

Landshypotek Bank AB

Interim report 2016 #2

January – June 2016 (compared with corresponding year-earlier period)

Liza Nyberg, CEO of Landshypotek Bank, comments on Q2:

We look back on a quarter where, despite low interest rates, we posted strong net interest income. Our loan losses continue to decline. Our earnings provide the resources to develop the bank into a broader bank for agroforestry enterprises and homes.

January – June 2016

compared with January – June 2015

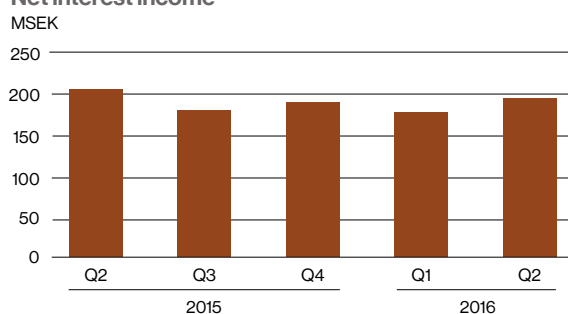
- Operating profit amounted to MSEK 202.8 (164.8).
- The underlying operating profit, profit excluding financial transactions, totalled MSEK 172.6 (165.8).
- Net interest income declined MSEK 5.4 and totalled MSEK 370.2 (375.6).
- Costs increased and totalled MSEK 197.7 (192.6).
- Net loan losses declined and amounted to MSEK 9.7 (23.4).
- Lending amounted to SEK 65.7 billion (63.6).
- Deposits totalled SEK 11.3 billion (8.1), up SEK 3.2 billion.

April – June 2016

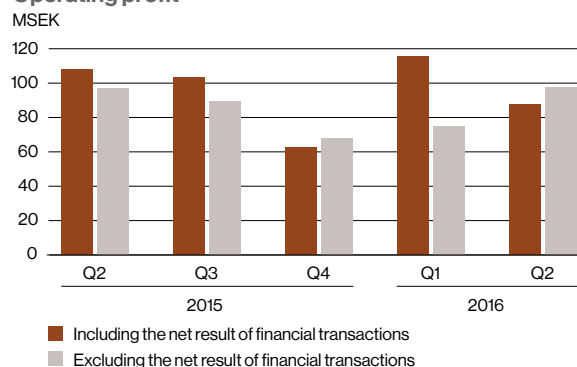
compared with January – March 2016

- Operating profit amounted to MSEK 87.4 (115.4).
- The underlying operating profit, excluding the net result of financial transactions, was MSEK 97.7 (74.9).
- Net interest income amounted to MSEK 193.6 (176.5).
- Costs totalled MSEK 101.2 (96.5).
- Net loan losses were MSEK 1.4 (8.3).
- Lending amounted to SEK 65.7 billion (65.1).
- Deposits amounted to SEK 11.3 billion (10.7).

Net interest income



Operating profit



Landshypotek Bank in Q2

April: The bank's owner association, Landshypotek Ekonomisk Förening, resolved to distribute SEK 149 million to the members, the bank's loan customers.

April: At the end of March, Landshypotek Bank announced changes to its exposure classes, which will impact the bank's regulatory capital requirement. The bank's rating agencies, Fitch and Standard & Poor's, retain their ratings.

April: At its Association Meeting, Landshypotek Ekonomisk Förening adopted a new corporate governance policy aimed at strengthening the association, in terms of the owners and the member organisation. An association council was formed and an election committee will replace the existing Drafting Committee. Three new Board members were elected to the Board of Directors of Landshypotek Ekonomisk Förening.

May: Landshypotek Bank's motivational letter "For a richer life in the countryside" was nominated together with three others for the Swedish Content Awards, a competition for marketing activities based on strong content

May: Following the announced change of exposure classes, Landshypotek Bank raised new T2 capital from investors. Liquidity was also strengthened during the quarter as a pre-emptive measure ahead of the forthcoming EU referendum in the UK and the expected turbulence in the financial markets.

May: Many members choose to reinvest their dividends and slightly more than SEK 30 million had been reinvested by the end of June.

June: In its "Trend Report 2016 – What we eat reflects who we want to be," Landshypotek Bank described seven societal trends that farmers and foresters are meeting by developing their businesses.

June: Landshypotek Bank has joined a partnership for developing new blockchain technology to provide a technical solution for property transactions. The Swedish Land Registry, Lantmäteriet, is among the many partners involved in this collaboration.

June: The unclear legal position vis-à-vis borrowing based on EU subsidies has been clarified by the Swedish Supreme Court. Uncertainties with regard to the rules that apply in the event of insolvency have impacted the use of all loans secured against EU subsidies. The Supreme Court ruled in Landshypotek Bank's favour. In the event of insolvency proceedings, the collateral in the form of EU subsidies accrues to the bank, which was an important victory for the industry.

Landshypotek Bank – for a richer life in the countryside

Landshypotek Bank's offers financial services to Sweden's farmers and foresters, and people living on agricultural properties. Landshypotek Bank has also introduced savings accounts that offer competitive interest rates for the general public in Sweden. With slightly more than SEK 65 billion in loans outstanding, Landshypotek Bank is Sweden's ninth largest bank. The bank has SEK 11 billion in savings from the general public in Sweden. Landshypotek Bank has organised its customer operations into nine districts and has offices in 19 locations across Sweden to promote active and close dialogue with customers. In addition, a central organisation is in place that includes a customer service function for dialogue with customers. Landshypotek Bank has approximately 160 employees.

Landshypotek Ekonomisk Förening – together we own Landshypotek Bank

All borrowers from Landshypotek Bank become members of Landshypotek Ekonomisk Förening (Landshypotek Cooperative Association). Accordingly, Landshypotek Bank is owned by some 42,000 members. All business operations are conducted in Landshypotek Bank and the cooperative association is responsible for member relations and overriding control of the bank through the owner directive. Landshypotek Ekonomisk Förening has organised its member operations into ten regions. The Board of each region comprises up to eight elected representatives who represent the members and act as ambassadors for Landshypotek Bank. Any surpluses in Landshypotek Bank are reinvested in operations and distributed to loan customers.



CEO's Statement

Agroforestry and a modern bank

"Farming and forestry are modern industries." The potential of the new agroforestry industries is evident from our new *Trend Report 2016 - What we eat reflects who we want to be*. The drive and the desire for development illustrated by the trend report are aspects we note daily in the form of credit requests from the country's farmers and foresters. Those of us who work with and for farming and forestry are also responsible for demonstrating that energy in the public domain.

This confidence and drive for development is by no means as clear in public debate. Instead, discussions often revolve around crises in various industries. In addition to the crisis alarms, other perspectives – on the potential and development – are also needed. In this case, we will be forced to challenge our own views on entrepreneurship in farming and forestry, and to be in a state of continuous development.

We aim to be the best bank for loans to the farming and forestry sector and, therefore, we are developing our approach and our actions.

We are developing our operations to be able to meet market variations. Being a farmer is an umbrella term for everything from hobby operations at a specific type of property to high-energy entrepreneurship in the agroforestry industries. Substantial variation exists among those borrowing for farming and forestry.

We are continuing to strengthen our ability and skills to meet the needs of various customers. We are changing our exposure classes to better reflect industry trends and we are developing our different methods of meeting customers. During the year, we have invested specifically in strengthening contacts with customers who rely on income from employment. The response from the customers was considerable. We are increasing awareness of us and contact with this broader group of customers. The changes will enable us to grow and allow us to serve more customers.

Our history and core business provide a solid foundation for developing into a broader, more open and better bank. When we opened our doors to allow anyone to save with us, we also created a movement outside the cooperative movement, a movement that benefits Swedish farming and forestry and the Association's members. In the first six months, we were one of the fastest growing banks in the deposits market. There is substantial interest in us as

a bank. The societal service we provide to the countryside makes us a modern bank. This is noticeable from the increase in our marketing activities, in the media and in our customer contact. It is also noticeable when we are recruiting. Many people want to work at a bank with a defined public service mission.

Our expertise and our commitment to financing mean we can make a major difference for the agroforestry industries. We assisted in making the awkward dairy loan guarantees available directly as subsidies to dairy farmers. Together with the Swedish Bankers' Association and dedicated politicians, we eliminated the risk that farming and forestry businesses would also be subject to statutory capital repayment requirements. Now, through a Supreme Court ruling, we have obtained a clear legal position vis-à-vis borrowing against EU agricultural subsidies, which is important for some of our customers. Accordingly, we have once again made a difference for the agroforestry industries.

We operate in a turbulent macro environment. Negative interest rates are now being followed by a market reacting to political risks ahead of the US election and following the UK's EU referendum.

However, we have both strengthened our capital and our liquidity during the quarter. Standard & Poor's and Fitch confirmed our ratings. Many members choose to reinvest their dividends, which provides us with stability in these turbulent times. Again, all of the above shows there is substantial interest and confidence in a bank with a difference in the Swedish banking market.



Liza Nyberg
CEO of Landshypotek Bank

Our operating environment

Landshypotek Bank and its customers are impacted by financial market trends, as well as business conditions in the farming and forestry sectors. The UK referendum decision to leave the EU has created unrest in the financial markets and impacts Swedish farmers.

Financial market trends

At the start of the quarter, indications showed that the global economy was recovering, albeit at a slow pace. The US economy's recovery was relatively sluggish, while the larger EU economies with Germany at the forefront were performing slightly better than expected. The Swedish economy has posted healthy growth with rising GDP and falling unemployment.

In the US, the Federal Reserve adjusted down its key interest rate forecast following weak employment data and uncertainty ahead of the EU referendum in the UK.

However, in Europe, the ECB has elected to wait and see. The ECB will analyse the effects of the previous vigorous monetary policy measures, but is also open to further stimulus packages. With inflation in Sweden remaining under the Riksbank's target, no increases in the repo interest rate are expected during the year, despite the strength of the economy. However, the inflation target and interest-rate policy remain subjects of intense discussion.

During the quarter, the market has prepared for increased political risk. Ahead of the EU referendum in the UK and the coming presidential election in the US, investments have been realigned from riskier assets such as equities and moved to secure government bonds. In Sweden, capital repayment requirements have been introduced for consumer mortgages. The impact on housing prices remains unclear.

History was written on Midsummer Eve when the UK became the first member state to vote to leave the EU. The financial markets reacted with falling stock exchanges, record-low interest rates and a much weaker pound. Uncertainty regarding the UK's exit will most likely impact the financial markets for the foreseeable future.

For the remainder of the year, this uncertainty and the forthcoming presidential elections in the US will significantly affect interest rates. The expected negative impact on global growth generated by the political risks is expected to result in limited possibilities for central banks around the world to raise interest rates.

Summary Landshypotek Bank

	2016 Q2	2015 Q2	2016 Q1	2016 Jan-Jun	2015 Jan-Jun	2015 Full year
Net interest income, MSEK *	193.6	204.2	176.5	370.2	375.6	743.4
Operating profit, MSEK	87.4	108.0	115.4	202.8	164.8	330.6
Profit after tax, MSEK	68.2	84.3	90.5	158.7	128.5	257.1
Loans to the public, MSEK	65,663	63,581	65,089	65,663	63,581	64,501
Increase in lending, %	0.9	2.2	0.9	1.8	3.0	4.5
Interest margin, %	1.2	1.3	1.1	1.1	1.2	1.2
Deposits from the public	11 255	8 067	10 724	11 255	8 067	10 310
Increase in deposits, %	5.0	18.1	4.0	9.2	38.4	76.9
C/I ratio including financial transactions	0.53	0.44	0.44	0.48	0.51	0.51
C/I ratio excluding financial transactions	0.51	0.47	0.54	0.52	0.50	0.51
Loan loss level, %	0.01	0.09	0.05	0.03	0.07	0.07
Total capital ratio, %	33.0	23.2	26.4	33.0	23.2	26.1
Rating, long-term						
Standard & Poor's, Covered bonds	AAA	AAA	AAA	AAA	AAA	AAA
Standard & Poor's	A-	A-	A-	A-	A-	A-
Fitch	A	A+	A	A	A+	A
Average number of employees	162	153	162	162	153	156

* Deposit insurance fees and fees to the stabilisation fund have been reclassified from Other operating income to Net interest income.
The comparative figures for 2015 have been restated.

Trends in farming and forestry

In the first half of the year, the hottest topic among actors in the agroforestry industries was the Swedish food strategy, which the government aimed to propose before the summer, but which is now delayed. The aim of the food strategy is to develop and strengthen Swedish food production, with job possibilities and sustainable growth across the country. The strategy should help increase Swedish food production and strengthen exports. The strategy has great symbolic value, even if one cannot expect any immediate effects.

A number of parallel processes are ongoing at national and international level that focus on the role of farming and forestry in the future production of food and raw material for industry. A generic term for this concept is bioeconomy. In its final report, the Swedish Environmental Objectives Council proposed a bioeconomy strategy to reach the environmental goals. The agroforestry sector holds many of the keys needed to for a switch to a fossil-free society and reduced environmental and climate impact. The trend toward increased cultivation of crops for the production of bioenergy comprises one such example. The vigorously growing market for forest fibres to be used in the textile industry as a replacement for cotton comprises another. The trends and future possibilities are highlighted in Landshypotek Bank's Trend Report 2016.

Sector trends in the second quarter of 2016

Early spring tillage with stable weather provided excellent conditions for crops to establish themselves. However, groundwater levels have been at record lows in many places across Sweden. A dry spring led to problems in many areas with the groundwater and with crop development.

Forestry

Several major investments in new capacity, for pulp and paper, have raised expectations for demand and, accordingly, the price of timber. Sawmills are encumbered with profitability issues and structural changes are ongoing in many places across the country.

Dairy

Growth in the supply of milk is outpacing growth in global demand. However, some signs are appearing that production is slowing in certain heavy exporters, such as New Zealand and Australia. In the EU, production increases have continued and calls are being heard for a reintroduction of production quotas. However, according to several assessments, the milk price has reached its floor but the recovery will not be quick. Therefore, it is important to maintain a continued focus on individual companies' finances.

Meat

The relatively favourable price levels for Swedish meat continue. An already positive image is fuelled by favourable publicity and Swedish animal husbandry has been noted by external reviewers. One such example is the WWF's 2016 Meat Guide, which recommends Swedish meat on the basis of consideration to the environment and the risk of antibiotic resistance.

Cereals and oilseeds

The market continues to fluctuate, from low levels, following reactions to forecasts regarding the weather and expected harvests in different areas of the country. Progress with exports is relatively sluggish and maintaining overstocks for some products is being considered.

The long-term consequences of the UK referendum for Swedish farming and forestry are impossible to foresee at present. The immediate effect is increased political and financial uncertainty, which impacts currencies and raw material prices in the global market. In Sweden, it is primarily forestry and cereal crops that are directly impacted by the value changes since these sectors are highly dependent on exports.

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Financial calendar

Q3 interim report, July-Sept.2016 27 Oct. 2016

All reports are published in Swedish and English and are available for download from www.landshypotek.se under Investor relations.

Landshypotek Bank AB

Landshypotek Bank AB (publ) (Corp. Reg. No.: 556500-2762)

Interim report for the 1 January – 30 June 2016 period.

Landshypotek Bank (Landshypotek) is owned by Landshypotek Ekonomisk Förening, in which all of the Bank's loan customers are members. The Bank's assignment is to provide competitive financing to Sweden's farmers and foresters. With loans outstanding of SEK 65.7 billion, Landshypotek Bank accounts for 26.2 percent of total lending to farmers and foresters in Sweden. Lending is characterised by adequate property collateral. Landshypotek Bank has about 160 employees at 19 offices throughout Sweden.

Operating profit 2016

Consolidated operating profit for the first half of 2016 amounted to MSEK 202.8, down MSEK 38.0 compared with the first half of 2015 (MSEK 164.8). The increase in earnings was primarily attributable to a year-on-year increase in the net result of financial transactions of MSEK 31.2. Excluding the net result of financial transactions, operating profit amounted to MSEK 172.6 (165.8), up MSEK 6.8 year-on-year.

Net interest income

Net interest income for the first half of 2016 amounted to MSEK 370.2 (375.6). This was a year-on-year decrease of 1.4 percent. The decrease in net interest income was attributable to slightly lower interest margins and a continued increase in deposits in a market with declining interest rates.

Deposit insurance fees and fees to the stabilisation fund have been reclassified from Other operating income to Net interest income. The comparative figures for 2015 have been restated. Refer to Note 1.

Other operating income

For the first half of 2016, other operating income amounted to MSEK 40.0 (5.2). This comprised a year-on-year improvement of MSEK 34.9. Other operating income includes the gain of MSEK 30.2 from the net result of financial transactions, net commission income of MSEK 5.4 and income from property of MSEK 3.7.

The year-on-year increase in operating income was due to an improvement of MSEK 31.2 in the net result of financial transactions to MSEK 30.2 (loss: 1.0). Of this amount, MSEK 30.2 comprised an unrealised gain of MSEK 31.3 and a realised loss of MSEK 1.1. The net result of financial transactions included realised results from the purchase and sale of financial instruments, as well as the result from the buyback of bonds. In addition, this item includes the result from the revaluation of financial instruments. To gain an understanding of the total effect of market valuations, the remeasurements recognised directly in equity via other comprehensive income must also be taken into account. Remeasurements in equity amounted to a gain of MSEK 38.0 (loss: 15.5) in 2016.

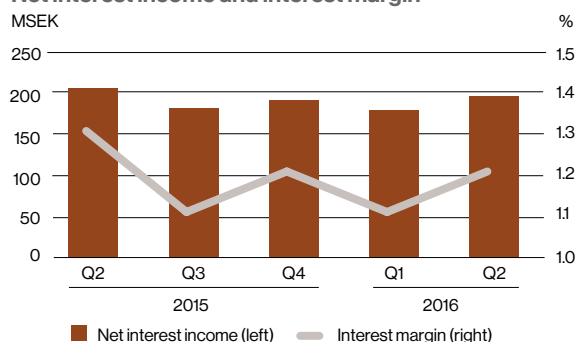
Costs

Costs in the first half of 2016 amounted to MSEK 197.7 (192.6). As planned, costs are in line the development being driven to strengthen the bank's competitiveness.

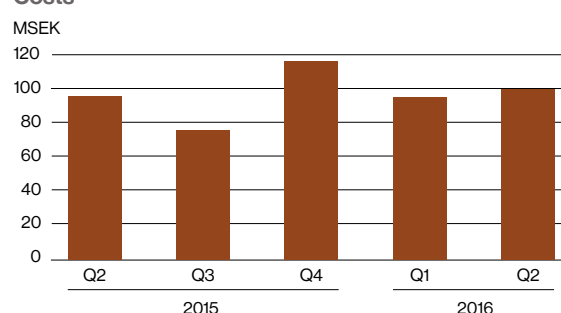
Loan losses and doubtful credits

Net loan losses declined in the first half of 2016 and totalled MSEK 9.7 (23.4). Confirmed losses totalled MSEK 16.8 (14.3). The year-on-year increase was attributable to the winding up of a number commitments (for which provisions exist) being completed in the first half of 2016.

Net interest income and interest margin



Costs



Operating profit

	Jan-Jun 2016	Jan-Jun 2015
Net interest income, MSEK *	370.2	375.6
Other operating income, MSEK *	40.0	5.2
Of which net result of financial transactions	30.2	-1.0
Costs, MSEK	-197.7	-192.6
C/I ratio, including the net result of financial transactions	0.48	0.51
C/I ratio, excluding the net result of financial transactions	0.52	0.50
Net recognised loan losses, MSEK	-9.7	-23.4
Loan loss level, %	0.03	0.07
Operating profit, MSEK	202.8	164.8
Operating profit excluding the net result of financial transactions	172.6	165.8

* Deposit insurance fees and fees to the stabilisation fund have been reclassified from Other operating income to Net interest income.
The comparative figures for 2015 have been restated.

Provisions for probable loan losses amounted to MSEK 31.7 (42.2). Reversals of previous provisions for confirmed losses during the year totalled MSEK 17.4 (13.8). Recoveries of previously confirmed losses and reversals of previous provisions for probable loan losses that are no longer required, amounted to MSEK 21.4 (19.4).

At 30 June 2016, net doubtful credits after provisions amounted to MSEK 282.3, corresponding to 0.43 percent of loans outstanding. At 30 June 2015, doubtful credits amounted to MSEK 316.6, corresponding to 0.50 percent of loans outstanding.

Landshypotek Bank has further developed internal efforts to identify and monitor companies in the credit portfolio with poor profitability and low liquidity, thereby allowing suitable measures to be deployed earlier. The provision for probable loan losses is attributable to a limited number of individual commitments.

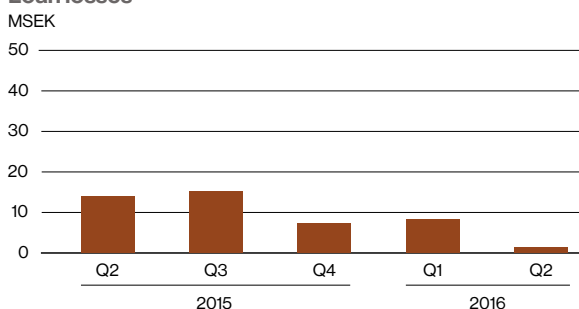
Comparison with the first quarter of 2016

Consolidated operating profit for the second quarter of 2016 amounted to MSEK 87.4, down MSEK 20.6 compared with the first quarter of 2016. It was primarily the net result of financial transactions that was down on the first quarter but this was to some extent compensated by lower loan losses. Excluding the net result of financial transactions, operating profit for the second quarter of 2016 amounted to MSEK 97.7, which is in line with the first quarter of 2016.

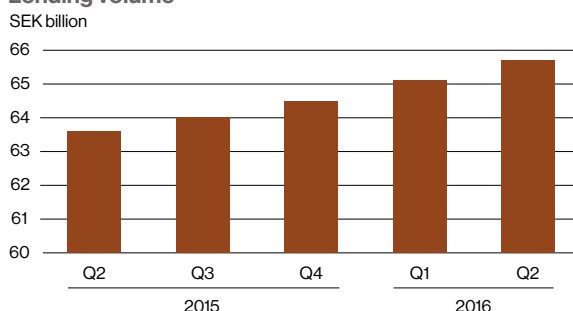
Landshypotek's lending

In the first half of 2016, lending increased SEK 1.2 billion to SEK 65.7 billion. The increase corresponded to lending growth of 1.8 percent, compared with 3.0 percent in the corresponding year-earlier period.

Loan losses



Lending volume



Demand for credit remained stable, however, variations exist depending on customers' type of production and the properties' geographic location. The annualised market growth for 2016 is expected to be 5.3 percent (about 6 percent in 2015).

Funding

Borrowing

Landshypotek Bank's ambition is, given a low risk profile, to borrow funds on the best possible terms. The following also applies:

- borrowing is well diversified as regards items including the type of programmes and investor base
- borrowing has a tenor that corresponds well to the tenor of assets
- high concentrations of borrowings maturing during a short duration are avoided.

Landshypotek Bank actively raises funds in the bond markets, and always strives to meet investors' wishes regarding tenors and interest-rate structures.

Investor relations are of major importance as part of ensuring that investors' levels of awareness and interest are maintained in Landshypotek Bank. During the first half of the year, the Bank issued covered bonds to a value of approximately SEK 9.7 billion and, in addition, senior bonds to a value of SEK 1.1 billion and subordinated loans to a value of SEK 1.2 billion. During the same period, bonds have matured and been repurchased to a value of approximately SEK 9.0 billion, of which SEK 7.9 billion pertained to covered bonds.

In general, the finance market for Nordic banks functioned smoothly in the first half of 2016. Landshypotek Bank was very successful in its funding activities and demand for Landshypotek Bank's bonds was favourable.

Deposits

Deposits amounted to SEK 11.3 billion (8.1) at 30 June 2016.

Liquidity

Landshypotek Bank has a substantial liquidity portfolio of

interest-bearing securities. This was valued at SEK 15.4 billion at 30 June 2016. The portfolio primarily comprises Swedish covered bonds with the highest credit rating and bonds issued by Swedish municipalities. Securities can be sold or borrowed against, as required, to manage the financing of maturing debt. At 30 June, the liquidity portfolio was 1.7 (2.8) times larger than refinancing requirements for the next six months. The correlation has declined due to the imminent maturity of securities in 2016.

Rating

Landshypotek Bank has credit ratings from two different rating agencies, Standard & Poor's and Fitch. In 2015, Fitch changed Landshypotek Bank's rating to A with stable outlook. The motivation was that the quality of Landshypotek Bank's loan portfolio was approaching the quality of those of other banks and, accordingly, Fitch lowered its previously extremely strong credit-quality rating.

Rating

	Long	Short
S&P Covered Bonds	AAA	
S&P	A–	A-2, K1
Fitch	A	F1

Risk management

The risks on which Landshypotek Bank actively focuses its efforts are classified in the risk categories of credit risk, liquidity risk, market risk and operational risk. On an overall level, the Board of Directors establishes how Landshypotek Bank's risks are to be measured, reported and limited.

In the first half of the year, Landshypotek Bank maintained continued focus on governance and control of internal processes, for reasons including the Swedish Financial Supervisory Authority's ongoing inspections of Swedish credit institutions. The Swedish Financial Supervisory Authority's inspections include examination of the bank's internal methods for measuring credit risk (IRB approach) and credit processes.

Program

MSEK	Issued 30 Jun. 2016	Limit	Issued 31 Dec. 2015
Swedish Commercial paper	1,350	10,000	2,270
MTN programme	45,988	60,000	43,431
EMTN programme	11,988	32,961*	12,713
RCB**	3,296		3,407
Subordinated loans	1,700		500

* MEUR 3,500. ** Registered Covered Bonds.

Credit risk is defined as the risk that Landshypotek Bank does not receive payment as agreed in combination with the risk that the value of the collateral is not adequate and thus will not cover the outstanding claim. The risk encompasses all Landshypotek Bank's retail receivables and can also arise as a consequence of the management of liquidity, interest and currency risk. Landshypotek Bank's methods for credit approval and credit monitoring as well as requirements for granting credit, including collateral requirements, limit credit risk in the portfolio.

Landshypotek Bank's operations are naturally exposed to liquidity risk. As part of managing this exposure, among other measures, Landshypotek Bank maintains a substantial liquidity reserve and strives to achieve diversified funding.

Landshypotek Bank is exposed to market risk in the form of interest-rate, currency, basis-spread and credit-spread risk. Interest-rate and currency risk are mainly managed through swap agreements and are therefore low. Basis-spread risk arises from entering into interest-rate and currency swap agreements and is moderated through limiting funding in foreign currency. Credit-spread risk arises in Landshypotek Bank's liquidity portfolio and is limited, to a degree, through requirements for high credit ratings for securities in the liquidity portfolio. Landshypotek Bank monitors the market and liquidity risks, for which limits apply, on a daily basis.

Operational risk is defined as the risk of losses as a result of inappropriate or failed internal processes, human error, faulty systems and external events including legal risks. Landshypotek Bank reduces operational risks through measures including risk analysis, continuity management, the New Product Approval Process (NPAP) and incident follow-up.

Capital adequacy

The total capital ratio under the Basel III rules¹ amounted to 33.0 percent. Own funds amounted to MSEK 6,284 and the own funds requirement was MSEK 1,525. In addition to the Pillar I capital requirement of 8 percent, the capital conservation buffer requirement is 2.5 percent of the total risk-weighted amount and, from 27 June 2016, the countercyclical capital buffer requirement is 1.5 percent of the total risk-weighted amount². The capital conservation buffer and the countercyclical buffer must be covered by Common Equity Tier 1 capital (CET1 capital). The Bank's remaining CET1 capital to cover the buffer requirements, corresponds to 18.0 percent of the total risk-weighted exposure amount at 30 July 2016.

¹ In this text, Basel I and Basel III refer to the Swedish implementation of the Basel regulations, for example, through FFFS 2003:10, the Capital Requirements Regulation (EU) No 575/2013 and the Capital Requirements Directive 36/2013/EU.

² The countercyclical buffer is planned to be raised to 2.0 percent from 19 March 2017.

The total capital ratio under the transitional rules linked to the Basel I requirement amounted to 12.0 percent.

The bank's leverage ratio amounted to 5.3 percent.

Profits from the first six months of 2016 were included in own funds.

Internally assessed capital requirement

One method used by the bank for assessment of the capital requirement is the transitional rule related to the Basel I rule, including a capital planning buffer to be able to ensure that the Basel I capital requirement is met even in a highly stressed scenario. Landshypotek Bank has also utilised another method which is based on the Basel III rules that, in addition to the Pillar I capital requirements, includes a total combined buffer requirement and Pillar II capital including a risk weight floor.

The bank intends to change its exposure classes under the Basel III framework and apply for an IRB approach, excluding our own estimates of LGD values and conversion factors for corporate exposures. This is to better reflect the market trend for lending to the farming and forestry sector, and to adapt to new regulatory changes. The bank has prepared under the Pillar II framework for the increased capital requirement that will arise as a consequence of this change, including a margin given that this is a preliminary assessment.

The capital requirement is SEK 4.5 billion for the consolidated situation, according to Basel III, after taking into account changed exposure classes and, for corporate exposures, PD-estimates using the existing internal model but with prescribed LGD values and conversion factors. It is the capital requirement under Basel III that determines the bank's capital requirement. The capital requirement should be compared with estimated own funds of SEK 6.0 billion.

Group structure

All borrowers of Landshypotek Bank are also members of Landshypotek Ekonomisk Förening. Landshypotek Ekonomisk Förening owns 100 percent of the shares in Landshypotek Bank.

All operations were conducted exclusively in Landshypotek Bank in 2016. The subsidiary, Landshypotek Jordbrukskredit transferred its operations to Landshypotek Bank in 2015 and Landshypotek Jordbrukskredit is now being wound up.

Events after the end of the period

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

Capital adequacy analysis

SEK Thousand	Consolidated situation ¹ 30 June 2016
Own funds, Basel 3	6,283,906
Tier 1 capital	4,583,915
Common equity tier 1 (CET1) capital	4,583,915
Capital instruments eligible as CET1 Capital	1,506,310
Retained earnings	3,328,152
Accumulated other comprehensive income	-13,005
Adjustments to CET1 due to prudential filters	-49,051
(-) Other intangible assets	-18,955
(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-7,215
(-) IRB shortfall of credit risk adjustments to expected losses	-162,321
(-) Defined benefit pension fund assets	0
Tier 2 capital	1,699,992
Capital instruments and subordinated loans eligible as T2 Capital	1,699,992
Own funds requirement, Basel 3	1,524,816
Risk exposure amount, Basel 3	19,060,204
CET1 capital ratio (%)	24.05
Tier 1 capital ratio (%)	24.05
Total capital ratio (%)	32.97
Institution specific CET1-requirement including buffer requirements (%)	8.50
of which: capital conservation buffer requirement (%)	2.50
of which: countercyclical capital buffer (%)	1.50
CET1 capital available to meet buffers (as a share of risk exposure amounts, %) ²	18.05
Capital quotient	4.12
Capital adequacy according to transitional rules Basel 1	
Own funds	6,446,227
Own funds requirement	4,307,534
Total capital ratio (%) ³	11.97
Capital quotient	1.50
Leverage ratio (%)	5.3

¹ Consolidated situation includes Landshypotek ekonomisk förening and the Landshypotek Bank AB Group.

² Calculated as "CET1 capital as reported, less CET1 used to cover the CET1 requirement and less any other CET1 items used to meet the Tier 1 capital requirement and the total own funds requirement" divided by risk exposure amount, Basel 3.

³ Corresponds to the term capital adequacy ratio, which has been used in previous financial statements.

Own funds

SEK Thousand	Consolidated situation ¹ 30 June 2016
Member contributions	1,506,310
Other contributed capital	1,797,796
Reserves	-13,005
Actuarial differences	-29,199
Retained earnings	1,424,584
Net profit for the year ²	151,497
Equity in balance sheet	4,837,983
Deductions related to the consolidated situation and other foreseeable costs	-
CET1 capital before regulatory adjustments³	4,837,983
Adjustment of net profit for the year	-103,308
Intangible assets	-18,955
Deferred tax assets that rely on future profitability	-7,215
Fair value reserves related to gains or losses on cash-flow hedges	8,531
Negative amounts resulting from the calculation of expected loss amounts	-162,321
Defined-benefit pension plans	29,199
CET1 capital	4,583,915
Tier 1 capital	4,583,915
Capital instruments and subordinated loans eligible as T2 capital	1,699,992
T2 capital	1,699,992
Total capital	6,283,906

¹ The consolidated situation includes Landshypotek Ekonomisk Förening and the Landshypotek Bank AB Group.

² A decision by the Swedish Financial Supervisory Authority on 19 February 2016 gave Landshypotek Bank AB (556500-2762) approval for using the annual surplus in own-funds calculations for the institute and also for its consolidated situation with the prerequisite that the elected auditor (PwC) has verified the surplus and that the surplus has been calculated pursuant to the applicable accounting framework, and that it is possible to verify that deductions have been made for any foreseeable costs and dividends in line with Regulation (EU) No 575/2013 and that these have been calculated according to Regulation (EU) No 241/2014.

³ The Swedish Financial Supervisory Authority's regulation FFFS 2014:12 entered force in August 2014. Capital adequacy must be reported in accordance with regulatory reporting templates. CET1 capital pertains to the consolidated situation and differs from equity under IFRS. Contributions to equity from insurance activities are excluded as are proposed dividends.

Own funds requirement by risk, approach and exposure class

Consolidated situation ¹ 30 June 2016				
TSEK	Exposure value ²	Own funds requirements ⁴	Risk weighted exposure amounts ³	Average risk weight ⁵
Credit risk – Internal Ratings Based approach	63,366,012	862,779	10,784,738	17 %
Retail – Secured by real estate	63,265,030	854,700	10,683,756	17 %
Other non credit-obligation assets	100,982	8,079	100,982	100 %
Credit risk – Standardised approach	21,609,664	416,444	5,205,551	24 %
Central governments or central banks	5,252	-	-	0 %
Regional governments or local authorities	6,240,018	-	-	0 %
Institutions	2,488,001	66,796	834,946	34 %
Corporates	332,135	26,540	331,747	100 %
Retail	113,515	6,706	83,828	74 %
Secured by mortgages on immovable property	3,273,136	240,179	3,002,243	92 %
Exposures in default	33,709	3,232	40,397	120 %
Covered bonds	9,123,900	72,991	912,390	10 %
Operational risk – Basic Indicator approach⁶		105,625	1,320,311	
Credit valuation adjustment risk – Standardised approach	1,973,843	139,968	1,749,604	89 %
Total	86,949,520	1,524,816	19,060,204	-

¹ Consolidated situation includes Landshypotek ekonomisk forening and the Landshypotek Bank AB Group.

² After application of relevant credit conversion factors in order to also include unutilized limits to a certain extent. For the Internal Rating Based approach the conversion factor is based on internal historical data while regarding standardised approach the conversion factors are prescribed by the capital requirements regulation.

³ After application of relevant risk weights. Risk weights for the Internal Rating Based approach are based on internal risk classification and internal historical data, while risk weights are prescribed by the capital requirements regulation for the standardised approach.

⁴ Calculated by multiplying risk exposure amount amounts by 8 %. Does not include any buffert requirements.

⁵ Calculated by dividing risk weighted exposure amounts by exposure value for the risk/exposure class.

⁶ No exposure value exists for operational risk, hence no disclosure of neither exposure value or average risk weight."

Stockholm, 18 July 2016

Liza Nyberg
CEO

Accounting policies

This Report encompasses the Group comprising Landshypotek Bank AB and the subsidiary Landshypotek Jordbrukskredit AB. In addition, Landshypotek Bank AB is reported separately. Amounts in parentheses refer to the corresponding period in the preceding year.

This year-end report has been prepared in accordance with IAS 34 Interim Financial Reporting. From 2016, deposit insurance fees and fees to the stabilisation fund have been reclassified from Other operating income to Net interest income. Accounting policies, calculation methods and risk management are unchanged compared to those applied in the most recent Annual Report (see www.landshypotek.se, Financial info).

Income statement

Landshypotek Bank AB Group, SEK Thousand	Note	2016 Q2	2015 Q2	2016 Q1	2016 Jan-Jun	2015 Jan-Jun	2015 Full year
Interest income		360,058	399,555	353,934	713,992	825,799	1,560,908
Interest expense		-166,420	-195,337	-177,390	-343,810	-450,190	-817,503
- of which: deposit insurance fees		-1,734	-936	-1,576	-3,310	-1,848	-3,675
- of which: government stabilisation fund fees		-7,650	-7,394	-6,943	-14,593	-17,966	-31,660
Net interest income	Note 1	193,639	204,218	176,544	370,183	375,609	743,405
Commission income		2,637	3,010	2,714	5,351	5,279	9,987
Commission expense		0	0	0	0	0	0
Net result of financial transactions		-10,252	11,280	40,442	30,190	-1,004	7,787
Other operating income		4,008	502	461	4,469	880	2,535
Total operating income		190,031	219,011	220,161	410,192	380,764	763,714
General administrative expenses		-89,488	-85,371	-85,592	-175,080	-170,369	-339,668
Depreciation, amortisation and impairment of tangible and intangible non-current assets		-3,047	-4,923	-5,110	-8,157	-9,815	-19,678
Other operating expenses		-8,633	-6,671	-5,794	-14,427	-12,446	-27,831
Total expenses before loan losses		-101,168	-96,965	-96,496	-197,664	-192,630	-387,177
Profit before loan losses		88,863	122,046	123,665	212,528	188,134	376,537
Loan losses, net	Note 2	-1,437	-14,001	-8,296	-9,733	-23,359	-45,921
Operating profit		87,426	108,045	115,369	202,795	164,775	330,615
Income tax for the period		-19,221	-23,758	-24,874	-44,095	-36,227	-73,544
Net profit for the period		68,205	84,287	90,496	158,700	128,548	257,071

Statement of comprehensive income

Landshypotek Bank AB Group, SEK Thousand	2016 Q2	2015 Q2	2016 Q1	2016 Jan-Jun	2015 Jan-Jun	2015 Full year
Net profit for the period	68,205	84,287	90,496	158,700	128,548	257,071
Other comprehensive income						
<i>Items to be reclassified to profit or loss</i>						
Cash-flow hedges	5,917	7,429	3,577	9,494	14,187	29,425
Available-for-sale financial assets	6,514	-27,199	21,999	28,513	-29,730	-46,078
Tax on items to be reclassified	-2,734	4,349	-5,627	-8,361	3,419	3,664
<i>Total, items to be reclassified</i>	<i>9,696</i>	<i>-15,421</i>	<i>19,949</i>	<i>29,645</i>	<i>-12,123</i>	<i>-12,990</i>
<i>Items that are not reclassified</i>						
Actuarial differences for defined-benefit pensions	-16,672	46,329	-38,601	-55,273	18,423	40,989
Tax on items that are not reclassified	3,668	-10,192	8,492	12,160	-4,053	-9,018
<i>Total, items that are not reclassified</i>	<i>-13,004</i>	<i>36,137</i>	<i>-30,109</i>	<i>-43,113</i>	<i>14,370</i>	<i>31,971</i>
Total other comprehensive income	-3,308	20,716	-10,160	-13,468	2,247	18,981
Comprehensive income for the period	64,897	105,003	80,336	145,232	130,795	276,052

Income statement

Landshypotek Bank AB Parent Company, SEK Thousand Note	2016 Q2	2015 Q2	2016 Q1	2016 Jan-Jun	2015 Jan-Jun	2015 Full year
Interest income	359,780	397,064	353,656	713,436	819,455	1,548,087
Interest expense	-166,419	-195,279	-177,391	-343,810	-450,085	-817,284
- of which: deposit insurance fees	-1,734	-936	-1,576	-3,310	-1,848	-3,675
- of which: government stabilisation fund fees	-7,650	-7,394	-6,943	-14,593	-17,966	-31,660
Net interest income Note 1	193,361	201,785	176,265	369,626	369,370	730,803
Commission income	2,637	2,870	2,714	5,351	5,101	9,672
Commission expense	0	0	0	0	0	0
Net result of financial transactions	-10,252	11,280	40,442	30,190	-1,004	7,787
Other operating income	4,008	502	461	4,469	880	2,535
Total operating income	189,754	216,437	219,882	409,636	374,347	750,798
General administrative expenses	-91,596	-85,653	-86,660	-178,256	-171,564	-340,295
Depreciation, amortisation and impairment of tangible and intangible non-current assets	-3,047	-4,923	-5,110	-8,157	-9,815	-19,678
Other operating expenses	-8,633	-6,669	-5,794	-14,427	-12,443	-27,828
Total expenses before loan losses	-103,276	-97,245	-97,564	-200,840	-193,822	-387,801
Profit before loan losses	86,478	119,192	122,318	208,796	180,525	362,997
Loan losses, net Note 2	-1,437	-14,585	-8,296	-9,733	-21,176	-41,952
Impairment of shares in subsidiaries	0	0	0			-2,266
Operating profit	85,041	104,607	114,022	199,063	159,349	318,778
Income tax for the period	-18,696	-23,002	-25,072	-43,768	-35,033	-70,945
Net profit for the period	66,345	81,605	88,951	155,295	124,316	247,832

Statement of comprehensive income

Landshypotek Bank AB Parent Company, SEK Thousand	2016 Q2	2015 Q2	2016 Q1	2016 Jan-Jun	2015 Jan-Jun	2015 Full year
Net profit for the period	66,345	81,605	88,951	155,295	124,316	247,832
Other comprehensive income						
<i>Items to be reclassified to profit or loss</i>						
Cash-flow hedges	5,917	7,429	3,577	9,494	14,187	29,425
Available-for-sale financial assets	6,514	-27,199	21,999	28,513	-29,730	-46,078
Income tax related to other comprehensive income	-2,734	4,349	-5,627	-8,361	3,419	3,664
<i>Total, items to be reclassified</i>	<i>9,696</i>	<i>-15,421</i>	<i>19,949</i>	<i>29,645</i>	<i>-12,123</i>	<i>-12,990</i>
Total other comprehensive income	9,696	-15,421	19,949	29,645	-12,123	-12,990
Comprehensive income for the period	76,041	66,184	108,900	184,940	112,193	234,843

Balance Sheet

Landshypotek Bank AB SEK Thousand	Group				Parent Company			
	2016 30 Jun	2016 31 Mar	2015 31 Dec	2015 30 Jun	2016 30 Jun	2016 31 Mar	2015 31 Dec	2015 30 Jun
ASSETS								
Cash and balances with central banks	0	0	237	-14	0	0	237	-14
Loans to credit institutions	559,179	638,449	396,214	455,135	555,293	634,559	392,262	569,499
Loans to the public Note 3	65,663,382	65,088,664	64,501,262	63,580,716	65,663,382	65,088,664	64,501,262	63,196,897
Value changes of interest-rate-risk hedged items in macro hedges	184,876	148,803	87,842	102,244	184,876	148,803	87,842	102,244
Bonds and other interest-bearing securities	15,287,723	14,774,799	13,251,589	15,026,767	15,287,723	14,774,799	13,251,589	15,026,767
Derivatives	2,527,433	2,170,210	1,874,871	2,114,747	2,527,433	2,170,210	1,874,871	2,114,747
Shares in Group companies	0	0	0	0	278,487	278,487	278,487	280,753
Intangible non-current assets	18,955	21,029	20,654	28,586	18,955	21,029	20,654	28,586
Tangible assets	0	0	0	0	0	0	0	0
Furniture, fixtures and equipment	9,543	9,808	10,621	10,342	9,543	9,808	10,621	10,342
Buildings and land	11,179	19,998	20,168	25,621	11,179	19,998	20,168	25,621
Other assets	23,743	15,863	35,324	12,406	23,485	15,605	4,951	6,159
Current tax assets	1,508	5,720	22,137	4,330	0	4,212	20,670	0
Deferred tax assets	7,215	5,361	0	6,386	2,694	3,982	4,756	8,080
Prepaid expenses and accrued income	582,955	632,194	498,081	603,563	582,955	632,194	498,080	601,283
TOTAL ASSETS Note 4, 5, 6	84,877,690	83,530,898	80,719,000	81,970,829	85,146,004	83,802,350	80,966,450	81,970,964
LIABILITIES, PROVISIONS AND EQUITY								
Liabilities to credit institutions	701,100	2,134,820	393,227	2,043,108	701,135	2,134,855	393,262	2,043,108
Borrowing from the public	11,255,227	10,724,055	10,309,718	8,067,344	11,255,227	10,724,055	10,309,718	8,067,344
Debt securities in issue, etc.	64,790,683	63,517,383	63,012,651	65,003,972	64,790,683	63,517,383	63,012,651	65,003,972
Derivatives	973,764	939,711	1,059,244	960,519	973,764	939,711	1,059,244	960,519
Other liabilities	47,805	290,674	297,361	77,630	320,104	562,970	569,657	76,824
Deferred tax liabilities	3,356	195	2,555	0	3,358	195	0	0
Accrued expenses and deferred income	681,679	779,174	586,824	777,451	681,679	779,174	586,824	777,451
Provisions	21,404	7,118	0	0	1,361	1,361	1,361	2,020
Subordinated liabilities	1,699,992	499,984	499,972	499,992	1,699,992	499,984	499,972	499,992
Total liabilities	80,175,010	78,893,114	76,161,552	77,430,016	80,427,303	79,159,688	76,432,689	77,431,230
Equity	4,702,681	4,637,784	4,557,448	4,540,813	4,718,701	4,642,662	4,533,761	4,539,734
TOTAL LIABILITIES, PROVISIONS AND EQUITY Note 4, 5, 6	84,877,690	83,530,898	80,719,000	81,970,829	85,146,004	83,802,350	80,966,450	81,970,964

Cash-flow statement

Landshypotek Bank AB SEK thousand	Group			Parent Company		
	2016 Jan-Jun	2015 Jan-Jun	2015 Full year	2016 Jan-Jun	2015 Jan-Jun	2015 Full year
Opening cash and cash equivalents	396,451	720,333	720,333	392,499	813,558	813,558
Cash flow from operating activities	-875,981	-162,550	-24,462	-875,915	-141,412	-121,639
Cash flow from investing activities	3,609	-5,962	-2,720	3,609	-5,962	-2,720
Cash flow from financing activities	1,035,100	-96,700	-296,700	1,035,100	-96,700	-296,700
Cash flow for the period	162,728	-265,212	-323,882	162,794	-244,074	-421,059
Closing cash and cash equivalents	559,179	455,121	396,451	555,293	569,484	392,499

Statement of Changes in Equity

Landshypotek Bank AB Group SEK thousand	Share capital	Other contributed capital	Hedging reserve	Fair value reserve	Actuarial differences	Retained earnings	Total
Equity 31 December 2014	2,173,000	1,026,254	-38,888	9,228	-18,057	1,178,481	4,330,018
Comprehensive income for the period			11,066	-23,189	14,370	128,548	130,795
Total change before transactions with owners	-	-	11,066	-23,189	14,370	128,548	130,795
New share issue	80,000						80,000
Group contribution paid							
Tax on group contribution paid							
Equity 30 June 2015	2,253,000	1,026,254	-27,823	-13,961	-3,686	1,307,029	4,540,813
Equity 31 December 2015	2,253,000	1,026,254	-15,936	-26,714	13,914	1,306,930	4,557,448
Comprehensive income for the period			7,405	22,240	-43,113	158,700	145,232
Total change before transactions with owners	-	-	7,405	22,240	-43,113	158,700	145,232
New share issue							0
Equity 30 June 2016	2,253,000	1,026,254	-8,531	-4,473	-29,199	1,465,630	4,702,681

Landshypotek Bank AB Parent Company SEK thousand	Share capital	Other contributed capital	Hedging reserve	Fair value reserve		Retained earnings	Total
Equity 31 December 2014	2,173,000	1,016,694	-38,888	9,228		1,187,510	4,347,542
Comprehensive income for the period			11,066	-23,189		124,316	112,193
Total change before transactions with owners	-	-	11,066	-23,189		124,316	112,193
New share issue	80,000						80,000
Group contribution paid							
Tax on group contribution paid							
Equity 30 June 2015	2,253,000	1,016,694	-27,823	-13,961		1,311,827	4,539,734
Equity 31 December 2015	2,253,000	1,016,694	-15,936	-26,714		1,306,718	4,533,761
Comprehensive income for the period			7,405	22,240		155,295	184,940
Total change before transactions with owners	-	-	7,405	22,240		155,295	184,940
New share issue							0
Equity 30 June 2016	2,253,000	1,016,694	-8,531	-4,473		1,462,010	4,718,701

Notes

Note 1 Net interest income

Landshypotek Bank AB Group, SEK thousand	2016 Q2	2015 Q2	2016 Q1	2016 Jan-Jun	2015 Jan-Jun	2015 Full year
Interest income						
Interest income on loans to credit institutions	-6	-55	0	-6	-66	-707
Interest income on loans to the public	330,909	359,674	324,030	654,939	738,369	1,413,906
Less interest losses	-169	-253	-531	-700	-418	-1,601
Interest income on interest-bearing securities	29,043	40,188	30,155	59,198	87,909	149,221
of which interest income for financial assets in fair-value hedges	4,932	0	0	4,932	0	0
of which interest income on financial assets at fair value through profit or loss	26,979	36,283	28,738	55,717	76,311	138,361
of which interest income on available-for-sale financial assets	-2,868	3,905	1,417	-1,451	11,598	10,860
Other interest income	281	1	280	561	5	89
Total	360,058	399,555	353,934	713,992	825,799	1,560,908
<i>All interest income is attributable to the Swedish market.</i>						
Interest expense						
Interest expense for liabilities to Group companies	0	0	0	0	0	0
Interest expense for liabilities to credit institutions – other	2,516	1,183	1,446	3,962	1,491	4,060
Interest expense for borrowing/deposits from the public	-22,002	-20,318	-20,855	-42,857	-42,179	-83,941
of which: deposit insurance fees	-1,734	-936	-1,576	-3,310	-1,848	-3,675
Interest expense for interest-bearing securities	-191,280	-220,911	-194,455	-385,735	-472,667	-881,429
of which interest expense for other financial liabilities in fair value hedges adjusted for the fair value of hedged risk	-127,494	-138,263	-210,255	-337,749	-298,059	-617,491
of which interest expense on interest-bearing securities at amortised cost	-91,735	-111,919	-12,635	-104,369	-232,827	-381,341
of which periodization of the market value created from terminated hedging relationships *	27,949	29,271	28,434	56,383	58,220	117,405
Interest expense for subordinated liabilities	-7,332	-6,889	-4,732	-12,064	-14,564	-24,389
Interest expense for derivative instruments	61,273	60,472	53,374	114,647	98,623	209,608
of which interest expense on derivatives at fair value through profit or loss	-4,157	-26,875	-22,465	-26,622	-25,374	-138,047
of which interest expense on derivatives identified as hedging instruments	93,379	115,782	104,273	197,652	180,553	461,705
of which reclassification of terminated hedging relationships *	-27,949	-28,434	-28,434	-56,383	-56,556	-114,050
Other interest expense	-9,595	-8,874	-12,168	-21,763	-20,895	-41,412
of which: government stabilisation fund fees	-7,650	-7,394	-6,943	-14,593	-17,966	-31,660
Total	-166,420	-195,337	-177,390	-343,810	-450,191	-817,503
Total net interest income	193,639	204,218	176,544	370,183	375,608	743,405

* The item pertains to a reduction in recognised interest expenses from the periodization of the market value created from hedged risk attributable to fair-value hedging relationships that were terminated in 2013 and 2014. A corresponding amount with a negative impact on earnings, attributable to the decrease in value of hedging instruments (derivatives) in the terminated hedging relationships, has been recognised in the 2014 annual accounts under the item Net result of financial transactions. From 2015, these amounts will be recognised net in net interest income. The remaining amount to be periodised is MSEK 393.1, which will continue until August 2029.

Costs that were directly attributable to borrowing were reclassified to interest expense in 2015.

Deposit insurance fees and fees to the stabilisation fund have been reclassified from Other operating income to Net interest income in 2016.

The comparative figures for 2015 have been restated.

continued Note 1 Net interest income

Landshypotek Bank AB Parent Company, SEK thousand	2016 Q2	2015 Q2	2016 Q1	2016 Jan-Jun	2015 Jan-Jun	2015 Full year
Interest income						
Interest income on loans to credit institutions	-6	-55	0	-6	-66	-707
Interest income on loans to Group companies	0	0	0	0	0	0
Interest income on loans to the public	330,909	357,182	324,030	654,939	732,023	1,401,091
Less interest losses	-169	-253	-531	-700	-416	-1,582
Interest income on interest-bearing securities	29,043	40,188	30,155	59,198	87,909	149,221
of which interest income for financial assets in fair-value hedges	4,932	0	0	4,932	0	0
of which interest income on financial assets at fair value through profit or loss	26,979	36,283	28,738	55,717	76,311	138,361
of which interest income on available-for-sale financial assets	-2,868	3,905	1,417	-1,451	11,598	10,860
Other interest income	3	2	2	5	5	64
Total	359,780	397,064	353,656	713,436	819,455	1,548,087
<i>All interest income is attributable to the Swedish market.</i>						
Interest expense						
Interest expense for liabilities to Group companies	0	0	0	0	-9	-9
Interest expense for liabilities to credit institutions – other	2,516	1,183	1,446	3,962	1,491	4,061
Interest expense for borrowing/deposits from the public	-22,002	-20,318	-20,855	-42,857	-42,179	-83,941
of which: deposit insurance fees	-1,734	-936	-1,576	-3,310	-1,848	-3,675
Interest expense for interest-bearing securities	-191,280	-220,911	-194,455	-385,735	-472,667	-881,429
of which interest expense for other financial liabilities in fair value hedges adjusted for the fair value of hedged risk	-127,494	-138,263	-210,255	-337,749	-298,059	-617,491
of which interest expense on interest-bearing securities at amortised cost	-91,735	-111,919	-12,635	-104,369	-232,827	-381,341
of which periodization of the market value created from terminated hedging relationships *	27,949	29,271	28,434	56,383	58,220	117,405
Interest expense for subordinated liabilities	-7,332	-6,889	-4,732	-12,064	-14,564	-24,389
Interest expense for derivative instruments	61,273	60,472	53,374	114,647	98,623	209,608
of which interest expense on derivatives at fair value through profit or loss	-4,157	-26,875	-22,465	-26,622	-25,374	-138,047
of which interest expense on derivatives identified as hedging instruments	93,379	115,782	104,273	197,652	180,553	461,705
of which reclassification of terminated hedging relationships	-27,949	-28,434	-28,434	-56,383	-56,556	-114,050
Other interest expense	-9,594	-8,817	-12,169	-21,763	-20,780	-41,185
of which: government stabilisation fund fees	-7,650	-7,394	-6,943	-14,593	-17,966	-31,660
Total	-166,419	-195,280	-177,390	-343,810	-450,085	-817,284
Total net interest income	193,361	201,785	176,265	369,626	369,370	730,803

* The item pertains to a reduction in recognised interest expenses from the periodization of the market value created from hedged risk attributable to fair-value hedging relationships that were terminated in 2013 and 2014. A corresponding amount with a negative impact on earnings, attributable to the decrease in value of hedging instruments (derivatives) in the terminated hedging relationships, has been recognised in the 2014 annual accounts under the item Net result of financial transactions. From 2015, these amounts will be recognised net in net interest income. The remaining amount to be periodised is MSEK 393.1, which will continue until August 2029.

Costs that were directly attributable to borrowing were reclassified to interest expense in 2015.

Deposit insurance fees and fees to the stabilisation fund have been reclassified from Other operating income to Net interest income in 2016.

The comparative figures for 2015 have been restated.

Note 2 Loan losses net

Landshypotek Bank AB Group, SEK thousand	2016 Q2	2015 Q2	2016 Q1	2016 Jan-Jun	2015 Jan-Jun	2015 Full year
Write-off for the period for confirmed losses	-3,670	-14,302	-13,122	-16,792	-14,304	-50,261
Reversal of prior provisions for probable loan losses, recognised as confirmed losses during the year	4,679	13,782	12,750	17,429	13,782	49,091
Provision for probable loan losses	-17,307	-29,512	-14,439	-31,746	-42,201	-82,226
Recovery of previously confirmed losses	2,969	498	2,804	5,773	1,397	6,225
Reversal of prior provisions no longer necessary for probable loan losses	11,891	14,995	3,712	15,603	17,967	31,250
Guarantees	0	538	0	0	0	0
Total loan losses	-1,437	-14,001	-8,296	-9,733	-23,359	-45,921

All loan losses are attributable to loans to the public..

Landshypotek Bank AB Parent Company, SEK thousand	2016 Q1	2015 Q1	2016 Q1	2016 Jan-Jun	2015 Jan-Jun	2015 Full year
Write-off for the period for confirmed losses	-3,670	-12,276	-13,122	-16,792	-12,276	-48,232
Reversal of prior provisions for probable loan losses, recognised as confirmed losses during the year	4,679	12,320	12,750	17,429	12,320	47,629
Provision for probable loan losses	-17,307	-29,136	-14,439	-31,746	-39,226	-77,091
Recovery of previously confirmed losses	2,969	497	2,804	5,773	1,396	6,225
Reversal of prior provisions no longer necessary for probable loan losses	11,891	14,010	3,712	15,603	16,610	29,518
Total loan losses	-1,437	-14,585	-8,296	-9,733	-21,176	-41,952

All loan losses are attributable to loans to the public.

Note 3 Loans to the public

	Group				Parent Company			
Landshypotek Bank AB SEK thousand	2016 30 Jun	2016 31 Mar	2015 31 Dec	2015 30 Jun	2016 30 Jun	2016 31 Mar	2015 31 Dec	2015 30 Jun
Loan receivables	65,734,419	65,162,077	64,574,511	63,663,553	65,734,419	65,162,077	64,574,511	63,254,468
Less specific provisions for individually valued loan receivables	-71,037	-73,413	-73,249	-82,837	-71,037	-73,413	-73,249	-57,571
Net loan receivables	65,663,382	65,088,664	64,501,262	63,580,716	65,663,382	65,088,664	64,501,262	63,196,897
Disclosures on overdue loan receivables without provisions								
Loan receivables overdue 5 - 90 days	880	34,821	102,304	2,925	880	34,821	102,304	2,925
Loan receivables overdue more than 90 days	360,596	283,345	260,209	672,447	360,596	283,345	260,209	662,397
Total overdue unimpaired loan receivables	361,476	318,166	362,513	675,372	361,476	318,166	362,513	665,322
Disclosures on doubtful credits								
Doubtful credits that are not overdue	152,946	146,047	151,902	85,861	152,946	146,047	151,902	80,029
Overdue doubtful credits	200,412	237,168	266,378	313,548	200,412	237,168	266,378	293,487
Total doubtful credits, gross	353,358	383,215	418,281	399,409	353,358	383,215	418,281	373,516
Less capital provisions made	-71,037	-73,413	-73,249	-82,837	-71,037	-73,413	-73,249	-57,571
Total doubtful credits, net	282,321	309,802	345,032	316,572	282,321	309,802	345,032	315,945

Collateral exists in the form of real property for all lending.

Note 4 Fair-value hierarchy for financial instruments

Landshypotek Bank AB Group, SEK thousand	30 June 2016				30 June 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss.								
Bonds and other interest-bearing securities	5,089,330			5,089,330	8,904,200			8,904,200
Interest-rate swaps								
Cross-currency interest-rate swaps		372,916		372,916		408,676		408,676
Derivatives identified as hedging instruments								
Interest-rate swaps		1,414,406		1,414,406		1,078,553		1,078,553
Cross-currency interest-rate swaps		740,111		740,111		627,518		627,518
Available-for-sale financial assets								
Bonds and other interest-bearing securities	10,198,393			10,198,393	6,122,567			6,122,567
Total assets measured at fair value	15,287,723	2,527,433	-	17,815,155	15,026,767	2,114,747	-	17,141,514
Financial liabilities at fair value through profit or loss								
Interest-rate swaps		243,158		243,158		526,482		526,482
Cross-currency interest-rate swaps		23,404		23,404		46,505		46,505
Derivatives identified as hedging instruments								
Interest-rate swaps		524,912		524,912		248,810		248,810
Cross-currency interest-rate swaps		182,290		182,290		138,722		138,722
Total liabilities measured at fair value	-	973,764	-	973,764	-	960,519	-	960,519

Fair value is recognised excluding accrued interest. Accrued interest is recognised under prepaid expenses and accrued income, and accrued expenses and deferred income.

No transfers were made between the levels. Level 1 only comprises listed mortgage bonds and bonds issued by municipalities and county councils. Level 2 comprises derivative instruments for which there are well-established measuring models based on observable market data.

Level 1

The fair value of financial instruments traded on an active market is based on the bid price of quoted market prices.

Level 2

The fair values of derivative instruments not traded on an active market are calculated using the valuation technique of discounting future cash flows. Quoted market rates for the tenor in question are used for discounting. The interest-rate and cross-currency basis swap curves are used for measurement of interest-rate and cross-currency interest-rate swaps, respectively. Accrued interest is not included in the calculation of fair value.

Level 3

Input for assets/liabilities that are not based on observable market data.

continued Note 4 Fair-value hierarchy for financial instruments

Landshypotek Bank AB Parent Company, SEK thousand	30 june 2016				30 june 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss								
Bonds and other interest-bearing securities	5,089,330			5,089,330	8,904,200			8,904,200
Interest-rate swaps								
Cross-currency interest-rate swaps		372,916		372,916		408,676		408,676
Derivatives identified as hedging instruments								
Interest-rate swaps		1,414,406		1,414,406		1,078,553		1,078,553
Cross-currency interest-rate swaps		740,111		740,111		627,518		627,518
Available-for-sale financial assets								
Bonds and other interest-bearing securities	10,198,393			10,198,393	6,122,567			6,122,567
Total assets measured at fair value	15,287,723	2,527,433	-	17,815,155	15,026,767	2,114,747	-	17,141,514
Financial liabilities at fair value through profit or loss								
Interest-rate swaps		243,158		243,158		526,482		526,482
Cross-currency interest-rate swaps		23,404		23,404		46,505		46,505
Derivatives identified as hedging instruments								
Interest-rate swaps		524,912		524,912		248,810		248,810
Cross-currency interest-rate swaps		182,290		182,290		138,722		138,722
Total liabilities measured at fair value	-	973,764	-	973,764	-	960,519	-	960,519

Fair value is recognised excluding accrued interest. Accrued interest is recognised under prepaid expenses and accrued income, and accrued expenses and deferred income.

No transfers were made between the levels. Level 1 only comprises listed mortgage bonds and bonds issued by municipalities and county councils. Level 2 comprises derivative instruments for which there are well-established measuring models based on observable market data.

Level 1

The fair value of financial instruments traded on an active market is based on the bid price of quoted market prices.

Level 2

The fair values of derivative instruments not traded on an active market are calculated using the valuation technique of discounting future cash flows. Quoted market rates for the tenor in question are used for discounting. The interest-rate and cross-currency basis swap curves are used for measurement of interest-rate and cross-currency interest-rate swaps, respectively. Accrued interest is not included in the calculation of fair value.

Level 3

Input for assets/liabilities that are not based on observable market data.

Note 5 Fair value disclosures

Landshypotek Bank AB Group, SEK thousand	30 June 2016 Carrying amount	30 June 2016 Fair amount	30 June 2015 Carrying amount	30 June 2015 Fair amount
Assets				
Cash and balances with central banks			-14	-14
Loans to credit institutions	559,179	559,179	455,135	455,135
Loans to the public	65,663,382	65,596,842	63,580,716	63,255,825
Bonds and other interest-bearing securities	15,287,723	15,287,723	15,026,767	15,026,767
Derivatives	2,527,433	2,527,433	2,114,747	2,114,747
Total assets	84,037,717	83,971,176	81,177,351	80,852,460
Liabilities and provisions				
Liabilities to credit institutions	701,100	701,100	2,043,108	2,043,108
Borrowing from the public	11,255,227	11,255,227	8,067,344	8,067,344
Debt securities in issue, etc.	64,790,683	63,225,769	65,003,972	67,800,339
Derivatives	973,764	973,764	960,519	960,519
Subordinated liabilities	1,699,992	1,880,275	499,992	540,014
Total liabilities	79,420,766	78,036,135	76,574,935	79,411,324

Fair value is recognised excluding accrued interest. Accrued interest is recognised under prepaid expenses and accrued income, and accrued expenses and deferred income.

Landshypotek Bank AB Parent Company, SEK thousand	30 June 2016 Carrying amount	30 June 2016 Fair amount	30 June 2015 Carrying amount	30 June 2015 Fair amount
Assets				
Cash and balances with central banks			-14	-14
Loans to credit institutions	555,293	555,293	569,499	569,499
Loans to the public	65,663,382	65,596,842	63,196,897	62,871,995
Bonds and other interest-bearing securities	15,287,723	15,287,723	15,026,767	15,026,767
Derivatives	2,527,433	2,527,433	2,114,747	2,114,747
Total assets	84,033,830	83,967,290	80,907,896	80,582,994
Liabilities and provisions				
Liabilities to credit institutions	701,135	701,135	2,043,108	2,043,108
Borrowing from the public	11,255,227	11,255,227	8,067,344	8,067,344
Debt securities in issue, etc.	64,790,683	63,225,769	65,003,972	67,800,339
Derivatives	973,764	973,764	960,519	960,519
Subordinated liabilities	1,699,992	1,880,275	499,992	540,014
Total liabilities	79,420,801	78,036,170	76,574,935	79,411,324

Fair value is recognised excluding accrued interest. Accrued interest is recognised under prepaid expenses and accrued income, and accrued expenses and deferred income.

Note 6 Disclosures about offsetting

Financial assets and liabilities covered by a contractual master netting agreement or similar, but not offset in the balance sheet.

Group and Parent Company 2016 SEK thousand	Amount recognised in the balance sheet 30 June 2016	Related amounts not offset in the balance sheet			Net amount 30 June 2016
		Financial instruments	Paid (+) Received (–) collateral – securities	Paid (+) Received (–) cash collateral	
Assets					
Derivatives, fair value	2,527,433	–856,495			
Derivatives, accrued interest	–47,436	–69,649			
<i>Derivatives, total value including accrued interest</i>	<i>2,479,996</i>	<i>–926,144</i>		<i>–457,024</i>	<i>1,096,828</i>
Repurchase agreements, reverse repos	-				
Liabilities					
Derivatives, fair value	–973,764	856,495			
Derivatives, accrued interest	204,463	69,649			
<i>Derivatives, total value including accrued interest</i>	<i>–769,300</i>	<i>926,144</i>			<i>156,844</i>
Repurchase agreements, reverse repos	–212,238				–212,238

Group and Parent Company 2015 SEK thousand	Amount recognised in the balance sheet 30 June 2015	Related amounts not offset in the balance sheet			Net amount 30 June 2015
		Financial instruments	Paid (+) Received (–) collateral – securities	Paid (+) Received (–) cash collateral	
Assets					
Derivatives, fair value	2,114,747	–821,167			
Derivatives, accrued interest	362,617	–195,976			
<i>Derivatives, total value including accrued interest</i>	<i>2,477,364</i>	<i>–1,017,143</i>		<i>–337,538</i>	<i>1,122,683</i>
Repurchase agreements, reverse repos	-				
Liabilities					
Derivatives, fair value	–960,519	821,167			
Derivatives, accrued interest	–227,864	195,976			
<i>Derivatives, total value including accrued interest</i>	<i>–1,188,383</i>	<i>1,017,143</i>			<i>–171,240</i>
Repurchase agreements, reverse repos	–1,702,012				–1,702,012

Amounts recognised in the balance sheet

All assets and liabilities are recognised as gross amounts in the balance sheet, calculated on the basis of each individual instrument.

Financial instruments

Based on contracted master netting agreements, Landshypotek Bank can offset cash flows with the same counterparty and value date. The procedure lowers risk for open exposures.

Cash collateral received

Under contracted International Swaps and Derivatives Association (ISDA) agreements, Landshypotek has the right to receive cash collateral for positive market values from counterparties whose ratings fall below a minimum agreed level. Such collateral is paid in cash to Landshypotek Bank's bank account and is recognised as a liability to the respective counterparty in the balance sheet. Paid-in collateral eliminates risk in positive exposures to counterparties with low ratings. If the counterparty defaults, Landshypotek Bank will utilise the paid-in cash collateral.

Net amounts

Net amounts show the remaining market value of contracted swap agreements that can be neither offset nor covered by received collateral.



Landshypotek Bank