are included in the cover pool. According to Moody's report (Global Covered Bonds Monitoring Overview, Q2 2018), Länsförsäkringar Hypotek's cover pool continues to have the highest collateral score among all Swedish covered-bond issuers, and is among the foremost in Europe.

Cover pool	31 Dec 2018	31 Dec 2017
Cover pool, SEK billion	221	198
OC[1]), nominal, current level, %	35	35
Weighted average LTV, %	59	57
Collateral	Private homes	Private homes
Seasoning, months	59	57
Number of loans	383,242	357,051
Number of borrowers	169,223	157,840
Number of properties	169,051	157,643
Average commitment, SEK 000s	1,251	1,195
Average loan, SEK 000s	552	528
Interest rate type, variable, %	72	69
Interest rate type, fixed, %	28	31
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.

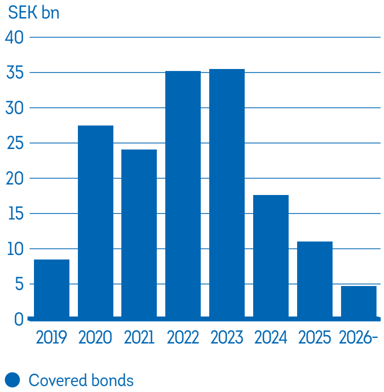
Funding

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 12% to SEK 171.2 billion (152.8). Issued covered bonds during the year totalled a nominal SEK 40.1 billion (39.0) and repurchases of a nominal SEK 13.9 billion (7.2) were executed. Matured covered bonds amounted to a nominal SEK 8.8 billion (6.8).

In March, Länsförsäkringar Hypotek issued a seven-year Euro covered bond for a nominal EUR 500 M. In addition, Länsförsäkringar Hypotek issued a new Swedish bond (LFH518) during the year, which matures in September 2025.

In December 2018, the Swedish National Debt Office established its annual decisions on resolution plans and minimum requirement for own funds and eligible liabilities (MREL) for the institutions that the Debt Office deems to be systemically important, which includes Länsförsäkringar Bank. The Debt Office also decided on individual minimum requirements for Länsförsäkringar Hypotek that will start to apply in 2019.

Maturity profile



Liquidity

On 31 December 2018, liquidity assets totalled SEK 9.9 billion (9.8). 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. Liquidity 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 ratio[1]

Länsförsäkringar Hypotek AB (SEK M)	31 Dec 2018	30 Sep 2018
IRB Approach	17,170	16,964
retail exposures	13,741	13,483
exposures to corporates	3,429	3,482
Standardised Approach	1,480	1,629
Operational risks	1,131	1,131
Additional requirements according to Article 458 CRR	41,225	
Total REA	61,556	20,316
Common Equity Tier 1 capital	11,291	11,077
Tier 1 capital	11,291	11,077
Total capital	11,952	11,738
Common Equity Tier 1 capital ratio	18.3%	54.5%
Tier 1 ratio	18.3%	54.5%
Total capital ratio	19.4%	57.8%

Total Risk Exposure Amount (REA) in the consolidated situation on 31 December 2018 amounted to SEK 61,556 M (20,316). The increase was attributable to the Swedish Financial Supervisory Authority's introduction of additional macroprudential measures under the framework of Article 458 in CRR to counteract asset bubbles in the residential property sector. The application of these measures entails that the risk weight floor of 25% that was previously applied in Pillar II is now recognised as a Risk Exposure Amount in Pillar I and thus impacts the minimum capital requirement and applicable capital buffers. The credit quality of lending remained favourable and did not have any material impact on REA for the quarter.

Common Equity Tier 1 capital strengthened again this quarter, with continued profit generation and amounted to SEK 11,291 M (11,077) on 31 December. The Common Equity Tier 1 capital ratio in Länsförsäkringar Hypotek declined to 18.3% (54.5) during the quarter due to the additional requirement above. Excluding the requirement, the Common Equity Tier 1 capital ratio amounted to 55.5%.

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 31 December 2018 amounted to SEK 6,001 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 are capital requirements for the countercyclical capital buffer and the capital conservation buffer. The countercyclical capital buffer of 2% of REA amounted to SEK 1,231 (406) M on 31 December 2018 and the capital conservation buffer of 2.5% of REA to SEK 1,539 (508) M. Previously, there was also an additional capital requirement for the risk weight floor for Swedish mortgages under the framework of Pillar II. Since this requirement has been transferred to Pillar I, the amount is now reflected in the minimum capital requirement and the additional buffers requirements. This transfer did not have any effect on the level of Länsförsäkringar Hypotek AB's total capital requirements. Excluding the above additional requirement, the countercyclical capital buffer amounted to SEK 407 M and the capital conservation buffer to SEK 508 M. The capital used to meet the internal capital requirement including buffer, meaning own funds, amounted to SEK 11,952 M.

[1] The comparative period is 30 September 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 31 December 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 94.8 M (94.2).

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.

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.

Fourth quarter of 2018 compared with third quarter of 2018

Operating profit amounted to SEK 265.3 M (277.4) due to lower net interest income and higher commission expense. Return on equity amounted to 7.3% (7.8). Operating income amounted to SEK 292.9 M (303.3). Net interest income declined 2% to SEK 611.9 M (624.0). Net gains from financial items amounted to SEK 8.7 M (–15.9) as a result of changes in fair value. Net commission rose 7% to SEK –327.7 M (–304.9). Operating expenses amounted to SEK 27.7 M (26.4) and the cost/income ratio before credit losses to 0.09% (0.09). Credit losses amounted to SEK –0.1 M (–0.5).

Events after the end of the period

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

Other events

Sven Eggefalk, President of Länsförsäkringar Bank, became the Chairman of Länsförsäkringar Hypotek on 2 April 2018. In connection with this, Anders Borgcrantz returned to the position as President of Länsförsäkringar Hypotek.

Annual Report

The Annual Report will be available on Länsförsäkringar Hypotek's website on 27 March 2019.

Income statement

SEK M	Note	Q 4 2018	Q 3 2018	Change	Q 4 2017	Change	Jan-Dec 2018	Jan-Dec 2017	Change
Interest income		851.3	851.8		757.5	12%	3,311.5	2,832.5	17%
Interest expense		-239.4	-227.8	5%	-196.1	22%	-877.9	-731.9	20%
Net interest income	**3**	**611.9**	**624.0**	**-2%**	**561.4**	**9%**	**2,433.6**	**2,100.6**	**16%**
Commission income		0.6	0.6		0.6		2.5	2.4	4%
Commission expense		-328.3	-305.5	7%	-309.9	6%	-1,242.1	-1,143.7	9%
Net commission income	**4**	**-327.7**	**-304.9**	**7%**	**-309.3**	**6%**	**-1,239.6**	**-1,141.3**	**9%**
Net gains/losses from financial items	5	8.7	-15.9		11.8	-26%	-1.9	-43.0	-96%
Total operating income		**292.9**	**303.3**	**-3%**	**264.0**	**11%**	**1,192.1**	**916.4**	**30%**
Staff costs		-3.2	-3.4	-6%	-3.3	-3%	-14.9	-15.7	-5%
Other administration expenses		-24.5	-23.0	7%	-22.4	9%	-94.0	-87.5	7%
Administration expenses		**-27.7**	**-26.3**	**5%**	**-25.7**	**8%**	**-108.9**	**-103.2**	**6%**
Depreciation and impairment of tangible assets		0.0	0.0		0.0		-0.2	-0.2	
Total operating expenses		**-27.7**	**-26.4**	**5%**	**-25.8**	**7%**	**-109.0**	**-103.4**	**5%**
Profit before credit losses		**265.2**	**276.9**	**-4%**	**238.2**	**11%**	**1,083.0**	**813.0**	**33%**
Credit losses, net	6	0.1	0.5	-80%	-0.6		1.3	0.0	
Operating profit		**265.3**	**277.4**	**-4%**	**237.6**	**12%**	**1,084.4**	**813.0**	**33%**
Appropriations		-249.6	0.1		-206.2	21%	-249.5	-200.0	25%
Tax		5.1	-61.0		-7.9		-176.4	-135.9	30%
Profit for the period		**20.7**	**216.4**	**-90%**	**23.4**	**-12%**	**658.5**	**477.1**	**38%**

Statement of comprehensive income

SEK M	Q 4 2018	Q 3 2018	Change	Q 4 2017	Change	Jan-Dec 2018	Jan-Dec 2017	Change
Profit for the period	**20.7**	**216.4**	**-90%**	**23.4**	**-12%**	**658.5**	**477.1**	**38%**
Other comprehensive income								
Items that have been reclassified or may subsequently be reclassified to the income statement								
Cash-flow hedges	3.6	17.8	-80%	9.4	-62%	-43.5	-126.9	-66%
Change in fair value of debt instruments measured at FVOCI	-7.1	-8.3	-14%	-2.3		-8.2	7.0	
Tax attributable to items that have been transferred or can be transferred to profit for the period	0.8	-2.0		-1.5		11.4	26.4	-57%
Total other comprehensive income for the period, net after tax	**-2.7**	**7.5**		**5.6**		**-40.3**	**-93.5**	**-57%**
Total comprehensive income for the period	**18.0**	**223.9**	**-92%**	**29.0**	**-38%**	**618.2**	**383.6**	**61%**

Balance sheet

SEK M	Note	31 December 2018	31 December 2017
Assets			
Loans to credit institutions	7	4,631.0	2,859.2
Loans to the public	8	221,107.9	197,654.8
Bonds and other interest-bearing securities		9,916.6	9,837.9
Derivatives	9	5,540.2	4,681.3
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		103.5	207.5
Tangible assets		0.6	0.5
Deferred tax assets		37.2	27.7
Other assets		3.1	43.5
Prepaid expenses and accrued income		27.8	24.4
Total assets		**241,368.0**	**215,336.6**
Liabilities, provisions and equity			
Due to credit institutions	7	54,426.9	47,266.6
Debt securities in issue		171,195.1	152,811.9
Derivatives	9	430.7	683.9
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		1,019.8	1,134.7
Other liabilities		137.9	133.4
Accrued expenses and deferred income		1,997.9	2,031.9
Provisions		1.5	1.1
Subordinated liabilities		661.0	661.0
Total liabilities and provisions		**229,870.7**	**204,724.4**
Untaxed reserves		**908.3**	**658.8**
Equity			
Share capital		3,129.9	70.3
Statutory reserve		14.1	14.1
Fair value reserve		-109.5	-69.1
Retained earnings		6,896.1	9,461.1
Profit for the period		658.5	477.1
Total equity		**10,589.1**	**9,953.4**
Total liabilities, provisions and equity		**241,368.0**	**215,336.6**
Other notes			
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Cash-flow statement in summary, indirect method

SEK M	Jan–Dec 2018	Jan–Dec 2017
Cash and cash equivalents, 1 January	**2,858.7**	**4,610.6**
Operating activities		
Operating profit	1,084.4	813.0
Adjustment of non-cash items	95.2	-7.9
Change in assets of operating activities		
Change in interest-bearing securities	-114.8	-651.6
Change in loans to the public	-23,430.8	-28,706.0
Change in other assets	24.2	-254.6
Change in liabilities of operating activities		
Change in deposits and funding from the public	-	-
Change in debt securities in issue	17,107.5	25,253.6
Change in other liabilities	6,990.3	201.8
Cash flow from operating activities	**1,755.9**	**-3,351.7**
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	-	-340.0
Shareholders' contributions received	-	1,940.0
Cash flow from financing activities	-	**1,600.0**
Net cash flow for the period	**1,755.7**	**-1,751.9**
Cash and cash equivalents, 31 December	**4,614.4**	**2,858.7**

Comparative figures have been restated since 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: Share capital	Restricted equity: Statutory reserve	Non-restricted equity: Fair value reserve: Fair value reserve	Non-restricted equity: Fair value reserve: Hedge reserve	Non-restricted equity: Retained earnings	Non-restricted equity: 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						477.1	477.1
Other comprehensive income for the period			5.5	-99.0			-93.5
Comprehensive income for the period			**5.5**	**-99.0**		**477.1**	**383.5**
Resolution by Annual General Meeting					387.3	-387.3	-
Unconditional shareholders' contribution received					1,940.0		1,940.0
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						658.5	**658.5**
Other comprehensive income for the period			-6.4	-33.9			-40.3
Comprehensive income for the period			**-6.4**	**-33.9**		**658.5**	**618.2**
Resolution by Annual General Meeting					477.1	-477.1	-
Bonus issue	3,059.6				-3,059.6		-
Closing balance, 31 December 2018	**3,129.9**	**14.1**	**22.5**	**-132.0**	**6,896.1**	**658.5**	**10,589.1**

[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.

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.

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 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 4 2018	Q 3 2018	Change	Q 4 2017	Change	Jan-Dec 2018	Jan-Dec 2017	Change
Interest income								
Loans to credit institutions	0.5	8.8	-94%	4.8	-90%	29.5[1]	38.3	-23%
Loans to the public	923.8	908.7	2%	847.4	9%	3,593.9	3,263.7	10%
Interest-bearing securities	18.3	20.3	-10%	18.3		76.6[1]	85.9	-11%
Derivatives	-91.4	-86.0	6%	-112.9	-19%	-388.5	-555.4	-30%
Other interest income	-	-		0.0		0.0	-0.1	
Total interest income	**851.3**	**851.8**		**757.5**	**12%**	**3,311.5**	**2,832.5**	**17%**
Interest Expense								
Due to credit institutions	-131.4	-121.7	8%	-114.5	15%	-494.7[1]	-438.1	13%
Dept securities in issue	-447.7	-471.5	-5%	-455.7	-2%	-1,888.6	-1,821.9	4%
Subordinated liabilities	-2.4	-2.4		-3.8	-37%	-9.2	-15.2	-39%
Derivatives	380.5	406.3	-6%	407.0	-7%	1,675.0	1,656.9	1%
Other interest expense	-38.4	-38.4		-29.0	32%	-160.5	-113.7	41%
Total interest expense	**-239.4**	**-227.8**	**5%**	**-196.1**	**22%**	**-877.9**	**-731.9**	**20%**
Total net interest income	**611.9**	**624.0**	**-2%**	**561.4**	**9%**	**2,433.6**	**2,100.6**	**16%**
Average interest rate on loans to the public during the period, %	1.7	1.7		1.8	-6%	1.7	1.8	-6%

[1] Of which negative interest of Loans to credit institutions SEK -9.8 M, Interest-bearing securities SEK -2.4 M and Due to credit institutions SEK 11.4 M.
Interest income calculated according to the effective interest method amounts to SEK 851.3 M (851.8).

Note 4 Commission income

SEK M	Q 4 2018	Q 3 2018	Change	Q 4 2017	Change	Jan-Dec 2018	Jan-Dec 2017	Change
Commission income								
Loans	0.6	0.6		0.6		2.5	2.4	4%
Total commission income	**0.6**	**0.6**		**0.6**		**2.5**	**2.4**	**4%**
Commission Expense								
Remuneration to regional insurance companies	-328.2	-305.3	8%	-309.8	6%	-1,241.6	-1,143.3	9%
Other commission	0.0	-0.2		-0.1		-0.4	-0.4	
Total commission expense	**-328.3**	**-305.5**	**7%**	**-309.9**	**6%**	**-1,242.1**	**-1,143.7**	**9%**
Total commission income	**327.7**	**-304.9**	**7%**	**-309.3**	**6%**	**-1,239.6**	**-1,141.3**	**9%**

Note 5 Net gains / losses from financial items

SEK M	Q 4 2018	Q 3 2018	Change	Q 4 2017	Change	Jan-Dec 2018	Jan-Dec 2017	Change
Interest-bearing assets and liabilities and related derivatives	2.8	-22.1		3.8	-26%	-26.6	-72.1	-63%
Other financial assets and liabilities	0.0	0.0		0.6		0.1	0.2	-50%
Interest compensation (refer to items measured at amortised cost)	5.9	6.2	-5%	7.4	-20%	24.6	29.0	-15%
Total net gains / losses from financial items	**8.7**	**-15.9**		**11.8**	**-26%**	**-1.9**	**-43.0**	**-96%**

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 4 2018**	**Q 3 2018**	**Change**	**Q 4 2017**	**Change**	**Jan-Dec 2018**	**Jan-Dec 2017**	**Change**
Change in loss allowance for loan receivables								
Stage 1 (not credit-impaired)	-0.4	0.1				-0.4		
Stage 2 (not credit-impaired)	-0.1	-0.1				-0.2		
Stage 3 (credit-impaired)	0.3	-0.1				0.3		
Total change in loss allowance for loan receivables	**-0.2**	**0.0**		**-0.4[1]**	**-50%**	**-0.3**	**-0.9[1]**	-67%
Expense for confirmed credit losses	-0.1	-0.2	-50%	-0.6	-83%	-0.6	-1.1	-45%
Payment received for prior confirmed credit losses	0.5	0.6	-17%	0.5		2.3	2.0	15%
Net expense for the period for credit losses for loan receivables	**0.1**	**0.4**	**-75%**	**-0.6**		**1.4**	**0.0**	
Change in loss allowance for commitments	-	0.1		-		-	-	
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	**0.1**	**0.5**	**-80%**	**-0.6**		**1.3**	**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 credit losses entails that the regional insurance companies cover 80 procent 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 procent of the loss allowance requirment is withheld on every occasion until the lending mediated by the regional insurance company has been regulated. In 2018, total credit losses amounted to SEK 5,9 M, of which the Bank Group's recognised credit losses amounted to SEK 1,3 M and the remainder of SEK 4,6 M was settled against remuneration to the regional insurance companies.

Note 7 Loans / due to credit institutions

On 31 December 2018, Loans to credit institutions amounted to SEK 4,631.0 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 4,602.9 M (2,847.0). 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 54,426.9 M on 31 December. Due to credit institutions includes borrowings from the Parent Company of SEK 54,251.7 M (47,213.8).

Note 8	**Loans to the public** Loan receivables are geographically attributable in their entirety to Sweden		
SEK M		**31 December 2018**	**31 December 2017**
Corporate sector		6,603.0	6,864.6
Retail sector		214,510.5	190,818.0
Loans to the public before loss allowance		**221,113.5**	**197,682.7**
Loss allowance		-5.6	-27.9
Loans to the public		**221,107.9**	**197,654.8**

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	-1.2	0.0	-0.2	-1.3
Change in loss allowance model or method	-0.1	0.0	0.0	-0.1
Decrease due to repayment	0.3	0.2	0.3	0.8
Change due to changed credit risk	0.5	-0.4	0.0	0.1
Other adjustments	0.0	0.0	-	0.0
Decrease due to write-off	-	-	0.2	0.2
Closing balance, 31 December 2018	**-2.3**	**-1.6**	**-1.6**	**-5.6**
	Not credit-impaired		**Credit-impaired**	
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to the public before loss allowances	**218,849.3**	**2,110.6**	**153.6**	**221,113.5**
Credit reserve requirement	-11.6	-8.0	-8.1	-27.8
Withheld remuneration to the regional insurance companies	9.3	6.4	6.5	22.2
Recognised loss allowance	**-2.3**	**-1.6**	**-1.6**	**-5.6**
Loans to the public	**218,847.0**	**2,109.0**	**152.0**	**221,107.9**

The settlement model regarding the commitment that the regional insurance companies have for credit losses entails that the regional insurance companies cover 80 procent 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 procent of the loss allowance requirment is withheld on every occasion until the lending mediated by the regional insurance company has been regulated. On 31 December 2018, the total credit reserve requirement for loan receivables amounted to SEK 27.8 M of which the company's recognised loss allowance for loan receivables accounted for SEK 5.6 M and the remainder of SEK 22.2 M was settled against the remuneration to the regional insurance companies.

Note 9 Derivatives

SEK M	31 December 2018 Nominal value	31 December 2018 Fair value	31 December 2017 Nominal value	31 December 2017 Fair value
Derivatives with positive values				
Derivatives in hedge accounting				
Interest-related	144,777.0	1,369.7	99,502.0	1,688.4
Currency-related	34,118.9	4,170.6	28,286.0	2,992.8
Total derivatives with positive values	**178,895.9**	**5,540.2**	**127,788.0**	**4,681.3**
Derivatives with negative values				
Derivatives in hedge accounting				
Interest-related	41,595.0	249.8	68,730.0	535.9
Currency-related	2,717.8	180.9	2,036.7	148.0
Other derivates				
Interest-related	-	-	-	-
Total derivatives with negative values	**44,312.8**	**430.7**	**70,766.7**	**683.9**

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.

Not 10 Pledged assets, contingent liabilities and commitments

SEK M	31 December 2018	31 December 2017
For own liabilities, pledged assets	221,070.8	197,724.0
Commitments	10,117.9	11,202.9

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

Note 11 Fair value valuation techniques

SEK M	31 December 2018 Book value	31 December 2018 Fair value	31 December 2017 Book value	31 December 2017 Fair value
Financial assets				
Loans to credit institutions	4,631.0	4,631.0	2,859.2	2,859.2
Loans to the public	221,107.9	221,580.0	197,654.8	198,186.5
Bonds and other interest-bearing securities	9,916.6	9,916.6	9,837.9	9,837.9
Derivatives	5,540.2	5,540.2	4,681.3	4,681.3
Other assets	0.0	0.0	-	-
Total	**241,195.7**	**241,667.8**	**215,033.2**	**215,564.9**
Financial Liabilities				
Due to credit institutions	54,426.9	54,426.9	47,266.6	47,266.6
Debt securities in issue	171,195.1	174,878.3	152,811.9	156,434.7
Derivatives	430.7	430.7	683.9	683.9
Other liabilities	1,.2	1.2	7.0	7.0
Subordinated liabilities	661.0	663.2	661.0	673.5
Total	**226,714.9**	**230,400.4**	**201,430.4**	**205,053.2**

The carrying amount of loans to credit institutions, due to credit institutions and other liabilities comprises a reasonable approximation of the fair value based on the cost of the assets and liabilities. Gains and losses are recognised in profit and loss under net gains from financial items.

Determination of fair value through published price quotations or valuation techniques where
Level 1 includes Instruments with published price quotations
Level 2 includes Valuation techniques based on observable market prices
Level 3 includes Valuation techniques based on unobservable market price

Financial instruments measured at fair value in the balance sheet

31 December 2018, SEK M	Level 1	Level 2	Level 3	Total
Assets				
Bonds and other interest-bearing securities	9,916.6			9,916.6
Derivatives		5,540.2		5,540.2
Liabilities				
Derivatives		430.7		430.7
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

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	31 Dec 2018	31 Dec 2017
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and associated share premium reserves	3,129.9	70.3
Of which: share capital	*3,129.9*	*70.3*
Non-distributed earnings (Retained earnings)	6,896.0	9,461.0
Accumulated Other comprehensive income	614.3	458.8
Interim profits, net, after deductions for foreseeable charge and dividends that have been verified by persons independent of the institution	658.5	477.1
Common Equity Tier 1 capital before legislative adjustments	**11,298.6**	**10,467.2**
Common Equity Tier 1 capital: legislative adjustments		
Additional value adjustments	-15.3	-14.5
Fair value reserves related to gains or losses on cash-flow hedges	132.0	98.1
Negative amounts resulting from the calculation of expected loss amounts	-124.3	-94.4
Total legislative adjustments of Common Equity Tier 1 capital	**-7.5**	**-10.8**
Common Equity Tier 1 capital and additional Tier 1 instruments	**11,291.1**	**10,456.4**
Tier 2 capital: instruments and provisions		
Capital instruments and associated share premium reserves	661.0	661.0
Tier 2 capital	**661.0**	**661.0**
Total capital (total capital = Tier 1 capital + Tier 2 capital)	**11,952.1**	**11,117.4**
Total risk-weighted assets	**61,556.4**	**18,589.1**
Capital ratios and buffers		
Common Equity Tier 1 capital (as a percentage of the total risk-weighted exposure amount)	18.3%	56.3%
Tier 1 capital (as a percentage of the total risk-weighted exposure amount)	18.3%	56.3%
Total capital (as a percentage of the total risk-weighted exposure amount)	19.4%	59.8%
Institution-specific buffer requirements	9.0%	9.0%
Of which: capital conservation buffer requirement	*2.5%*	*2.5%*
Of which: countercyclical capital buffer requirement	*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)	11.4%	50.3%[1]

[1] Comparative figure has been adjusted.

Note 12 Capital-adequacy analysis, continued

SEK M	31 December 2018 Risk exposure amount	31 December 2018 Capital requirement	31 December 2017 Risk exposure amount	31 December 2017 Capital requirement
Credit risk according to Standardised Approach				
Exposures to institutions	390.5	31.2	431.9	34.6
Covered bonds	991.7	79.3	983.8	78.7
Other items	98.0	7.8	71.2	5.7
Total capital requirement and risk exposure amount	**1,480.2**	**118.4**	**1,486.9**	**119.0**
Credit risk according to IRB Approach				
Retail exposures				
Exposures secured by real estate collateral	341.4	27.3	431.1	34.5
Other retail exposures	13,387.0	1,071.0	11,737.3	939.0
Other retail exposures, small and medium-sized businesses	1.3	0.1	5.5	0.4
Other retail exposures	11.5	0.9	28.2	2.3
Total retail exposures	**13,741.2**	**1,099.3**	**12,202.1**	**976.2**
Exposures to corporates	3,428.8	274.3	3,314.7	265.2
Total capital requirement and risk exposure amount	**17,170.0**	**1,373.6**	**15,516.8**	**1,241.3**
Operational risk				
Standardised Approach	1,130.6	90.4	915.3	73.2
Total capital requirement for operational risk	**1,130.6**	**90.4**	**915.3**	**73.2**
Total capital requirement for credit valuation adjustments	**550.6**	**44.0**	**670.2**	**53.6**
Additional Risk Exposure Amounts according to Article 458 CRR	**41,225.0**	**3,298.0**	**-**	**-**
Total capital requirement and risk exposure amount	**61,556.4**	**4,924.5**	**18,589.1**	**1,487.1**

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 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**		

The classification of financial liabilities was not changed in connection with the transition to IFRS 9 and they continue to be measured at amortised cost.

Reconciliation of loss allowance for transition to IFRS 9

Mkr	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, 7 February 2019

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

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

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

Stockholm, 7 February 2019

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.

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Financial calendar

Interim report Länsförsäkringar Bank	26 April 2019
Interim report Länsförsäkringar Hypotek	26 April 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 7 February 2019 at 12:00 a.m. Swedish time.

For further information, please contact:

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