

# Länsförsäkringar Hypotek

## Year-end report 2016

### The year in brief

- Operating profit increased 29% to SEK 658.4 M (508.8) and the return on equity amounted to 6.7% (6.0).
- Net interest income increased 24% to SEK 1,647 M (1,326).
- Loan losses amounted to SEK -4.8 M (-9.8)\*, net, corresponding to a loan loss level of -0.00% (-0.01).
- Lending increased 15% to SEK 168.9 billion (147.1).
- The Common Equity Tier 1 capital ratio amounted to 44.1% (44.2\*\*) on 31 December 2016.
- The number of customers rose 7% to 231,000 (216,000).

\* Includes the dissolution of reserves of SEK 3.1 M (8.0).

\*\* Pertains to 30 September 2016.

Figures in parentheses pertain to the same period in 2015.

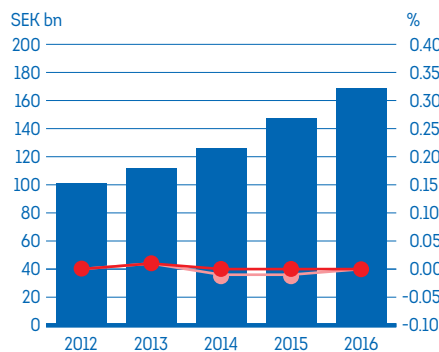
### President's comment

The performance of Länsförsäkringar Hypotek has been very positive during the quarter, and we report a strong operating profit and are successively growing our share of the mortgage market. Our strong local presence and our higher customer satisfaction remain success factors in the form of increased customer inflows. We saw housing prices continue to rise during the year, although the rate of increase has gradually declined. The strong capitalisation combined with the high credit quality of our mortgage portfolio results in good access to financing and low financing costs.

#### Anders Borgcrantz

President of Länsförsäkringar Hypotek

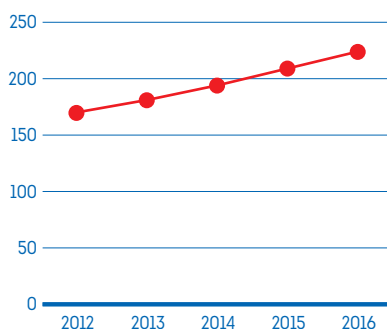
#### Loans to the public



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

#### Customer trend

Number of customers, 000s



## Key figures

	Q 4 2016	Q 3 2016	Q 4 2015	Jan-Dec 2016	Jan-Dec 2015
Return on equity, %	6.5	6.1	7.1	6.7	6.0
Return on total capital, %	0.35	0.33	0.37	0.37	0.32
Investment margin, %	0.98	0.94	0.87	0.92	0.84
Cost/income ratio before loan losses	0.13	0.14	0.13	0.13	0.16
Common Equity Tier 1 capital ratio, %	44.1	44.2	37.4	44.1	37.4
Total capital ratio, %	49.7	49.9	42.9	49.7	42.9
Percentage of impaired loans, gross, %	0.00	0.00	0.00	0.00	0.00
Reserve ratio in relation to loans, %	0.02	0.02	0.02	0.02	0.02
Reserve ratio in relation to loans, incl. held remuneration to regional insurance companies, %	0.02	0.03	0.03	0.02	0.03
Loan loss level, %	-0.01*	0.00	0.00	0.00*	-0.01*

\* Includes the dissolution of reserves.

## Income statement, quarterly

SEK M	Q 4 2016	Q 3 2016	Q 2 2016	Q 1 2016	Q 4 2015
Net interest income	457.8	426.2	391.1	371.9	357.3
Net commission	-257.0	-245.4	-241.5	-191.3	-195.9
Net gains/losses from financial items	-16.9	-5.1	30.6	30.6	15.6
Other operating income	0.1	0.0	0.0	0.1	0.1
<b>Total operating income</b>	<b>183.9</b>	<b>175.6</b>	<b>180.2</b>	<b>211.2</b>	<b>177.1</b>
Staff costs	-2.9	-3.5	-4.5	-3.8	-3.3
Other administration expenses	-20.7	-20.5	-21.1	-20.1	-20.3
<b>Total operating expenses</b>	<b>-23.7</b>	<b>-24.0</b>	<b>-25.7</b>	<b>-24.0</b>	<b>-23.6</b>
<b>Profit before loan losses</b>	<b>160.2</b>	<b>151.6</b>	<b>154.6</b>	<b>187.2</b>	<b>153.5</b>
Loan losses, net	3.8	-0.2	1.1	0.1	0.3
<b>Operating profit</b>	<b>164.0</b>	<b>151.4</b>	<b>155.7</b>	<b>187.3</b>	<b>153.8</b>

## Market commentary

2016 was an eventful year of political uncertainty, but it also started with economic unease and a sharp decline in the oil price. Fears about the global economy, particularly regarding growth prospects for China, impacted the financial markets in the form of both stock-market downturns and falls in interest rates. Despite initial market concern, global growth for 2016 appears to be only slightly lower than initially expected at the start of the year. This slightly weaker trend was primarily the result of lower growth than anticipated in the US, although this was offset by, for example, China's more positive performance. This allowed the Federal Reserve to cautiously continue to normalise its monetary policy and raise its key interest rate at the end of the year, only the second increase since 2006. Europe continued to recover during the year, partly due to the ECB's highly expansive measures, such as com-

mencing its corporate sector purchase program. The political situation was also a key focal point of the year. The UK voted to leave the European Union and the Republican candidate Donald Trump won the US presidential election. It is more difficult to predict the long-term implications, even though market reactions following the EU referendum in the UK were short-lived and reactions after the US presidential election limited. Trump's victory at the polls impacted market expectations of growth and inflation in the US for the next few years. Greater fiscal stimulus packages are expected to strengthen growth in an economic climate that is already booming, which thus increases the risk of higher inflation and interest rates.

Global long-term interest rates rose in the autumn from historically low, and in certain cases negative, levels, an upswing that accelerated after the US presidential elec-

tion. Interest rates for covered bonds fell during the year and investor demand was high. The majority of the world's equities markets reported positive returns for the year and the stock-market trend in the US and emerging markets was particularly favourable measured in SEK.

The Swedish economy continued to perform at a healthy rate and was largely in line with expectations. However, inflation presented a negative surprise, and means that we are now in the unusual situation of having a more expansive monetary policy despite Sweden experiencing an economic boom. Housing prices continued to rise but the rate gradually declined over the course of the year.

# 2016 compared with 2015

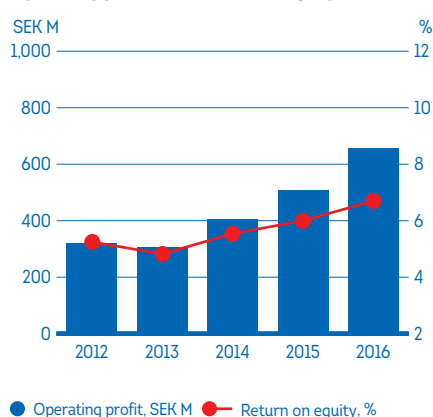
## Growth and customer trend

Loans to the public rose 15%, or SEK 21.8 billion, to SEK 168.9 billion (147.1), with continued very high credit quality. The number of customers rose 7%, or 15,000, to 231,000 (216,000), and 87% (86) of retail mortgage customers have Länsförsäkringar as their primary bank.

## Earnings and profitability

Operating profit increased 29% to SEK 658.4 M (508.8), primarily due to higher net interest income. The investment margin strengthened to 0.92% (0.84). Profit before loan losses rose 31% to SEK 653.6 M (499.0) due to higher net interest income. The return on equity amounted to 6.7% (6.0).

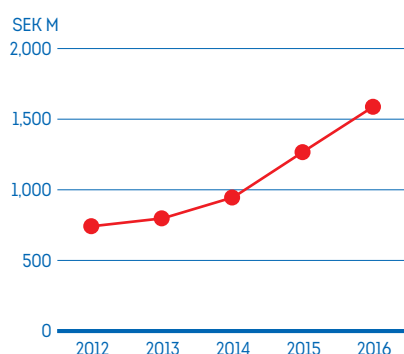
### Operating profit and return on equity



## Income

Operating income rose 26% to SEK 751.0 M (593.9), due to higher net interest income attributable to increased volumes and lower refinancing costs. Net interest income increased 24% to SEK 1,647 M (1,326). Net gains from financial items amounted to SEK 39.1 M (68.3). Net commission amounted to SEK -935.3 M (-799.8), due to increased remuneration to the regional insurance companies related to higher business volumes and strengthened profitability of the business.

### Net interest income



## Expenses

Operating expenses amounted to SEK 97.4 M (94.9). The cost/income ratio was 0.13 (0.16) before loan losses and 0.12 (0.14) after loan losses.

## Loan losses

Loan losses amounted to SEK -4.8 M (-9.8), net, corresponding to a loan loss level of -0.00% (-0.01). Reserves of SEK 3.1 M were dissolved during the period according to the settlement model described below. In the year-earlier period, reserves of SEK 8.0 M were dissolved. Impaired loans, gross, amounted to SEK 0 M (0), corresponding to a percentage of impaired loans, gross, of 0.00% (0.00).

The settlement model, which was introduced on 1 January 2014, regarding the commitment that the regional insurance companies have for loan losses related to the business they have originated, entails that the regional insurance companies cover 80% of the provision requirement on the date when an impairment is identified, by off-setting this against a buffer of accrued commission. The transition to the settlement model means that the credit reserves on the date of introduction will be gradually reversed by SEK 21.0 M, of which SEK 0 M remained on 31 December 2016. Loan losses before dissolution of reserves amounted to SEK -1.7 M (-1.8), net, corresponding to a loan loss level of -0.00% (-0.00). Reserves amounted to SEK 27.0 M (30.1), corresponding to a reserve ratio in relation to loans of 0.02% (0.02). In addition, SEK 16.1 M (13.0) of the remuneration attributable to the regional insurance companies' credit-risk commitments is withheld in accordance with the settlement model described above. The reserve ratio in relation to loans, including withheld remuneration to the regional insurance companies, was 0.02% (0.03).

For more information regarding loan losses, reserves and impaired loans, see notes 7 and 9.

## Loans

All loans are granted in Sweden and in SEK. Loans to the public increased 15%, or SEK 21.8 billion, to SEK 168.9 billion (147.1). The credit quality of the loan portfolio, comprising 72% (73) single-family homes, 23% (22) tenant-owned apartments and 5% (5) multi-family housing, remained favourable. On 31 December 2016, the market share of retail mortgages strengthened to 5.8% (5.5) according to Statistics Sweden.

## Cover pool

The cover pool, which forms the basis of issuance of covered bonds, contains SEK 159.5 billion, corresponding to 94% of the loan portfolio. The collateral comprises only private homes, of which 74% (75) are single-family homes, 24% (23) tenant-owned apartments and 2% (2) vacation homes. The geographic spread throughout Sweden is favourable and the average loan commitment is low at SEK 1.17 M (1.03). The weighted average loan-to-value ratio, LTV, was 57% (60) and the nominal, current OC amounted to 38% (38). A stress test of the cover pool based on a 20% price drop in the market value of the mortgages' collateral resulted in a weighted average LTV of 65% (67) on 31 December 2016. No impaired loans are included in the cover pool. Länsförsäkringar Hypotek's cover pool has a healthy buffer to manage any downturns in housing prices. According to Moody's report (Global Covered Bonds Monitoring Overview) from 10 November 2016, the assets in Länsförsäkringar Hypotek's cover pool continue to maintain the highest credit quality among all Swedish covered-bond issuers, and are among the foremost in Europe.

Cover pool	31 Dec 2016	31 Dec 2015
Cover pool, SEK billion	168	146
OC <sup>1</sup> , nominal, current level, %	38	38
Weighted average LTV, %	57	60
Collateral	Private homes	Private homes
Seasoning, months	58	59
Number of loans	321,486	295,057
Number of borrowers	143,686	133,245
Number of properties	143,443	133,274
Average commitment, SEK 000s	1,172	1,032
Average loan, SEK 000s	496	466
Interest rate type, variable, %	67	61
Interest rate type, fixed, %	33	39
Impaired loans	None	None

<sup>1</sup> 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 15% to SEK 126.9 billion (110.4). Issued covered bonds during the year totalled a nominal SEK 31.3 billion (34.6) and repurchases of a nominal SEK 8.4 billion (10.0) were executed. Matured covered bonds amounted to a nominal SEK 8.3 billion (16.3).

## Liquidity

On 31 December 2016, the liquidity reserve totalled SEK 9.3 billion (9.5), according to the Swedish Bankers' Association's definition. The liquidity situation remained healthy and the survival horizon was almost two years. The liquidity reserve comprised 100% (100) Swedish covered bonds with the credit rating of AAA/Aaa.

## Rating

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

## Capital ratio<sup>1</sup>

Länsförsäkringar Hypotek AB (SEK M)	31 Dec 2016	30 Sep 2016
IRB Approach	13,860	13,534
retail exposures	10,510	10,217
exposures to corporates	3,350	3,316
Standardised Approach	2,356	1,780
Operational risks	740	740
Total REA	17,894	17,582
Common Equity Tier 1 capital	7,891	7,770
Tier 1 capital	7,891	7,770
Total capital	8,892	8,771
Common Equity Tier 1 capital ratio	44.1%	44.2%
Tier 1 ratio	44.1%	44.2%
Total capital ratio	49.7%	49.9%

On 31 December 2016, Common Equity Tier 1 capital and Tier 1 capital were SEK 7,891 M (7,770) and the Common Equity Tier 1 capital ratio amounted to 44.1% (44.2). Own funds totalled SEK 8,892 M (8,771) and the capital adequacy ratio amounted to 49.7% (49.9).

Common Equity Tier 1 capital increased SEK 121 M during the period mainly attributable to generated profit. On 31 December 2016, the total Risk Exposure Amount (REA) amounted to SEK 17,894 M (17,582). Lending to households in the form of mortgages continued to increase but REA rose only

SEK 293 M for IRB retail exposures in the period due to improved credit quality. In Pillar II, the risk weight floor for mortgages of 25% entailed an additional capital requirement of SEK 3,788 M (3,659). The countercyclical capital buffer (1.5% of REA) totalled SEK 268 M. This capital conservation buffer that is to correspond to 2.5% of REA amounted to SEK 447 M on 31 December 2016.

For more information on the calculation of capital adequacy, see Note 13.

<sup>1</sup> The comparative period pertains to 30 September 2016.

## Internally assessed capital requirement and buffer

The internally assessed capital requirement for Länsförsäkringar Hypotek AB on 31 December 2016 amounted to SEK 1,789 M. This amount includes an assessment of the increased capital requirement due to the application of the Swedish Financial Supervisory Authority's new assessment method for the probability of default for exposures to corporates. Länsförsäkringar Hypotek has applied to apply a model compatible with this method. In addition to this, there is the capital requirement for the risk weight floor for Swedish mortgages, the capital conservation buffer and the countercyclical capital buffer. The capital meeting the internal capital requirement including buffer, own funds, amounted to SEK 8,892 M. 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.

## Interest-rate risk

On 31 December 2016, an increase in market interest rates of 1 percentage point would have decreased the value of interest-bearing assets and liabilities, including derivatives, by SEK 2.3 M (decrease: 22.9).

## Risks and uncertainties

Länsförsäkringar Hypotek is exposed to a number of risks, primarily credit risks, liqui-

dity risks and market risks. The macroeconomic situation in Sweden is critical for credit risk, since all loans are granted in Sweden. Market risks primarily comprise interest-rate risks, which are restricted through narrow limits. The operations are characterised by a low risk profile. Loan losses remain low and the refinancing of business activities was highly satisfactory during the period. A more detailed description of risks is available in the 2015 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 2016 compared with third quarter of 2016

Operating profit increased 8% to SEK 164.0 M (151.4), due to higher net interest income. The return on equity amounted to 6.5% (6.1). Operating income increased 5% to SEK 183.9 M (175.6). Net interest income increased 7% to SEK 457.8 M (426.2). Net losses from financial items amounted to SEK -16.9 M (-5.1) as a result of changes in fair value. Commission expense increased 5% to SEK 257.5 M (246.0). Operating expenses amounted to SEK 23.7 M (24.0) and the cost/income ratio before loan losses to 0.13% (0.14). Loan losses amounted to SEK -3.8 M (0.2).

## Events after the end of the period

No significant events have occurred after the end of the period.

## Annual Report

The Annual Report will be available on Länsförsäkringar Hypotek's website on 22 February 2017.

## Rating

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

\* Pertains to the company's covered bonds.

## Income statement

SEK M	Note	Q 4 2016	Q 3 2016	Change	Q 4 2015	Change	Jan-Dec 2016	Jan-Dec 2015	Change
Interest income	3	628.6	596.3	5%	553.3	14%	2,355.6	2,285.7	3%
Interest expense	3	-170.8	-170.1		-196.0	-13%	-708.7	-960.1	-26%
<b>Net interest income</b>	3	<b>457.8</b>	<b>426.2</b>	<b>7%</b>	<b>357.3</b>	<b>28%</b>	<b>1,646.9</b>	<b>1,325.6</b>	<b>24%</b>
Commission income	4	0.5	0.6	-17%	0.6	-17%	2.2	2.2	
Commission expense	5	-257.5	-246.0	5%	-196.5	31%	-937.5	-802.3	17%
Net gains/losses from financial items	6	-16.9	-5.1		15.6		39.1	68.3	-43%
Other operating income		0.1	0.0		0.1	0%	0.2	0.1	
<b>Total operating income</b>		<b>183.9</b>	<b>175.6</b>	<b>5%</b>	<b>177.1</b>	<b>4%</b>	<b>751.0</b>	<b>593.9</b>	<b>26%</b>
Staff costs		-2.9	-3.5	-17%	-3.3	-12%	-14.8	-14.4	3%
Other administration expenses		-20.7	-20.5	1%	-20.2	2%	-82.5	-80.3	3%
<b>Total operating expenses</b>		<b>-23.6</b>	<b>-24.0</b>	<b>-2%</b>	<b>-23.5</b>		<b>-97.3</b>	<b>-94.7</b>	<b>3%</b>
Depreciation and impairment of tangible assets		0.0	0.0		-0.1		-0.2	-0.2	
<b>Total operating expenses</b>		<b>-23.6</b>	<b>-24.0</b>	<b>-1%</b>	<b>-23.6</b>		<b>-97.4</b>	<b>-94.9</b>	<b>3%</b>
<b>Profit before loan losses</b>		<b>160.2</b>	<b>151.6</b>	<b>6%</b>	<b>153.5</b>	<b>4%</b>	<b>653.6</b>	<b>499.0</b>	<b>31%</b>
Loan losses, net	7	3.8	-0.2		0.3		4.8	9.8	-51%
<b>Operating profit</b>		<b>164.0</b>	<b>151.4</b>	<b>8%</b>	<b>153.8</b>	<b>7%</b>	<b>658.4</b>	<b>508.8</b>	<b>29%</b>
Appropriations		-150.0	-		-127.0	18%	-150.0	-127.0	18%
Tax		-12.5	-33.3	-62%	-8.8	42%	-121.1	-73.5	65%
<b>Profit for the period</b>		<b>1.5</b>	<b>118.1</b>	<b>-99%</b>	<b>18.0</b>	<b>-92%</b>	<b>387.3</b>	<b>308.3</b>	<b>26%</b>

## Statement of comprehensive income

SEK M	Q 4 2016	Q 3 2016	Change	Q 4 2015	Change	Jan-Dec 2016	Jan-Dec 2015	Change
<b>Profit for the period</b>	<b>1.5</b>	<b>118.1</b>	<b>-99%</b>	<b>18.0</b>	<b>-92%</b>	<b>387.3</b>	<b>308.3</b>	<b>26%</b>
<b>Other comprehensive income</b>								
<b>Items that have been reclassified or may subsequently be reclassified to the income statement</b>								
Cash-flow hedges	-70.6	-37.6	88%	-40.7	73%	-100.7	38.0	
Change in fair value from available-for-sale financial assets	0.2	15.0		3.4		17.1	-64.0	
Tax attributable to items that have been transferred or can be transferred to profit for the period	15.5	4.9		8.2	89%	18.4	5.7	
<b>Total other comprehensive income for the period, net after tax</b>	<b>-54.9</b>	<b>-17.7</b>		<b>-29.1</b>	<b>89%</b>	<b>-65.2</b>	<b>-20.3</b>	
<b>Total comprehensive income for the period</b>	<b>-53.4</b>	<b>100.4</b>		<b>-11.1</b>		<b>322.1</b>	<b>288.0</b>	<b>12%</b>

## Balance sheet

SEK M	Note	31 Dec 2016	31 Dec 2016
<b>Assets</b>			
Loans to credit institutions	8	4,614.7	4,395.3
Loans to the public	9	168,947.9	147,055.5
Bonds and other interest-bearing securities		9,201.4	9,344.8
Derivatives	10	5,170.2	4,164.9
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		536.4	694.9
Tangible assets		0.5	0.6
Deferred tax assets		-	2.9
Other assets		23.2	18.0
Prepaid expenses and accrued income		733.4	945.7
<b>Total assets</b>		<b>189,227.6</b>	<b>166,622.6</b>
<b>Liabilities, provisions and equity</b>			
Due to credit institutions	8	47,002.4	41,267.7
Debt securities in issue		126,887.9	110,399.8
Derivatives	10	1,000.9	1,710.3
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		3,027.2	2,752.5
Deferred tax liabilities		0.3	-
Other liabilities		77.9	73.3
Accrued expenses and deferred income		2,140.4	2,400.5
Provisions		1.0	0.9
Subordinated liabilities		1,001.0	1,001.0
<b>Total liabilities and provisions</b>		<b>181,139.0</b>	<b>159,606.0</b>
<b>Untaxed reserves</b>		<b>458.8</b>	<b>308.8</b>
<b>Equity</b>			
Share capital, 70,335 shares		70.3	70.3
Statutory reserve		14.1	14.1
Fair value reserve		24.4	89.6
Retained earnings		7,133.8	6,225.5
Profit for the period		387.3	308.3
<b>Total equity</b>		<b>7,629.9</b>	<b>6,707.8</b>
<b>Total liabilities, provisions and equity</b>		<b>189,227.6</b>	<b>166,622.6</b>
<b>Other notes</b>			
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## Cash-flow statement in summary, indirect method

SEK M	Jan-Dec 2016	Jan-Dec 2015
<b>Cash and cash equivalents, 1 January</b>	<b>17.0</b>	<b>11.8</b>
Cash flow from operating activities	-605.5	-994.8
Cash flow from investing activities	0.0	0.0
Cash flow from financing activities	600.0	1,000.0
<b>Cash flow for the period</b>	<b>-5.5</b>	<b>5.2</b>
<b>Cash and cash equivalents, 31 December</b>	<b>11.5</b>	<b>17.0</b>

Cash and cash equivalents are defined as loans to credit institutions, payable on demand. The change in cash flow from operating activities is largely attributable to Loans to the public amounting to SEK -21 895,1 (-20 918,9) M, Debt securities in issue to SEK 15 515,4 (8 972,9) Mkr and Loans to credit institutions to SEK 5 734,6 (8 630,6) M. Changes to the cash flow from the financing activities are largely attributable to shareholder's contribution received SEK 600,0 (500,0) M and subordinated debt paid of 0 (500) M.

## Statement of changes in Shareholders' equity

Mkr	Restricted equity		Non-restricted equity				Total
	Share capital	Statutory reserve	Fair value reserve			Profit for the period	
			Fair value reserve	Hedge reserve	Retained earnings		
Opening balance, 1 January 2015	70.3	14.1	60.0	49.9	5,514.3	211.2	5,919.8
Profit for the period						308.3	308.3
Other comprehensive income for the period			-49.9	29.6			-20.3
Comprehensive income for the period			-49.9	29.6		308.3	288.0
Resolution by Annual General Meeting					211.2	-211.2	-
Conditional shareholders' contribution received					500.0 <sup>1</sup>		500.0
Closing balance, 31 December 2015	70.3	14.1	10.1	79.5	6,225.5	308.3	6,707.8
Opening balance, 1 January 2016	70.3	14.1	10.1	79.5	6,225.5	308.3	6,707.8
Profit for the period						387.3	387.3
Other comprehensive income for the period			13.3	-78.5			-65.2
Comprehensive income for the period			13.3	-78.5		387.3	322.1
Resolution by Annual General Meeting					308.3	-308.3	-
Conditional shareholders' contribution received					600.0 <sup>1</sup>		600.0
Closing balance, 31 December 2016	70.3	14.1	23.4	1.0	7,133.8	387.3	7,629.9

<sup>1</sup>The shareholders' contributions that have been paid are conditional and the Parent Company Länsförsäkringar Bank AB (publ) is entitled to receive repayment of the contributions from the unappropriated earnings of Länsförsäkringar Hypotek AB (publ), provided that approval is obtained from the general meeting. On 31 December 2016, the amount of the conditional shareholders' contribution received was SEK 4 460,6 (3 860,6) M.

# Notes

Amounts in SEK million if not otherwise stated.

## Note 1 Accounting policies

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

### New IFRS and interpretations that have not yet been applied

IFRS 9 Financial Instruments will take effect on 1 January 2018. The standard contains new requirements for recognition of financial instruments, an expected loss impairment for recognition of financial instruments, an expected

loss impairment model and requirements for hedge accounting. The bank is working to analyse the financial effects of the new standard in more detail.

IFRS 15 Revenue from Contracts with Customers will take effect on 1 January 2018. The standard contains a single, five-step model for recognising revenue from contracts with customers that is not encompassed by other standards. The assessment is that the standard will not have any significant effect on the financial statements, capital adequacy or major exposures in the company.

### Changes that have impacted the financial statements in 2016

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 expanded. Majority of key figures are defined in the 2015 Annual Report. The key figures that are not found in the annual report are defined in the current annual report where the key figure mentioned.

In all other respects, the interim report has been prepared in accordance with the same accounting policies and calculation methods applied in the 2015 Annual Report.

## Note 2 Segment reporting

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



<b>Note 3 Net interest income</b>								
SEK M	Q 4 2016	Q 3 2016	Change	Q 4 2015	Change	Jan-Dec 2016	Jan-Dec 2015	Change
<b>Interest income</b>								
Loans to credit institutions	2.6	0.7		6.0	-57%	12.4 <sup>1</sup>	29.3	-58%
Loans to the public	768.1	759.0	1%	732.8	5%	3,004.3	2,977.0	1%
Interest-bearing securities	31.0	33.7	-8%	44.0	-30%	144.4 <sup>1</sup>	185.6	-22%
Derivatives	-173.3	-197.1	-12%	-229.6	-24%	-805.6	-906.3	-11%
Other interest income	0.1	0.0		0.1	0%	0.1	0.1	
<b>Total interest income</b>	<b>628.6</b>	<b>596.3</b>	<b>5%</b>	<b>553.3</b>	<b>14%</b>	<b>2,355.6</b>	<b>2,285.7</b>	<b>3%</b>
<b>Interest Expense</b>								
Due to credit institutions	-114.0	-102.7	11%	-102.9	11%	-412.3 <sup>1</sup>	-347.8	19%
Debt securities in issue	-442.0	-455.5	-3%	-489.4	-10%	-1,853.8 <sup>1</sup>	-2,135.3	-13%
Subordinated liabilities	-3.9	-3.9		-4.4	-11%	-15.9	-15.6	2%
Derivatives	398.4	401.1	-1%	411.1	-3%	1,621.3	1,581.8	2%
Other interest expense	-9.3	-9.2	1%	-10.4	-11%	-48.0	-43.2	11%
<b>Total interest expense</b>	<b>-170.8</b>	<b>-170.1</b>		<b>-196.0</b>	<b>-13%</b>	<b>-708.7</b>	<b>-960.1</b>	<b>-26%</b>
<b>Total net interest income</b>	<b>457.8</b>	<b>426.2</b>	<b>7%</b>	<b>357.3</b>	<b>28%</b>	<b>1,646.9</b>	<b>1,325.6</b>	<b>24%</b>
Interest income on impaired loans	-	-		-		-	0.9	
Average interest rate on loans to the public during the period, %	1.9	1.9		2.0		1.9	2.2	

<sup>1</sup> Of which negative interest of Loans to credit institutions SEK -4.7 M, Interest-bearing securities SEK -0.8 M, Due to credit institutions SEK 6.6 M and Debt securities in issue SEK 1.8 M.

<b>Note 4 Commission income</b>								
SEK M	Q 4 2016	Q 3 2016	Change	Q 4 2015	Change	Jan-Dec 2016	Jan-Dec 2015	Change
Loans	0.5	0.6	-17%	0.6	-17%	2.2	2.2	
<b>Total commission income</b>	<b>0.5</b>	<b>0.6</b>	<b>-17%</b>	<b>0.6</b>	<b>-17%</b>	<b>2.2</b>	<b>2.2</b>	

<b>Note 5 Commission Expense</b>								
SEK M	Q 4 2016	Q 3 2016	Change	Q 4 2015	Change	Jan-Dec 2016	Jan-Dec 2015	Change
Remuneration to regional insurance companies	-257.3	-245.8	5%	-196.3	31%	-936.0	-801.5	17%
Other commission	-0.2	-0.2		-0.2		-1.6	-0.8	
<b>Total commission expense</b>	<b>-257.5</b>	<b>-246.0</b>	<b>5%</b>	<b>-196.5</b>	<b>31%</b>	<b>-937.5</b>	<b>-802.3</b>	<b>17%</b>

<b>Note 6 Net gains / losses from financial items</b>								
SEK M	Q 4 2016	Q 3 2016	Change	Q 4 2015	Change	Jan-Dec 2016	Jan-Dec 2015	Change
Interest-bearing assets and liabilities and related derivatives	-24.2	-14.8	64%	4.3		1.2	15.5	-92%
Other financial assets and liabilities	-0.1	-0.4	-75%	0.1		0.2	0.2	
Interest compensation	7.3	10.1	-28%	11.2	-35%	37.8	52.6	-28%
<b>Total net gains / losses from financial items</b>	<b>-16.9</b>	<b>-5.1</b>		<b>15.6</b>		<b>39.1</b>	<b>68.3</b>	<b>-43%</b>

<b>Note 7</b> <b>Loan losses and impaired loans</b>								
Net loan losses, SEK M	Q 4 2016	Q 3 2016	Change	Q 4 2015	Change	Jan-Dec 2016	Jan-Dec 2015	Change
<b>Specific reserve for individually assessed loan receivables</b>								
Write-off of confirmed loan losses during the period	-0.1	-0.1		-0.3	-67%	-0.7	-1.4	-50%
Reversed earlier impairment of loan losses recognised as confirmed losses	0.0	0.0		0.0		0.4	1.2	-67%
Impairment of loan losses during the period	-1.1	-1.7	-35%	-0.8	38%	-5.0	-4.4	14%
Payment received for prior confirmed loan losses	0.5	0.6	-17%	0.7	-29%	2.4	2.6	-8%
Reversed impairment of loan losses no longer required	3.3	1.0		0.7		6.5	9.0	-28%
<b>Net expense for the year for individually assessed loan receivables</b>	<b>2.7</b>	<b>-0.2</b>		<b>0.3</b>		<b>3.7</b>	<b>7.0</b>	<b>-47%</b>
<b>Collective assessed homogenous groups of loan receivables with limited value and similar credit risk</b>								
Provision / reversal of impairment of loan losses	1.1	0.0		0.0		1.1	2.8	-61%
<b>Net expense for the year for collectively assessed receivables</b>	<b>1.1</b>	<b>0.0</b>		<b>0.0</b>		<b>1.1</b>	<b>2.8</b>	<b>-61%</b>
Annual net expense for the year for fulfilment of guarantees		-		-			-	
<b>Net expense of loan losses for the period</b>	<b>3.8</b>	<b>-0.2</b>		<b>0.3</b>		<b>4.8</b>	<b>9.8</b>	<b>-51%</b>

All information pertains to receivables from the public.

Impaired loans, SEK M	31 December 2016				31 December 2015			
	Gross	Individual impairments	Collective impairments	Net	Gross	Individual impairments	Collective impairments	Net
Corporate sector	-	-	-	-	-	-	-	-
Retail sector	0.0	-2.7	-24.3	-27.0	0.0	-4.7	-25.4	-30.1
<b>Total</b>	<b>0.0</b>	<b>-2.7</b>	<b>-24.3</b>	<b>-27.0</b>	<b>0.0</b>	<b>-4.7</b>	<b>-25.4</b>	<b>-30.1</b>

The new settlement model, which was introduced on 1 January 2014, regarding the commitment that the regional insurance companies have for loan losses related to the business they have originated, entails that the regional insurance companies cover 80% of the provision requirement on the date when an impairment is identified. Off-setting takes place against, and can amount to a maximum of, accrued commission. Remuneration corresponding to 80% of the provision requirement is withheld on every occasion until the lending mediated by the regional insurance company has been regulated. On 31 December 2016, the total credit reserve requirement amounted to SEK 43 M of which Länsförsäkringar Hypoteks recognised credit reserve accounted for SEK 27 M and the remainder of SEK 16 M was offset against the regional insurance companies' withheld funds, according to the model described above.

The transition to the settlement model means that Länsförsäkringar Hypoteks credit reserves attributable to the regional insurance companies' business on the date of introduction was gradually reversed by SEK 21.0 M. The final reversal took place in the fourth quarter of 2016 and a total of SEK 3.1 (8.0) M was reversed in 2016.

## **Note 8**    **Loans / due to credit institutions**

Loans to credit institutions include deposits with the Parent Company of SEK 4 603,2 (4 273,6) M. Due to credit institutions includes borrowings from the Parent Company of SEK 46 986,7 (40 973,0) M.

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

<b>Note 9</b>	<b>Loans to the public</b> Loan receivables are geographically attributable in their entirety to Sweden	
<b>SEK M</b>	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
Corporate sector	7,136.2	7,167.1
Retail sector	161,838.6	139,918.5
<b>Loans to the public before reserves</b>	<b>168,974.9</b>	<b>147,085.6</b>
Reservations	-27.0	-30.1
<b>Loans to the public</b>	<b>168,947.9</b>	<b>147,055.5</b>
<b>Fixed-interest period</b>		
Remaining term of not more than 3 month	106,118.5	83,396.2
Remaining term of more than 3 months but not more than 1 year	15,444.7	15,980.7
Remaining term of more than 1 year but not more than 5 years	45,649.4	45,866.7
Remaining term of more than 5 years	1,735.2	1,811.9
<b>Loans to the public</b>	<b>168,947.9</b>	<b>147,055.5</b>

#### Definition

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

<b>Note 10</b>	<b>Derivatives</b>			
	<b>31 Dec 2016</b>		<b>31 Dec 2015</b>	
<b>SEK M</b>	<b>Nominal value</b>	<b>Fair value</b>	<b>Nominal value</b>	<b>Fair value</b>
<b>Derivatives with positive values</b>				
<i>Derivatives in hedge accounting</i>				
Interest-related	81,952.0	2,229.7	65,771.0	2,203.2
Currency-related	22,967.8	2,940.5	13,606.6	1,961.7
<i>Other derivatives</i>				
Interest-related	-	-	-	-
<b>Total derivatives with positive values</b>	<b>104,919.8</b>	<b>5,170.2</b>	<b>79,377.6</b>	<b>4,164.9</b>
<b>Derivatives with negative values</b>				
<i>Derivatives in hedge accounting</i>				
Interest-related	63,225.0	820.7	72,125.0	1,139.7
Currency-related	3,123.2	180.1	7,699.4	570.6
<i>Other derivatives</i>				
Interest-related	2,000.0	0.1	-	-
<b>Total derivatives with negative values</b>	<b>68,438.2</b>	<b>1,000.9</b>	<b>79,824.4</b>	<b>1,710.3</b>

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

<b>Note 11</b>	<b>Pledged assets, contingent liabilities and commitments</b>	
<b>SEK M</b>	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
<b>For own liabilities, pledged assets</b>		
Collateral pledged due to repurchase agreements	15.7	104.7
Loan receivables, covered bonds	159,446.3	137,484.4
Loan receivables, substitute collateral	8,675.0	8,775.0
<b>Total for own liabilities, pledged assets</b>	<b>168,137.0</b>	<b>146,364.1</b>
<b>Other pledged assets</b>	<b>None</b>	<b>None</b>
<b>Commitments</b>		
Loans approved but not disbursed	9,545.0	7,923.4

Mkr	Fair value valuation techniques			
	31 Dec 2016		31 Dec 2015	
	Book value	Fair value	Book value	Fair value
<b>Financial assets</b>				
Loans to credit institutions	4,614.7	4,614.7	4,395.3	4,395.3
Loans to the public	168,947.9	169,562.9	147,055.5	147,711.2
Bonds and other interest-bearing securities	9,201.4	9,201.4	9,344.8	9,344.8
Derivatives	5,170.2	5,170.2	4,164.9	4,164.9
<b>Total</b>	<b>187,934.2</b>	<b>188,549.2</b>	<b>164,960.5</b>	<b>165,616.2</b>
<b>Financial Liabilities</b>				
Due to credit institutions	47,002.4	47,002.4	41,267.7	41,267.7
Debt securities in issue	126,887.9	131,774.9	110,399.8	114,581.1
Derivatives	1,000.9	1,000.9	1,710.3	1,710.3
Other liabilities	6.7	6.7	6.8	6.8
Subordinated liabilities	1,001.0	1,023.3	1,001.0	1,001.6
<b>Total</b>	<b>175,898.9</b>	<b>180,808.2</b>	<b>154,385.6</b>	<b>158,567.5</b>

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				
<b>Financial instruments measured at fair value in the balance sheet</b>				
<b>31 December 2016, SEK M</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Bonds and other interest-bearing securities	9,201.4			9,201.4
Derivatives		5,170.2		5,170.2
<b>Liabilities</b>				
Derivatives		1,000.9		1,000.9
<b>31 December, SEK M</b>				
<b>Assets</b>				
Bonds and other interest-bearing securities	9,344.8			9,344.8
Derivatives		4,164.9		4,164.9
<b>Liabilities</b>				
Derivatives		1,710.3		1,710.3

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 2016 or 2015. There were also no transfers from Level 3 in these years.

Note 12	Fair value valuation techniques, continued			
Financial instruments measured at amortised cost in the balance sheet				
31 December 2016, SEK M	Level 1	Level 2	Level 3	Total
Assets				
Loans to the public		169,562.9		169,562.9
Liabilities				
Debt securities in issue		131,774.9		131,774.9
Subordinated liabilities		1,023.3		1,023.3
31 December 2015				
Assets				
Loans to the public		147,711.2		147,711.2
Liabilities				
Debt securities in issue		114,581.1		114,581.1
Subordinated liabilities		1,001.6		1,001.6

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

There were no significant transfers between Level 1 and Level 2 in 2016 or 2015. There were also no transfers from Level 3 in these years.

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

Note 13	Capital-adequacy					
SEK M		31 Dec 2016	31 Dec 2015			
Total Equity		7,629.9	6,707.8			
78 % of untaxed reserves		357.9	240.9			
Own funds eligible for capital-adequacy		7,987.8	6,948.7			
Adjustment for cash flow hedge		-1.0	-79.5			
IRB Provisions deficit (-) / surplus (+)		-80.9	-80.9			
Adjustment for prudent valuation		-15.4	-15.2			
Common Equity Tier 1 capital		7,890.5	6,773.1			
Tier 2 instruments		1,001.0	1,001.0			
IRB Provisions deficit (-) / surplus (+)		-	6.7			
Tier 2 capital		1,001.0	1,007.7			
Total Own funds		8,891.5	7,780.8			
Risk exposure amount according to CRD IV		17,893.6	18,119.9			
Total Capital requirement according to CRD IV		1,431.5	1,449.6			
Capital requirement for credit risk according to Standardised Approach		188.5	236.3			
Capital requirement for credit risk according to IRB Approach		1,108.8	1,052.7			
Capital requirement for operational risk		59.2	52.0			
Capital requirement according to credit valuation adjustment		75.0	108.6			
Core Tier 1 ratio according to CRD IV		44.1%	37.4%			
Tier 1 ratio according to CRD IV		44.1%	37.4%			
Capital adequacy ratio according to CRD IV		49.7%	42.9%			
Special disclosures						
IRB Provisions surplus (+) / deficit (-)		-80.9	-74.2			
- IRB Total provisions (+)		43.1	43.1			
- IRB Anticipated loss (-)		-124.0	-117.3			
Capital requirement according to Basel I floor		6,992.2	6,023.3			
Capital base adjusted according to Basel I floor		8,972.4	7,855.0			
Surplus of capital according to Basel I floor		1,980.2	1,831.7			
Minimum capital requirements and buffers		Minimum capital requirements	Capital conservation buffer	Counter-cyclical buffer	Systemic risk buffer	Total
Core Tier 1 capital		4.5%	2.5%	1.5%	n/a	8.5%
Tier 1 capital		6.0%	2.5%	1.5%	n/a	10.0%
Capital base		8.0%	2.5%	1.5%	n/a	12.0%
SEK M						
Core Tier 1 capital		805.2	447.4	268.4	n/a	1,521.0
Tier 1 capital		1,073.6	447.4	268.4	n/a	1,789.4
Capital base		1,431.5	447.4	268.4	n/a	2,147.3
Core Tier 1 capital available for use as buffer						38.1%

Note 13 Capital-adequacy analysis, continued		31 Dec 2016		31 Dec 2015	
SEK M		Capital require-ment	Risk exposure amount	Capital require-ment	Risk exposure amount
<b>Credit risk according to Standardised Approach</b>					
Exposures to institutions		113.6	1,419.8	159.3	1,991.4
Covered bonds		74.5	931.6	75.9	948.7
Other items		0.4	4.8	1.1	13.4
<b>Total capital requirement and risk exposure amount</b>		<b>188.5</b>	<b>2,356.3</b>	<b>236.3</b>	<b>2,953.4</b>
<b>Credit risk according to IRB Approach</b>					
<i>Retail exposures</i>					
Exposures secured by real estate collateral		33.9	423.2	40.9	511.8
Other retail exposures		804.6	10,058.1	731.5	9,143.8
Other retail exposures, small and medium-sized businesses		0.2	2.9	0.6	7.0
Other retail exposures		2.1	26.1	2.2	27.4
<b>Total retail exposures</b>		<b>840.8</b>	<b>10,510.2</b>	<b>775.2</b>	<b>9,690.0</b>
Exposures to corporates		268.0	3,349.7	277.5	3,469.1
<b>Total capital requirement and risk exposure amount</b>		<b>1,108.8</b>	<b>13,859.9</b>	<b>1,052.7</b>	<b>13,159.1</b>
<b>Operational risk</b>					
Standardised Approach		59.2	740.4	52.0	649.9
<b>Total capital requirement for operational risk</b>		<b>59.2</b>	<b>740.4</b>	<b>52.0</b>	<b>649.9</b>
<b>Total capital requirement for credit valuation adjustments</b>		<b>75.0</b>	<b>937.1</b>	<b>108.6</b>	<b>1,357.5</b>

<b>Note 14</b>	<b>Disclosures on related parties</b>
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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.

This interim report is a translation of the Swedish interim report that has not been reviewed by the company's auditors.

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

Stockholm, 10 february 2017

Anders Borgcrantz  
President



### Financial calendar

Interim report January–March Länsförsäkringar Bank	5 may 2017
Interim report January–March Länsförsäkringar Hypotek	5 may 2017

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

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