

Länsförsäkringar Hypotek

Interim Report January–June 2016

THE PERIOD IN BRIEF

- Operating profit increased 55.9% to SEK 343 M (220) and the return on equity strengthened to 7.2% (5.4).
- Net interest income increased 21.3% to SEK 763 M (629).
- Loan losses amounted to SEK –1.2 M (–6.3), net, corresponding to loan losses of 0.00% (–0.01).
- Lending increased 15.0% to SEK 157.6 billion (137.0).
- The Common Equity Tier 1 capital ratio amounted to 44.0% (40.8*) on 30 June 2016.
- The number of customers increased 7.2% to 224,000 (209,000).

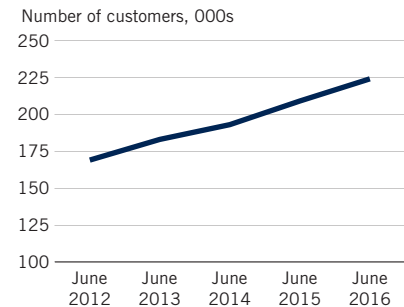
*) Pertains to 31 March 2016.

Figures in parentheses pertain to the same period in 2015.

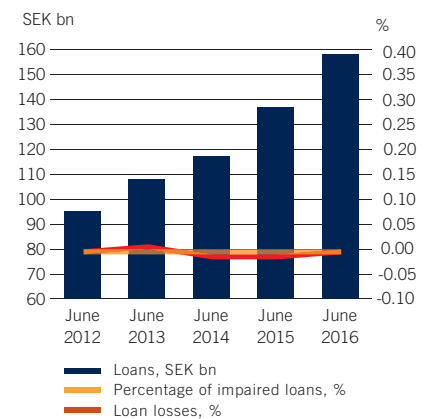
ANDERS BORGCRANTZ, PRESIDENT OF LÄNSFÖRSÄKRINGAR HYPOTEK:

“Länsförsäkringar Hypotek continued to perform positively and we reported a favourable earnings trend during the period. It is gratifying that volume growth is continuing at an even pace and we are capturing additional market shares while maintaining high credit quality and low loan losses. We are continuing to closely monitor the trend in the housing market and welcome the mortgage repayment requirement that came into effect on 1 June as yet another step towards a more sound repayment culture.

CUSTOMER TREND



LOANS TO THE PUBLIC



KEY FIGURES

	Q 2 2016	Q 1 2016	Q 2 2015	Jan-Jun 2016	Jan-Jun 2015	Full-Year 2015
Return on equity, %	6.3	8.1	6.2	7.2	5.4	6.0
Return on total capital, %	0.36	0.44	0.34	0.40	0.28	0.32
Investment margin, %	0.90	0.87	0.86	0.89	0.81	0.84
Cost/income ratio before loan losses	0.14	0.11	0.16	0.13	0.18	0.16
Common Equity Tier 1 capital ratio, %	44.1	40.8	38.2	44.1	38.2	37.4
Total capital ratio, %	49.8	46.2	44.0	49.8	44.0	42.9
Percentage of impaired loans, gross, %	0.00	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	0.02
Loan losses, %	0.00	0.00	-0.01	0.00	-0.01	-0.01

INCOME STATEMENT, QUARTERLY

	Q 2 2016	Q 1 2016	Q 4 2015	Q 3 2015	Q 2 2015
Net interest income	391.1	371.9	357.3	339.0	333.0
Net commission	-241.5	-191.3	-195.9	-199.3	-231.9
Net gains/losses from financial items	30.6	30.6	15.6	15.8	49.8
Other operating income	0.0	0.1	0.1	0.0	0.0
Total operating income	180.2	211.2	177.1	155.5	150.9
Staff costs	-4.5	-3.8	-3.3	-3.1	-4.2
Other administration expenses	-21.1	-20.1	-20.2	-20.5	-19.9
Total operating expenses	-25.7	-24.0	-23.6	-23.6	-24.2
Profit before loan losses	154.6	187.2	153.5	131.9	126.7
Loan losses, net	1.1	0.1	0.3	3.2	3.2
Operating profit	155.7	187.3	153.8	135.1	129.9

Market commentary

The financial markets recovered during the second quarter following a turbulent start to the year, while the real economy generally reported a stable trend. The main drivers underpinning this more stable trend were the additional stimulus packages announced by the ECB at the end of the first quarter. However, the relative calm in the markets was broken by the unexpected result of the UK's referendum on whether to leave the EU, with 52% of the British population voting to leave. As a direct result of this, the equities, interest and currency markets were initially highly volatile given the heightened uncertainty regarding the economic climate, mainly in the UK and the eurozone. Expectations regarding future interest-rate rises were lowered again and put on hold, particularly on the part of the Federal Reserve, due to the market turbulence in the wake of the Brexit result.

Economic data for April and May indicated a clear improvement in the US economy, despite incoming employment figures being weaker than expected for recent months. The eurozone continued to reco-

ver on a broad front with both private and public consumption driving growth. Inflation remained low and future measures from the ECB cannot be ruled out if market unrest persists.

The Swedish economy was largely unchanged compared with the first quarter. This strong performance continued to be driven by domestic factors, including a strong construction sector. Turmoil in the financial markets relating to the outcome of the UK referendum on EU membership contributed to a weakening of the SEK and thus reduced the risk of the Riksbank needing to further expand its stimulus measures. After a continued increase in the first months of the year, incoming housing-price figures indicated a somewhat subdued housing market and a cautious price trend. New legislation regarding mortgage repayment requirements also came into force on 1 June.

Global stock markets were essentially unchanged compared with the end of the first quarter. However, low interest rates continued to fall and, unlike the stock market, did not recover from the initial market fluctuations caused by the Brexit

result. Credit spreads for Swedish covered bonds declined during the second quarter and at mid-year were lower compared to before the Brexit referendum.

JANUARY-JUNE 2016 COMPARED WITH JANUARY-JUNE 2015

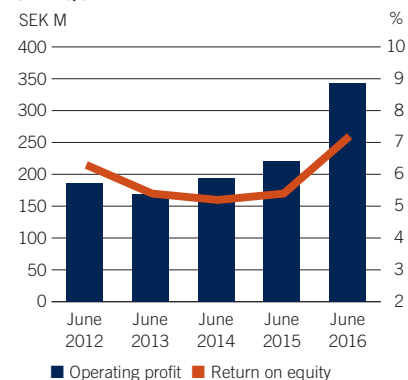
Growth and customer trend

Loans to the public rose 15.0%, or SEK 20.6 billion, to SEK 157.6 billion (137.0), with continued very high credit quality. The number of customers increased 7.2%, or 15,000, to 224,000 (209,000), and 86% (85) of retail mortgage customers have Länsförsäkringar as their primary bank.

Earnings and profitability

Operating profit rose 55.9% to SEK 343 M (220), mainly due to net gains from financial transactions and higher net interest income. The investment margin strengthened to 0.89% (0.81). Profit before loan losses increased 59.8% to SEK 342 M (214) due to higher net interest income. Return on equity amounted to 7.2% (5.4).

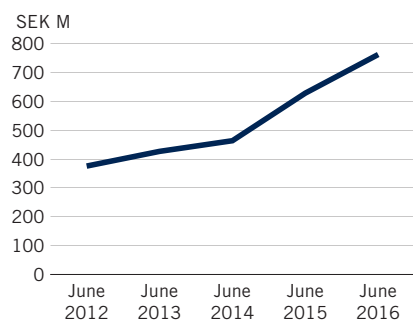
OPERATING PROFIT AND RETURN ON EQUITY



Income

Operating income rose 50.4% to SEK 391 M (261) as a result of higher net interest income attributable to increased volumes and improved margins. Net interest income increased 21.3% to SEK 763 M (629). Net gains from financial items rose 64.9% to SEK 61 M (37). Net commission amounted to an expense of SEK -433 M (-405), due to higher remuneration to the regional insurance companies related to higher business volumes and improved margins.

NET INTEREST INCOME



Expenses

Operating expenses amounted to SEK 50 M (48). The cost/income ratio was 0.13 (0.18) before loan losses and 0.12 (0.16) after loan losses.

Loan losses

Loan losses amounted to SEK –1 M (–6), net, corresponding to loan losses of 0.00% (–0.01). Impaired loans, gross, amounted to SEK 0 M (0), corresponding to a percentage of impaired loans, gross, of 0.00% (0.00). 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, 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 M over a two year period. SEK 3 M remained to be reversed at the end of the period. No reserves were dissolved during the period according to the settlement model described above. Reserves of SEK 5 M were dissolved in the comparative period during the previous year.

Loan losses before reversal remained low at SEK 0 M (0), net. Reserves amounted to SEK 30 M (33), corresponding to a reserve ratio in relation to loans of 0.02% (0.02). In addition, SEK 11 M (12) of the

remuneration to the regional insurance companies is withheld, in accordance with the settlement model described above. The reserve ratio in relation to loans, including the held remuneration to the regional insurance companies, was 0.03% (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 15.0%, or SEK 20.6 billion, to SEK 157.6 billion (137.0). The increase since year-end was 7.3% or SEK 10.7 billion. The credit quality of the loan portfolio, comprising 72% (73) single-family homes, 23% (21) tenant-owned apartments, 5% (5.5) multi-family housing and 0% (0.5) other loans, remained favourable. On 31 May 2016, the market share of retail mortgages was 5.6% (5.3), according to Statistics Sweden.

Cover pool

The cover pool contains SEK 148.0 billion, corresponding to 94% of the loan portfolio. The collateral comprises private homes, of which 74% (76) are single-family homes, 24% (22) tenant-owned apartments and 2% (2) vacation homes. The geographic spread throughout Sweden is favourable and the average loan amount is only SEK 481,000 (450,000). The weighted average loan-to-value ratio, LTV, was 61% (62) and the nominal, current OC amounted to 37% (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 67% (68) on 30 June 2016. No impaired loans are included in the cover pool. According to Moody's report (Global Covered Bonds Monitoring Overview) from 31 May 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	30 Jun 2016	30 Jun 2015
Cover pool, SEK billion	148	137
OC ¹⁾ , nominal, current level, %	37	38
Weighted average LTV, %	61	62
Collateral	Private homes	Private homes
Seasoning, months	58	59
Number of loans	307,618	283,110
Number of borrowers	138,348	128,485
Number of properties	138,112	128,733
Average commitment, SEK 000s	1,072	990
Average loan, SEK 000s	481	450
Interest rate type, variable, %	64	59
Interest rate type, fixed, %	36	41
Impaired loans	None	None

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

Funding

Länsförsäkringar Hypotek continuously issues bonds to refinance future new loans and current funding falling due. The funding structure is favourable and the maturity profile is well diversified. Debt securities in issue increased 16.9% to SEK 119.5 billion (102.2). In April, Länsförsäkringar Hypotek issued a seven-year Euro benchmark-covered bond for a nominal amount of EUR 500 M. The market responded well to the transaction with high demand. Issued covered bonds during the quarter totalled a nominal SEK 18.7 billion (17.1) and repurchases of a nominal SEK 2.6 billion (2.2) were executed. Matured covered bonds amounted to a nominal SEK 8.0 billion (15.0).

Liquidity

On 30 June 2016, the liquidity reserve amounted to SEK 9.9 billion (9.9), according to the Swedish Bankers' Association's definition. The liquidity situation remained healthy and the survival horizon was about 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.

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

¹⁾ Pertains to the company's covered bonds

Capital ratio¹

On 30 June 2016, Common Equity Tier 1 capital and Tier 1 capital were SEK 7,637 M (7,515) and the Common Equity Tier 1 capital ratio amounted to 44.0% (40.8). Own funds totalled SEK 8,638 M (8,521) and the capital adequacy ratio amounted to 49.8% (46.2). Common Equity Tier 1 capital increased SEK 122 M during the period mainly attributable to generated profit.

On 30 June 2016, the total Risk Exposure Amount (REA) amounted to SEK 17,337 M (18,439). Lending to households in the form of mortgages continued to increase but due to improved quality, and partly due to seasonal effects, REA for the period fell by SEK 181 M. In Pillar II, the risk weight floor for mortgages of 25% entailed an additional capital requirement of SEK 3,591 M (3,197). The decline in REA in the Standardised Approach during the period was due to the change in handling of intra-Group derivatives.

This countercyclical capital buffer (1.5% of REA) amounted to SEK 260 M. This capital conservation buffer that is to correspond to 2.5% of REA amounted to SEK 433 M on 30 June 2016.

Capital adequacy

Länsförsäkringar Hypotek AB (SEK M)	31 Jun 2016	31 Mar 2016
IRB Approach	13,293	13,580
retail exposures	9,914	10,095
exposures to corporates	3,379	3,485
Standardised Approach	1,754	2,616
Operational risks	740	740
Total REA	17,337	18,439
Common Equity Tier 1 capital	7,637	7,515
Tier 1 capital	7,637	7,515
Total capital	8,638	8,521
Common Equity Tier 1 capital ratio	44.0%	40.8%
Tier 1 ratio	44.0%	40.8%
Total capital ratio	49.8%	46.2%

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

Internally assessed capital requirement and buffer

The internally assessed capital requirement for Länsförsäkringar Hypotek AB on 30 June 2016 amounted to SEK 1,706 M. 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, meaning own funds, amounted to SEK 8,638 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 30 June 2016, an increase in market interest rates of 9 percentage point would have decreased the value of interest-bearing assets and liabilities, including derivatives, by SEK 17 M (decrease: 9).

Risks and uncertainties

Länsförsäkringar Hypotek is exposed to a number of risks, primarily credit risks, liquidity risks and market risks. The macro-economic 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 and the Pillar III report for the consolidated situation. No significant changes in the allocation of risk have taken place compared with the description provided in these reports.

SECOND QUARTER OF 2016 COMPARED WITH FIRST QUARTER OF 2016 Operating profit declined 16.6% to SEK 156 M (187), due to higher commission expenses and lower operating income. Return on equity amounted to 6.3% (8.1). Operating income fell 14.7% to SEK 180 M (211), due to increased remuneration of the regional insurance companies. Net interest income increased 5.1% to SEK 391 M (372). Net gains from financial items amounted to SEK 31 M (31) as a result of changes in fair value. Commission expenses increased 26.0% to SEK 242 M (192). Operating expenses amounted to SEK 26 M (24) and the cost/income ratio before loan losses to 0.14% (0.11). Loan losses amounted to SEK 1 M (0).

Events after the end of the period

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

¹ Comparative figures refer to 31 March 2016.

INCOME STATEMENT

SEK M	Note	Q 2 2016	Q 1 2016	Change	Q 2 2015	Change	Jan-Jun 2016	Jan-Jun 2015	Change	Full-Year 2015
Interest income	3	571.7	559.0	2%	563.2	2%	1,130.7	1,187.9	-5%	2,285.7
Interest expense	3	-180.6	-187.2	-4%	-230.2	-22%	-367.8	-558.5	-34%	-960.1
Net interest income		391.1	371.9	5%	333.0	17%	762.9	629.3	21%	1,325.6
Commission income	4	0.6	0.6		0.6		1.2	1.1	9%	2.2
Commission expense	5	-242.1	-191.9	26%	-232.5	4%	-434.0	-406.0	7%	-802.3
Net gains/losses from financial items	6	30.6	30.6		49.8	-39%	61.2	36.9	66%	68.3
Other operating income		0.0	0.1		0.0		0.1	0.0		0.1
Total operating income		180.2	211.2	-15%	150.9	19%	391.4	261.3	50%	593.9
Staff costs		-4.5	-3.8	18%	-4.2	5%	-8.4	-8.0	4%	-14.4
Other administration expenses		-21.1	-20.1	5%	-19.9	8%	-41.2	-39.6	4%	-80.3
Depreciation and impairment of tangible assets		0.0	0.0		-0.1		-0.1	-0.1		-0.2
Total operating expenses		-25.7	-24.0	7%	-24.2	7%	-49.7	-47.7	4%	-94.9
Profit before loan losses		154.6	187.2	-17%	126.7	22%	341.8	213.6	60%	499.0
Loan losses, net	7	1.1	0.1		3.2	-66%	1.2	6.3	-81%	9.8
Operating profit		155.7	187.3	-17%	129.9	20%	343.0	219.9	56%	508.8
Appropriations		-	-		-		-	-		-127.0
Tax		-34.1	-41.2	-17%	-28.6	19%	-75.4	-35.0		-73.5
Profit for the period		121.5	146.1	-17%	101.3	20%	267.6	184.9	45%	308.3

STATEMENT OF COMPREHENSIVE INCOME

SEK M	Q 2 2016	Q 1 2016	Change	Q 2 2015	Change	Jan-Jun 2016	Jan-Jun 2015	Change	Full-Year 2015
Profit for the period	121.5	146.1	-17%	101.3	20%	267.6	184.9	45%	308.3
Other comprehensive income									
Items that may subsequently be reclassified to the income statement									
Cash-flow hedges	-64.0	71.5		59.6		7.5	85.5	-91%	38.0
Change in fair value from available-for-sale financial assets	2.4	-0.5		-19.4		1.9	-49.0		-64.0
Tax attributable to items that are rerouted or can be rerouted as income for the period	13.5	-15.6		-3.7		-2.1	-6.7	-69%	5.7
Total other comprehensive income for the period, net after tax	-48.1	55.4		13.2		7.3	23.8	-69%	-20.3
Total comprehensive income for the period	73.4	201.5	-64%	114.5	-36%	274.9	208.7	32%	288.0

BALANCE SHEET

SEK M	Note	30 Jun, 2016	31 Dec, 2015	30 Jun, 2015
Assets				
Loans to credit institutions	8	3,106.5	4,395.3	2,392.4
Loans to the public	9	157,624.9	147,055.5	137,046.2
Bonds and other interest-bearing securities		9,837.6	9,344.8	9,773.3
Derivatives	10	6,205.3	4,164.9	5,047.8
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		890.0	694.9	861.0
Tangible assets		0.5	0.6	0.7
Deferred tax assets		2.9	2.9	–
Other assets		1.6	18.0	3.7
Prepaid expenses and accrued income		468.6	945.7	521.1
Total assets		178,137.8	166,622.6	155,646.2
Liabilities, provisions and equity				
Due to credit institutions	8	41,837.7	41,267.7	39,202.0
Debt securities in issue		119,460.7	110,399.8	102,194.7
Derivatives	10	1,434.6	1,710.3	1,737.4
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		4,522.9	2,752.5	2,926.5
Other liabilities		79.9	73.3	67.8
Accrued expenses and deferred income		1,908.4	2,400.5	1,705.6
Provisions		1.0	0.9	0.9
Subordinated liabilities		1,001.0	1,001.0	1,001.0
Total liabilities and provisions		170,246.3	159,606.0	148,835.9
Untaxed reservs		308.8	308.8	181.8
Equity				
Share capital, 70,335 shares		70.3	70.3	70.3
Statutory reserve		14.1	14.1	14.1
Fair value reserve		96.9	89.6	133.7
Retained earnings		7,133.8	6,225.5	6,225.5
Profit for the year		267.6	308.3	184.9
Total equity		7,582.8	6,707.8	6,628.5
Total liabilities, provisions and equity		178,137.8	166,622.6	155,646.2
Other notes				
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CASH-FLOW STATEMENT IN SUMMARY, INDIRECT METHOD

SEK M	Jan-Jun 2016	Jan-Jun 2015
Cash and cash equivalents, 1 January	17.0	11.8
Cash flow from operating activities	-600.2	-1,001.4
Cash flow from investing activities	0.0	-0.2
Cash flow from financing activities	600.0	1,000.0
Cash flow for the period	-0.2	-1.6
Cash and cash equivalents, 30 June	16.8	10.2

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 -10,568.2 M (-10,918.3), Debt securities in issue to SEK 8,423.7 (1,306.7) M and Loans to credit institutions to SEK 1,288.6 M (94.9). Changes to the cash flow from the financing activities are largely attributable to shareholder's contribution received SEK 600.0 M (500.0) M.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

SEK M	Restricted equity		Fair value reserves		Retained earnings	Profit for the period	Total
	Share capital	Statutory reserve	Fair value reserve	Hedge reserve			
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						184.9	184.9
Other comprehensive income for the period			-42.9	66.7			23.8
<i>Comprehensive income for the period</i>			-42.9	66.7		184.9	208.7
Resolution by Annual General Meeting					211.2	-211.2	
Conditional shareholders' contribution received					500.0		500.0
Closing balance, 30 June 2015	70.3	14.1	17.1	116.6	6,225.5	184.9	6,628.5
Opening balance, 1 July 2015	70.3	14.1	17.1	116.6	6,225.5	184.9	6,628.5
Profit for the period						123.4	123.4
Other comprehensive income for the period			-7.0	-37.1			-44.1
<i>Comprehensive income for the period</i>			-7.0	-37.1		123.4	79.3
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						267.6	267.6
Other comprehensive income for the period			1.5	5.8			7.3
<i>Comprehensive income for the period</i>			1.5	5.8		267.6	274.9
According to Board's proposal for resolution by Annual General Meeting					308.3	-308.3	
Conditional shareholders' contribution received					600.0		600.0
Closing balance, 30 June 2016	70.3	14.1	11.6	85.3	7,133.8	267.6	7,582.8

NOTES

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.

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

NOT 3 NET INTEREST INCOME

Mkr	Q 2 2016	Q 1 2016	Change	Q 2 2015	Change	Jan-Jun 2016	Jan-Jun 2015	Change	Full-Year 2015
Interest income									
Loans to credit institutions	1.7 ¹	7.4	-78%	5.8	-72%	9.1 ¹	20.1	-55%	29.3
Loans to the public	742.0	735.1	1%	745.1		1,477.1	1,508.5	-2%	2,977.0
Interest-bearing securities	39.5	40.2	-2%	45.2	-13%	79.7	96.4	-17%	185.6
Derivatives	-211.4	-223.8	-6%	-232.8	-9%	-435.2	-437.1		-906.3
Other interest income	0.0	0.0		0.0		0.0	0.0		0.1
Total interest income	571.7	559.0	2%	563.3	2%	1,130.7	1,187.9	-5%	2,285.7
Interest Expense									
Due to credit institutions	-96.7 ¹	-98.9	-2%	-62.8	54%	-195.6 ¹	-150.3	30%	-347.8
Dept securities in issue	-463.7 ¹	-492.7 ¹	-6%	-534.9	-13%	-956.4 ¹	-1,130.1	-15%	-2,135.3
Subordinated liabilities	-4.0	-4.1	-2%	-3.2	25%	-8.1	-6.6	23%	-15.6
Derivatives	396.2	425.6	-7%	382.1	4%	821.8	750.7	9%	1,581.8
Other interest expense	-12.4	-17.2	-28%	-11.5	8%	-29.6	-22.3	33%	-43.2
Total interest expense	-180.6	-187.2	-4%	-230.3	-22%	-367.8	-558.6	-34%	-960.1
Total net interest income	391.1	371.9	5%	333.0	17%	762.9	629.3	21%	1,325.6
Interest income on impaired loans	0.0	0.0		0.5		0.0	0.7		0.9
Average interest rate on loans to the public during the period, %	1.9	2.0		2.2		2.0	2.3		2.2

¹ Of which negative interest of Loans to credit institutions SEK -1.4 M, Due to credit institutions SEK 2.0 M and Debt securities in issue SEK 0.3 M.

Derivative interest rates were reclassified in the second quarter. This change means that derivative interest rates on derivative instruments that commercially hedge interest-bearing assets are classified as interest income, while derivative interest rates that commercially hedge interest-bearing liabilities are classified in the item interest expense. Comparative figures have been restated.

NOTE 4 COMMISSION INCOME

SEK M	Q 2 2016	Q 1 2016	Change	Q 2 2015	Change	Jan-Jun 2016	Jan-Jun 2015	Change	Full-Year 2015
Loans	0.6	0.6		0.6		1.2	1.1	9%	2.2
Total commission income	0.6	0.6		0.6		1.2	1.1	9%	2.2

NOTE 5 COMMISSION EXPENSE

SEK M	Q 2 2016	Q 1 2016	Change	Q 2 2015	Change	Jan-Jun 2016	Jan-Jun 2015	Change	Full-Year 2015
Remuneration to regional insurance companies	-242.0	-190.8	27%	-232.2	4%	-432.8	-405.5	7%	-801.5
Other commission	-0.1	-1.1		-0.3		-1.2	-0.5		-0.8
Total commission expense	-242.1	-191.9	26%	-232.5	4%	-434.0	-406.0	7%	-802.3

NOTE 6 NET GAINS / LOSSES FROM FINANCIAL ITEMS

SEK M	Q 2 2016	Q 1 2016	Change	Q 2 2015	Change	Jan-Jun 2016	Jan-Jun 2015	Change	Full-Year 2015
Interest-bearing assets and liabilities and related derivatives	18.0	22.2	-19%	33.1	-46%	40.2	8.3		15.5
Other financial assets and liabilities	0.7	0.0		0.4	75%	0.7	0.6	17%	0.2
Interest compensation	11.9	8.4	42%	16.3	-27%	20.3	28.0	-28%	52.6
Total net gains / losses from financial items	30.6	30.6		49.8	-39%	61.2	36.9	66%	68.3

NOTE 7 LOAN LOSSES AND IMPAIRED LOANS

Loan losses, SEK M	Q 2 2016	Q 1 2016	Change	Q 2 2015	Change	Jan-Jun 2016	Jan-Jun 2015	Change	Full-Year 2015
Specific reserve for individually assessed loan receivables									
Write-off of confirmed loan losses during the period	-0.4	-0.2		-		-0.5	-0.6	-17%	-1.4
Reversed earlier impairment of loan losses recognised as confirmed losses	0.2	0.2		0.1		0.4	0.5	-20%	1.2
Impairment of loan losses during the period	-1.0	-1.2	-17%	-1.5	-33%	-2.2	-2.5	-12%	-4.4
Payment received for prior confirmed loan losses	0.7	0.6	17%	0.8	-13%	1.3	1.3		2.6
Reversed impairment of loan losses no longer required	1.4	0.8	75%	3.7	-62%	2.2	7.6	-71%	9.0
Net expense for the year for individually assessed loan receivables	1.0	0.2		3.1	-68%	1.2	6.3	-81%	7.0
Collective assessed homogenous groups of loan receivables with limited value and similar credit risk									
Provision / reversal of impairment of loan losses	0.1	-0.1		0.1		0.0	0.0		2.8
Net expense for the year for collectively loan receivables	0.1	-0.1		0.1		0.0	-		2.8
Annual net expense for lived up of guarantees	-	-		-		-	-		-
Net expense of loan losses for the period	1.1	0.1		3.2	-66%	1.2	6.3	-81%	9.8

All information pertains to receivables from the public.

Impaired loans, SEK M	30 June 2016				31 December 2015				30 June 2015			
	Gross	Individual impairments	Collective impairments	Net	Gross	Individual impairments	Collective impairments	Net	Gross	Individual impairments	Collective impairments	Net
Corporate sector	0.0	0.0	0.0	0.0	-	-	-	-	-	-	-	-
Retail sector	0.0	-4.3	-25.4	-29.7	0.0	-4.7	-25.4	-30.1	-	-6.8	-26.4	-33.2
Total	0.0	-4.3	-25.4	-29.7	0.0	-4.7	-25.4	-30.1	-	-6.8	-26.4	-33.2

The settlement model, which was introduced on 1 January, 2014, regarding the commitment that the regional insurance companies have regarding loan losses related to 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 an off-set against accrued commissions. The transition to the model means that the Länsförsäkringar Hypotek ABs credit reserves on the date of introduction will be gradually reduced by SEK 21 M. As of 30 June, 2016 remains SEK 3.1 M to be reversed.

NOTE 8 LOANS / DUE TO CREDIT INSTITUTIONS

Loans to credit institutions include deposits with the Parent Company of SEK 1,455.1 M (1,557.0).

Due to credit institutions includes borrowings from the Parent Company of SEK 40,015.3 M (37,785.3).

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

NOTE 9 LOANS TO THE PUBLIC

Loan receivables are geographically attributable in their entirety to Sweden

SEK M	30 Jun, 2016	31 Dec, 2015	30 Jun, 2015
Loans to the public before reservations			
Corporate sector	7,264.7	7,167.1	7,156.2
Retail sector	150,389.9	139,918.5	129,923.2
Total	157,654.6	147,085.6	137,079.4
Reservations	-29.7	-30.1	-33.2
Loans to the public	157,624.9	147,055.5	137,046.2
Remaining term of not more than 3 month	94,295.4	83,396.2	78,001.2
Remaining term of more than 3 months but not more than 1 year	13,477.8	15,980.7	15,099.4
Remaining term of more than 1 year but not more than 5 years	48,069.0	45,866.7	42,263.8
Remaining term of more than 5 years	1,782.8	1,811.9	1,681.8
Total	157,624.9	147,055.5	137,046.2

Definition

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

NOTE 10 DERIVATIVES

SEK M	30 Jun 2016		31 Dec 2015		30 Jun 2015	
	Nominal value	Fair value	Nominal value	Fair value	Nominal value	Fair value
Derivatives with positive values						
<i>Derivatives in hedge accounting</i>						
Interest-related	80,187.0	3,200.2	65,771.0	2,203.2	68,970.0	2,582.4
Currency-related	22,967.8	3,004.6	13,606.6	1,961.7	14,621.7	2,465.1
<i>Other derivatives</i>						
Interest-related	20,000.0	0.5			7,500.0	0.3
Total derivatives with positive values	123,154.8	6,205.3	79,377.6	4,164.9	91,091.7	5,047.8
Derivatives with negative values						
<i>Derivatives in hedge accounting</i>						
Interest-related	58,785.0	1,148.0	72,125.0	1,139.7	65,710.0	1,367.7
Currency-related	3,213.2	286.4	7,699.4	570.6	8,453.4	369.7
<i>Other derivatives</i>						
Interest-related	20,000.0	0.2			-	-
Total derivatives with negative values	81,998.2	1,434.6	79,824.4	1,710.3	74,163.4	1,737.4

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.

NOTE 11 PLEDGED ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS

SEK M	30 Jun 2016	31 Dec 2015	30 Jun 2015
For own liabilities, pledged assets			
Collateral pledged due to repurchase agreements	1,635.0	104.7	883.1
Loan receivables, covered bonds	148,016.2	137,484.4	127,429.5
Loan receivables, substitute collateral	9,175.0	8,775.0	9,125.0
Total for own liabilities, pledged assets	158,826.2	146,364.1	137,437.6
Other pledged assets	None	None	None
Contingent liabilities			
Conditional shareholders' contribution	4,460.6	3,860.6	3,860.6
Total contingent liabilities	4,460.6	3,860.6	3,860.6
Commitments			
Loans approved but not disbursed	12,204.1	7,923.4	10,787.5

NOTE 12 FAIR VALUE VALUATION TECHNIQUES

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

SEK M	Level 1	Level 2	Level 3	Total
30 June 2016				
Assets				
Bonds and other interest-bearing securities	9,837.6			9,837.6
Derivatives		6,205.3		6,205.3
Liabilities				
Derivatives		1,434.6		1,434.6
SEK M				
31 December 2015				
Assets				
Bonds and other interest-bearing securities	9,344.8			9,344.8
Derivatives		4,164.9		4,164.9
Liabilities				
Derivatives		1,710.3		1,710.3
SEK M				
30 June 2015				
Assets				
Bonds and other interest-bearing securities	9,773.3			9,773.3
Derivatives		5,047.8		5,047.8
Liabilities				
Derivatives		1,737.4		1,737.4

There were no transfers between Level 1 and Level 2 during the period. There were no transfers from Level 3 during the period.

NOTE 12 FAIR VALUE VALUATION TECHNIQUES, CONTINUED

SEK M	30 Jun 2016		31 Dec 2015		30 Jun 2015	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Assets						
Loans to credit institutions	3,106.5	3,106.5	4,395.3	4,395.3	2,392.4	2,392.4
Loans to the public	157,624.9	158,270.5	147,055.5	147,711.2	137,046.2	138,046.3
Bonds and other interest-bearing securities	9,837.6	9,837.6	9,344.8	9,344.8	9,773.3	9,773.3
Derivatives	6,205.3	6,205.3	4,164.9	4,164.9	5,047.8	5,047.8
Total assets	176,774.3	177,419.9	164,960.5	165,616.2	154,259.7	155,259.8
Liabilities						
Due to credit institutions	41,837.7	41,837.7	41,267.7	41,267.7	39,202.0	39,202.0
Debt securities in issue	119,460.7	124,762.9	110,399.8	114,581.1	102,194.7	105,964.2
Derivatives	1,434.6	1,434.6	1,710.3	1,710.3	1,737.4	1,737.4
Other liabilities	6.8	6.8	6.8	6.8	6.6	6.6
Subordinated liabilities	1,001.0	1,001.0	1,001.0	1,001.6	1,001.0	1,037.8
Total Liabilities	163,740.8	169,043.0	154,385.6	158,567.5	144,141.7	147,948.0

The fair value 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.

When calculating the fair value of loans to the public, anticipated future cash flows have been discounted using a discount rate set at the current lending rate applied (including discounts).

The main principle for measuring the fair value of debt securities in issue is that the value is measured at prices from external parties at the closing date or the most recent trading date. If external prices are not available or are deemed to deviate from market levels, and for measuring the fair value of subordinated liabilities, a standard method or valuation technique based on the estimated or original issue spread has been utilised.

Derivatives essentially refer to swaps for which fair value has been calculated by discounting expected future cash flows.

Gains and losses are recognised in profit and loss under "net gains/losses from financial items." For information on the determination of fair value, valuation techniques and inputs, see also note Accounting policies.

NOT 13 CAPITAL-ADEQUACY

SEK M	30 Jun 2016	31 Dec 2015	30 Jun 2015
Total Equity	7,582.8	6,707.8	6,628.5
78 % of untaxed reserves	240.9	240.9	141.8
Own funds eligible for capital- adequacy	7,823.7	6,948.7	6,770.3
Adjustment for cash flow hedge	-85.3	-79.5	-116.6
IRB Provisions deficit (-) / surplus (+)	-83.9	-80.9	-82.7
Adjustment for prudent valuation	-17.5	-15.2	-16.5
Common Equity Tier 1 capital	7,636.9	6,773.1	6,554.5
Tier 2 instruments	1,001.0	1,001.0	1,001.0
IRB Provisions deficit (-) / surplus (+)		6.7	-
Tier 2 capital	1,001.0	1,007.7	1,001.0
Total Own funds	8,637.9	7,780.8	7,555.5
Risk exposure amount according to CRD IV	17,337.0	18,119.9	17,162.1
Total Capital requirement according to CRD IV	1,387.0	1,449.6	1,373.0
Capital requirement for creditrisk according to Standardised Approach	140.4	236.3	205.1
Capital requirement for creditrisk according to IRB Approach	1,063.5	1,052.7	1,015.4
Capital requirement for operational risk	59.2	52.0	52.0
Capital requirement according to credit valuation adjustment	123.9	108.6	100.5
Core Tier 1 ratio according to CRD IV	44.0%	37.4%	38.2%
Tier 1 ratio according to CRD IV	44.0%	37.4%	38.2%
Capital adequacy ratio according to CRD IV	49.8%	42.9%	44.0%
Special disclosures			
IRB Provisions surplus (+) / deficit (-)	-83.9	-74.2	-82.7
- IRB Total provisions (+)	41.0	43.1	45.2
- IRB Anticipated loss (-)	-125.0	-117.3	-127.9
Capital requirement according to Basel I floor	6,591.9	6,023.3	5,688.7
Capital base adjusted according to Basel I floor	8,721.9	7,855.0	7,638.2
Surplus of capital according to Basel I floor	2,130.0	1,831.7	1,949.6

Minimum capital requirements and buffers	Minimum capital requirements	Capital conservation buffer	Countercyclical 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	Minimum capital requirements	Capital conservation buffer	Countercyclical buffer	Systemic risk buffer	Total
Core Tier 1 capital	780.2	433.4	260.1	n/a	1,473.6
Tier 1 capital	1,040.2	433.4	260.1	n/a	1,733.7
Capital base	1,387.0	433.4	260.1	n/a	2,080.4
Core Tier 1 capital available for use as buffer					38.1%

NOT 13 CAPITAL-ADEQUACY ANALYSIS, CONTINUED

	30 Jun 2016		31 Dec 2015		30 Jun 2015	
	Capital requirement	Risk exposure amount	Capital requirement	Risk exposure amount	Capital requirement	Risk exposure amount
SEK M						
Credit risk according to Standardised Approach						
Exposures to institutions	58.3	728.5	159.3	1,991.4	124.0	1,550.4
Covered bonds	79.5	993.9	75.9	948.7	79.1	989.0
Other items	2.6	32.0	1.1	13.4	1.9	24.2
Total capital requirement and risk exposure amount	140.4	1,754.4	236.3	2,953.4	205.1	2,563.7
Credit risk according to IRB Approach						
<i>Retail exposures</i>						
Exposures secured by real estate collateral	790.3	9,878.7	772.4	9,655.6	735.9	9,198.5
Other retail exposures	2.8	35.2	2.8	34.4	2.7	34.3
Total retail exposures	793.1	9,913.9	775.2	9,690.0	738.6	9,232.9
Exposures to corporates	270.4	3,379.4	277.5	3,469.1	276.7	3,459.1
Total capital requirement and risk exposure amount	1,063.5	13,293.3	1,052.7	13,159.1	1,015.4	12,692.0
Operational risk						
Standardised Approach	59.2	740.4	52.0	649.9	52.0	649.9
Total capital requirement for operational risk	59.2	740.4	52.0	649.9	52.0	649.9
Total capital requirement for credit valuation adjustments	123.9	1,549.0	108.6	1,357.5	100.5	1,256.5

NOTE 14 DISCLOSURES ON RELATED PARTIES

Significant agreements for Länsförsäkringar Hypotek AB are primarily outsourcing agreements with the 23 regional insurance companies and outsourcing agreements with Länsförsäkringar AB regarding development, service, finance and IT. Normal business transactions took place between Group companies as part of the outsourced operations.

This interim report is a translation of the Swedish interim report that has been reviewed by the company's auditors.

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

Stockholm, 20 July 2016

Rikard Josefson
Chairman of the board

Gert Andersson
Board member

Christian Bille
Board member

Bengt Clemedtson
Board member

Christer Malm
Board member

Anders Borgerantz
President

AUDITOR'S REPORT ON THE REVIEW OF THE INTERIM REPORT PREPARED IN ACCORDANCE WITH CHAPTER 9 OF THE SWEDISH ANNUAL ACCOUNTS ACT

To the Board of Directors of Länsförsäkringar Hypotek AB (publ)
Corporate Registration Number 556244-1781

Introduction

I have reviewed the interim financial information (interim report) of Länsförsäkringar Hypotek AB (publ) as per 30 June 2016 and the six-month period then ended. The Board of Directors and the President are responsible for preparing and presenting this interim report in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies. My responsibility is to express a conclusion on this interim report based on my review.

Focus and scope of the review

I conducted my review in accordance with the International Standard on Review Engagements ISRE 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a different focus and substantially more limited scope than an audit conducted in accordance with International Standards on Auditing and other generally accepted auditing practices and consequently does not enable me to obtain assurance that I would become aware of all significant matters that might be identified in an audit. Therefore, a conclusion expressed on the basis of a review does not provide the same level of assurance as a conclusion expressed on the basis of an audit.

Conclusion

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

Stockholm, 20 July 2016

Dan Beitner
Authorised Public Accountant

Financial calendar 2016

Interim report Länsförsäkringar Hypotek	25 October
Interim report Länsförsäkringar Bank	25 October

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 20 February 2016 at 11:00 a.m. Swedish time.

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