

Länsförsäkringar Hypotek

Interim Report January–September 2016

THE PERIOD IN BRIEF

- Operating profit increased 39% to SEK 494.4 M (355.0) and the return on equity amounted to 6.8% (5.7).
- Net interest income rose 23% to SEK 1,189 M (968).
- Loan losses amounted to SEK –1.0 M (–9.5*), net, corresponding to loan losses of –0.00% (–0.01).
- Lending increased 15% to SEK 162.9 billion (141.9).
- The Common Equity Tier 1 capital ratio amounted to 44.2% (44.0**) on 30 September 2016.
- The number of customers rose 7% to 228,000 (213,000).

*) The comparative figure includes the dissolution of reserves amounting to SEK 8 M.

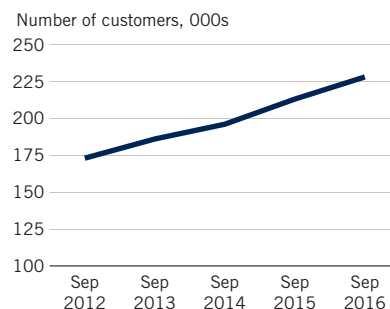
**) Pertains to 30 June 2016.

Figures in parentheses pertain to the same period in 2015.

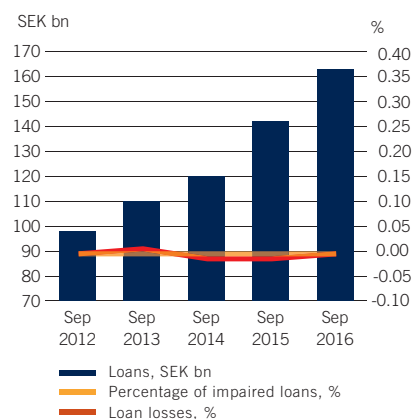
ANDERS BORGCRANTZ, PRESIDENT OF LÄNSFÖRSÄKRINGAR HYPOTEK:

“Länsförsäkringar Hypotek continued to perform positively in the mortgage market and reported a very strong operating profit for the period. Lending is growing at a steady rate with sustained high credit quality and continued low level of loan losses. We can see that the number of customers is continuing to grow and we are successively gaining further market shares.

CUSTOMER TREND



LOANS TO THE PUBLIC



KEY FIGURES

	Q 3 2016	Q 2 2016	Q 3 2015	Jan-Sep 2016	Jan-Sep 2015	Full-Year 2015
Return on equity, %	6.1	6.3	6.3	6.8	5.7	6.0
Return on total capital, %	0.33	0.36	0.34	0.38	0.30	0.32
Investment margin, %	0.94	0.90	0.85	0.90	0.83	0.84
Cost/income ratio before loan losses	0.14	0.14	0.15	0.13	0.17	0.16
Common Equity Tier 1 capital ratio, %	44.2	44.0	37.3	44.2	37.3	37.4
Total capital ratio, %	49.9	49.8	42.9	49.9	42.9	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
Reserve ratio in relation to loans, incl. withheld remuneration to regional insurance companies, %	0.03	0.03	0.03	0.03	0.03	0.03
Loan losses, %	0.00	0.00	-0.01*	0.00	-0.01*	-0.01*

*) Includes dissolution of reserves.

INCOME STATEMENT, QUARTERLY

	Q 3 2016	Q 2 2016	Q 1 2016	Q 4 2015	Q 3 2015
Net interest income	426.2	391.1	371.9	357.3	339.0
Net commission	-245.4	-241.5	-191.3	-195.9	-199.3
Net gains/losses from financial items	-5.1	30.6	30.6	15.6	15.8
Other operating income	0.0	0.0	0.1	0.1	0.0
Total operating income	175.6	180.2	211.2	177.1	155.5
Staff costs	-3.5	-4.5	-3.8	-3.3	-3.1
Other administration expenses	-20.5	-21.1	-20.1	-20.2	-20.5
Total operating expenses	-24.0	-25.7	-24.0	-23.6	-23.6
Profit before loan losses	151.6	154.6	187.2	153.5	131.9
Loan losses, net	-0.2	1.1	0.1	0.3	3.2
Operating profit	151.4	155.7	187.3	153.8	135.1

Market commentary

The start of the third quarter was dominated by the uncertainty following in the wake of the outcome of the UK referendum to leave the EU. However, reactions were more short-lived than expected and the stock markets recovered relatively quickly. The fixed-income market also recovered, although not to the same extent as the equities market.

Long-term interest rates were again at historically low levels. Swedish interest rates fell more than global rates on the back of expectations of a future shortage of Swedish government bonds. Interest rates on covered bonds have also fallen and investor demand has been high. Interest rates remain heavily governed by expectations on the central banks. The low pressure on inflation in the eurozone led to market expectations of additional stimulus measures from the ECB. However, the ECB surprised the market somewhat at its September meeting by not giving any clear indication about whether additional easing would be made. At its meeting in September, the Federal Reserve decided to

not to change the key interest rate, but indicated that it will be raised later in the year. The Federal Reserve did, however, adjust its forecast of the pace of continued interest-rate increases.

The real-economic performance in the third quarter was mixed. Growth figures for the second quarter were revised up for both the US and Sweden, while growth signals for the third quarter were more subdued than expected. However, the important US labour market reported strong figures and salaries and inflation also continued to rise. Real-economic indicators in Europe were stable. Despite increased uncertainty, households and companies remained relatively positive in their expectations of the future. Incoming statistics for Sweden were in line with market expectations and indicate a somewhat lower rate of growth, whereas the development of the labour market was slightly weaker than expected. Overall, the Swedish economy remained strong, although it did not grow as strongly as it did at year-end.

The stock markets performed well in the third quarter with the Stockholm

Stock Exchange reporting a very favourable trend. The SEK weakened further against the USD and EUR during the quarter.

Following a slightly subdued housing market in the beginning of the summer, housing prices started to rise again in the third quarter, mainly driven by a strong price trend for tenant-owned apartments and single-family homes in July and August respectively.

JANUARY-SEPTEMBER 2016 COMPARED WITH JANUARY-SEPTEMBER 2015

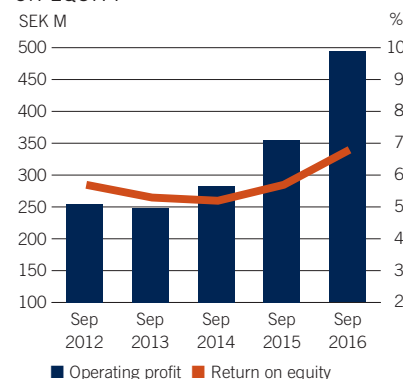
Growth and customer trend

Loans to the public rose 15%, or SEK 21.0 billion, to SEK 162.9 billion (141.9), with continued very high credit quality. The number of customers increased 7%, or 15,000, to 228,000 (213,000). 87% (85) of retail mortgage customers have Länsförsäkringar as their primary bank.

Earnings and profitability

Operating profit increased 39% to SEK 494.4 M (355.0), primarily due to higher net interest income. The investment margin strengthened to 0.90% (0.83). Profit before loan losses rose 43% to SEK 493.4 M (345.5) due to higher net interest income. The return on equity amounted to 6.8% (5.7).

OPERATING PROFIT AND RETURN ON EQUITY

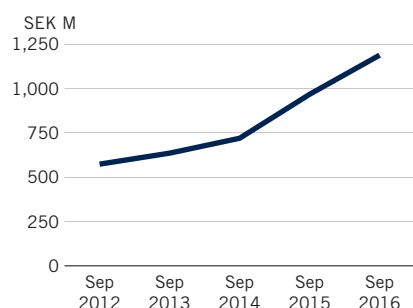


Income

Operating income rose 36% to SEK 567.1 M (416.8), due to higher net interest income attributable to increased volumes and lower refinancing costs. Net interest income rose 23% to SEK 1,189 M (968). Net gains from

financial items increased 7% to SEK 56.1 M (52.7). Net commission amounted to SEK –678.3 M (–604.2), 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 73.7 M (71.3). The cost/income ratio was 0.13 (0.17) before loan losses and 0.13 (0.15) after loan losses.

Loan losses

Loan losses amounted to SEK –1.0 M (–9.5), net, corresponding to a loan loss level of –0.00% (–0.01). Loan losses before dissolution of reserves remained low at SEK –1.0 M (1.5), net. No reserves were dissolved according to the settlement model described below during the period. In the year-earlier period, reserves of SEK 8 M were dissolved. Impaired loans, gross, amounted to SEK 0 M (0), corresponding to a percentage of impaired loans, gross, of 0.00% (0.00).

The 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,

of which SEK 3 M remained on 30 September 2016. Reserves amounted to SEK 30.4 M (30.0), corresponding to a reserve ratio in relation to loans of 0.02% (0.02). In addition, SEK 14.1 M (12.7) of the remuneration attributable to the regional insurance companies' credit-risk commitments is withheld in accordance with the settlement model described above. The reserve ratio in relation to loans, including withheld remuneration to the regional insurance companies, was 0.03% (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%, or SEK 21.0 billion, to SEK 162.9 billion (141.9). The increase since year-end was 11% or SEK 15.8 billion. The credit quality of the loan portfolio, comprising 72% (73) single-family homes, 23% (21) tenant-owned apartments and 5% (6) multi-family housing, remained favourable. On 31 August 2016, the market share of retail mortgages was 5.7% (5.4), according to Statistics Sweden.

Cover pool

The cover pool, which forms the basis of issuance of covered bonds, contains SEK 153.4 billion, corresponding to 94% of the loan portfolio. The collateral comprises only private homes, of which 74% (75) are single-family homes, 24% (23) tenant-owned apartments and 2% (2) vacation homes. The geographic spread throughout Sweden is favourable and the average loan amount is only SEK 489,000 (458,000). The weighted average loan-to-value ratio, LTV, was 57% (59) and the nominal, current OC amounted to 39% (37). 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 64% (66) on 30 September 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 Sep 2016	30 Sep 2015
Cover pool, SEK billion	163	142
OC ¹⁾ , nominal, current level, %	39	37
Weighted average LTV, %	57	59
Collateral	Private homes	Private homes
Seasoning, months	58	59
Number of loans	313,840	288,709
Number of borrowers	140,777	130,680
Number of properties	140,465	130,915
Average commitment, SEK 000s	1,092	1,010
Average loan, SEK 000s	489	458
Interest rate type, variable, %	66	60
Interest rate type, fixed, %	34	40
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 15% to SEK 122.3 billion (106.5). Issued covered bonds during the quarter totalled a nominal SEK 21.6 billion (24.0) and repurchases of a nominal SEK 3.3 billion (3.5) were executed. Matured covered bonds amounted to a nominal SEK 8.0 billion (16.2).

Liquidity

On 30 September 2016, the liquidity reserve totalled SEK 10.4 billion (10.1), 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 September 2016, Common Equity Tier 1 capital and Tier 1 capital were SEK 7,770 M (7,637) and the Common Equity Tier 1 capital ratio amounted to 44.2% (44.0). Own funds totalled SEK 8,771 M (8,638) and the capital adequacy ratio amounted to 49.9% (49.8). Common Equity Tier 1 capital increased SEK 133 M during the period mainly attributable to generated profit. On 30 September 2016, the total Risk Exposure Amount (REA) amounted to SEK 17,582 M (17,337). Lending to households in the form of mortgages continued to increase but the increase in REA for retail exposures IRB was limited to SEK 303 M in the period due to improved credit quality. In Pillar II, the risk weight floor for mortgages of 25% entailed an additional capital requirement of SEK 3,659 M (3,591). The countercyclical capital buffer (1.5% of REA) totalled SEK 264 M. This capital conservation buffer that is to correspond to 2.5% of REA amounted to SEK 440 M on 30 September 2016.

Capital adequacy

Länsförsäkringar Hypotek AB (SEK M)	30 Sep 2016	30 Jun 2016
IRB Approach	13,534	13,293
retail exposures	10,217	9,914
exposures to corporates	3,316	3,379
Standardised Approach	1,780	1,754
Operational risks	740	740
Total REA	17,582	17,337
Common Equity Tier 1 capital	7,770	7,637
Tier 1 capital	7,770	7,637
Total capital	8,771	8,638
Common Equity Tier 1 capital ratio	44.2%	44.0%
Tier 1 ratio	44.2%	44.0%
Total capital ratio	49.9%	49.8%

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 September 2016 amounted to SEK 1,722 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, own funds, amounted to SEK 8,771 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 September 2016, an increase in market interest rates of 1 percentage point would have reduced the value of interest-bearing assets and liabilities, including derivatives, by SEK 21 M (increase: 43).

Risks and uncertainties

Länsförsäkringar Hypotek is exposed to a number of risks, primarily credit risks, liquidity risks and market risks. The macroeconomic situation in Sweden is critical for credit risk, since all loans are granted in Sweden. Market risks primarily comprise interest-rate risks that are restricted through narrow limits. The operations are characterised by a low risk profile. 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.

THIRD QUARTER OF 2016 COMPARED WITH SECOND QUARTER OF 2016
Operating profit fell 3% to SEK 151.4 M (155.7), due to a lower net gains from financial items. Return on equity amounted to 6.1% (6.3). Operating income declined 3% to SEK 175.6 M (180.2). Net interest income increased 9.0% to SEK 426.2 M (391.1). Net losses from financial items amounted to SEK –5.1 M (gains: 30.6) as a result of changes in fair value. Commission expense increased 1.6% to SEK –246.0 M (–242.1). Operating expenses amounted to SEK –24.0 M (–25.7) and the cost/income ratio before loan losses to 0.14% (0.14). Loan losses amounted to SEK 0.2 M (–1.1).

Events after the end of the period

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

¹ Comparative figures refer to 30 June 2016.

INCOME STATEMENT

SEK M	Note	Q 3 2016	Q 2 2016	Change	Q 3 2015	Change	Jan-Sep 2016	Jan-Sep 2015	Change	Full-Year 2015
Interest income	3	596.3	571.7	4%	544.5	10%	1,727.0	1,732.3		2,285.7
Interest expense	3	-170.1	-180.6	-6%	-205.5	-17%	-537.9	-764.0	-30%	-960.1
Net interest income		426.2	391.1	9%	339.0	26%	1,189.1	968.3	23%	1,325.6
Commission income	4	0.6	0.6	0%	0.5	20%	1.7	1.6	6%	2.2
Commission expense	5	-246.0	-242.1	2%	-199.8	23%	-680.0	-605.8	12%	-802.3
Net gains/losses from financial items	6	-5.1	30.6		15.8		56.1	52.7	6%	68.3
Other operating income		0.0	0.0		0.0		0.1	0.0		0.1
Total operating income		175.6	180.2	-3%	155.5	13%	567.1	416.8	36%	593.9
Staff costs		-3.5	-4.5	-22%	-3.1	13%	-11.8	-11.1	6%	-14.4
Other administration expenses		-20.5	-21.1	-3%	-20.5		-61.8	-60.1	3%	-80.3
Depreciation and impairment of tangible assets		0.0	0.0		0.0		-0.1	-0.1		-0.2
Total operating expenses		-24.0	-25.7	-6%	-23.6	2%	-73.7	-71.3	3%	-94.9
Profit before loan losses		151.6	154.6	-2%	131.9	15%	493.4	345.5	43%	499.0
Loan losses, net	7	-0.2	1.1		3.2		1.0	9.5	-89%	9.8
Operating profit		151.4	155.7	-3%	135.1	12%	494.4	355.0	39%	508.8
Appropriations		-	-		-		-	-		-127.0
Tax		-33.3	-34.1	-2%	-29.7	12%	-108.7	-64.7	68%	-73.5
Profit for the period		118.1	121.5	-3%	105.4	12%	385.7	290.3	33%	308.3

STATEMENT OF COMPREHENSIVE INCOME

SEK M	Q 3 2016	Q 2 2016	Change	Q 3 2015	Change	Jan-Sep 2016	Jan-Sep 2015	Change	Full-Year 2015
Profit for the period	118.1	121.5	-3%	105.4	12%	385.7	290.3	33%	308.3
Other comprehensive income									
Items that have been reclassified or may subsequently be reclassified to the income statement									
Cash-flow hedges	-37.6	-64.0	-41%	-6.7		-30.1	78.8		38.0
Change in fair value from available-for-sale financial assets	15.0	2.4		-12.5		16.8	-61.5		-64.0
Tax attributable to items that have been transferred or can be transferred to profit for the period	4.9	13.5	-64%	4.2	17%	2.9	-2.5		5.7
Total other comprehensive income for the period, net after tax	-17.7	-48.1	-63%	-15.0	18%	-10.4	8.8		-20.3
Total comprehensive income for the period	100.4	73.4	37%	90.4	11%	375.3	299.1	25%	288.0

BALANCE SHEET

SEK M	Note	30 Sep, 2016	31 Dec, 2015	30 Sep, 2015
Assets				
Loans to credit institutions	8	5,475.4	4,395.3	3,924.5
Loans to the public	9	162,880.6	147,055.5	141,924.3
Bonds and other interest-bearing securities		10,309.1	9,344.8	9,954.5
Derivatives	10	6,531.9	4,164.9	4,990.9
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		772.3	694.9	883.4
Tangible assets		0.5	0.6	0.6
Deferred tax assets		2.9	2.9	–
Other assets		3.8	18.0	17.7
Prepaid expenses and accrued income		491.7	945.7	685.2
Total assets		186,468.1	166,622.6	162,381.1
Liabilities, provisions and equity				
Due to credit institutions	8	48,085.4	41,267.7	40,965.0
Debt securities in issue		122,274.4	110,399.8	106,511.8
Derivatives	10	1,139.7	1,710.3	1,634.1
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		4,390.3	2,752.5	3,418.4
Other liabilities		70.8	73.3	72.6
Accrued expenses and deferred income		1,513.6	2,400.5	1,876.6
Provisions		1.0	0.9	0.9
Subordinated liabilities		1,001.0	1,001.0	1,001.0
Total liabilities and provisions		178,476.1	159,606.0	155,480.4
Untaxed reserves		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		79.3	89.6	118.7
Retained earnings		7,133.8	6,225.5	6,225.5
Profit for the period		385.7	308.3	290.3
Total equity		7,683.2	6,707.8	6,718.9
Total liabilities, provisions and equity		186,468.1	166,622.6	162,381.1
Other notes				
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CASH-FLOW STATEMENT IN SUMMARY, INDIRECT METHOD

SEK M	Jan-Sep 2016	Jan-Sep 2015
Cash and cash equivalents, 1 January	17.0	11.8
Cash flow from operating activities	-606.9	-1,007.3
Cash flow from investing activities	0.0	0.0
Cash flow from financing activities	600.0	1,000.0
Cash flow for the period	-6.8	-7.3
Cash and cash equivalents, 30 September	10.2	4.5

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 -15,824.8 M (-16,540.9), Debt securities in issue to SEK 10,775.7 (5,894.7) M and Loans to credit institutions to SEK 6,817.7 M (8,327.9). 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						290.3	290.3
Other comprehensive income for the period			-52.6	61.4			8.8
<i>Comprehensive income for the period</i>			-52.6	61.4		290.3	299.1
Resolution by Annual General Meeting					211.2	-211.2	
Conditional shareholders' contribution received					500.0		500.0
Closing balance, 30 September 2015	70.3	14.1	7.4	111.3	6,225.5	290.3	6,718.9
Opening balance, 1 October 2015	70.3	14.1	7.4	111.3	6,225.5	290.3	6,718.9
Profit for the period						18.0	18.0
Other comprehensive income for the period			2.7	-31.8			-29.1
<i>Comprehensive income for the period</i>			2.7	-31.8		18.0	-11.1
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						385.7	385.7
Other comprehensive income for the period			13.1	-23.5			-10.4
<i>Comprehensive income for the period</i>			13.1	-23.5		385.7	375.3
Resolution by Annual General Meeting					308.3	-308.3	
Conditional shareholders' contribution received					600.0		600.0
Closing balance, 30 September 2016	70.3	14.1	23.2	56.0	7,133.8	385.7	7,683.2

The shareholders' contributions that have been paid are conditional and the Parent Company Länsförsäkringar Bank AB (publ) is entitled to receive repayment of the contributions from the unappropriated earnings of Länsförsäkringar Hypotek AB (publ), provided that approval is obtained from the general meeting. On 30 September 2016, the amount of the conditional shareholders' contribution received was SEK 4,460.6 M (3,860.6).

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 in the company.

Changes that have impacted the financial statements in 2016.

The European Securities and Markets Authority's (ESMA) Guidelines on Alternative Performance Measures came into effect on 3 July 2016. In accordance with these guidelines, disclosures on financial performance measures that are not defined by IFRS have been expanded. Majority of key figures are defined in the 2015 Annual Report. The key figures that are not found in the annual report are defined in the current annual report where the key figure mentioned.

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

NOTE 2 SEGMENT REPORTING

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

NOT 3 NET INTEREST INCOME

SEK M	Q 3 2016	Q 2 2016	Change	Q 3 2015	Change	Jan-Sep 2016	Jan-Sep 2015	Change	Full-Year 2015
Interest income									
Loans to credit institutions	0.7	1.7	-59%	3.2	-78%	9.7 ¹⁾	23.3	-58%	29.3
Loans to the public	759.0	742.0	2%	735.7	3%	2,236.2	2,244.2		2,977.0
Interest-bearing securities	33.7	39.5	-15%	45.2	-25%	113.4 ¹⁾	141.6	-20%	185.6
Derivatives	-197.1	-211.4	-7%	-239.6	-18%	-632.3	-676.7	-7%	-906.3
Other interest income	0.0	0.0		0.0		0.0	0.0		0.1
Total interest income	596.3	571.7	4%	544.5	10%	1,727.0	1,732.3		2,285.7
Interest Expense									
Due to credit institutions	-102.7	-96.7	6%	-94.6	9%	-298.3 ¹⁾	-244.9	22%	-347.8
Dept securities in issue	-455.5	-463.7	-2%	-515.9	-12%	-1,411.8 ¹⁾	-1,646.0	-14%	-2,135.3
Subordinated liabilities	-3.9	-4.0	-3%	-4.6	-15%	-12.0	-11.2	7%	-15.6
Derivatives	401.1	396.2	1%	420.0	-4%	1,222.9	1,170.8	4%	1,581.8
Other interest expense	-9.2	-12.4	-26%	-10.4	-12%	-38.7	-32.7	18%	-43.2
Total interest expense	-170.1	-180.6	-6%	-205.5	-17%	-537.9	-764.0	-30%	-960.1
Total net interest income	426.2	391.1	9%	339.0	26%	1,189.1	968.3	23%	1,325.6
Interest income on impaired loans	-	-		-		-	0.7		0.9
Average interest rate on loans to the public during the period, %	1.9	1.9		2.1		1.9	2.2		2.2

¹⁾ Of which negative interest of Loans to credit institutions SEK -3.6 M and interest-bearing securities SEK -0.2 M. Due to credit institutions SEK 4.9 M and Debt securities in issue SEK 1.0 M.

NOTE 4 COMMISSION INCOME

SEK M	Q 3 2016	Q 2 2016	Change	Q 3 2015	Change	Jan-Sep 2016	Jan-Sep 2015	Change	Full-Year 2015
Loans	0.6	0.6		0.5		1.7	1.6	6%	2.2
Total commission income	0.6	0.6		0.5		1.7	1.6		2.2

NOTE 5 COMMISSION EXPENSE

SEK M	Q 3 2016	Q 2 2016	Change	Q 3 2015	Change	Jan-Sep 2016	Jan-Sep 2015	Change	Full-Year 2015
Remuneration to regional insurance companies	-245.8	-242.0	2%	-199.7	23%	-678.7	-605.2	12%	-801.5
Other commission	-0.2	-0.1		-0.1		-1.4	-0.6		-0.8
Total commission expense	-246.0	-242.1		-199.8		-680.0	-605.8		-802.3

NOTE 6 NET GAINS / LOSSES FROM FINANCIAL ITEMS

SEK M	Q 3 2016	Q 2 2016	Change	Q 3 2015	Change	Jan-Sep 2016	Jan-Sep 2015	Change	Full-Year 2015
Interest-bearing assets and liabilities and related derivatives	-14.8	18.0		2.9		25.4	11.2		15.5
Other financial assets and liabilities	-0.4	0.7		-0.5	-20%	0.3	0.1		0.2
Interest compensation	10.1	11.9	-15%	13.4	-25%	30.4	41.4	-27%	52.6
Total net gains / losses from financial items	-5.1	30.6		15.8		56.1	52.7	6%	68.3

NOTE 7 LOAN LOSSES AND IMPAIRED LOANS

Net loan losses, SEK M	Q 3 2016	Q 2 2016	Change	Q 3 2015	Change	Jan-Sep 2016	Jan-Sep 2015	Change	Full-Year 2015
Specific reserve for individually assessed loan receivables									
Write-off of confirmed loan losses during the period	-0.1	-0.4	-75%	-0.5	-80%	-0.7	-1.1	-36%	-1.4
Reversed earlier impairment of loan losses recognised as confirmed losses	0.0	0.2		0.7		0.4	1.2	-67%	1.2
Impairment of loan losses during the period	-1.7	-1.0	70%	-1.1	55%	-3.9	-3.6	8%	-4.4
Payment received for prior confirmed loan losses	0.6	0.7	-14%	0.6		1.9	1.9		2.6
Reversed impairment of loan losses no longer required	1.0	1.4	-29%	0.7	43%	3.2	8.3	-61%	9.0
Net expense for the year for individually assessed loan receivables	-0.2	1.0		0.4		1.0	6.7	-85%	7.0
Collective assessed homogenous groups of loan receivables with limited value and similar credit risk									
Provision / reversal of impairment of loan losses	0.0	0.1		2.8		0.0	2.8		2.8
Net expense for the year for collectively assessed receivables	0.0	0.1		2.8		0.0	2.8		2.8
Annual net expense for the year for fulfilment of guarantees	-	-		-		-	-		-
Net expense of loan losses for the period	-0.2	1.1		3.2		1.0	9.5	-89%	9.8

All information pertains to receivables from the public.

Impaired loans, SEK M	30 September 2016			31 December 2015			30 September 2015					
	Gross	Individual impairments	Collective impairments	Net	Gross	Individual impairments	Collective impairments	Net	Gross	Individual impairments	Collective impairments	Net
Corporate sector	-	-	-	-	-	-	-	-	-	-	-	-
Retail sector	0.0	-5.0	-25.4	-30.4	0.0	-4.7	-25.4	-30.1	0.0	-4.6	-25.4	-30.0
Total	0.0	-5.0	-25.4	-30.4	0.0	-4.7	-25.4	-30.1	0.0	-4.6	-25.4	-30.0

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 September, 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 1,197.2 M (1,455.1).

Due to credit institutions includes borrowings from the Parent Company of SEK 43,840.3 M (40,015.3).

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 Sep, 2016	31 Dec, 2015	30 Sep, 2015
Loans to the public before reservations			
Corporate sector	7,172.8	7,167.1	7,227.7
Retail sector	155,738.2	139,918.5	134,726.6
Total	162,910.9	147,085.6	141,954.3
Reservations	-30.4	-30.1	-30.0
Loans to the public	162,880.6	147,055.5	141,924.3
Remaining term of not more than 3 month	100,109.2	83,396.2	83,321.5
Remaining term of more than 3 months but not more than 1 year	12,992.1	15,980.7	13,633.3
Remaining term of more than 1 year but not more than 5 years	47,971.9	45,866.7	43,401.6
Remaining term of more than 5 years	1,807.4	1,811.9	1,567.9
Total	162,880.6	147,055.5	141,924.3

Definition

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

NOTE 10 DERIVATIVES

SEK M	30 Sep 2016		31 Dec 2015		30 Sep 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	82,817.0	3,096.6	65,771.0	2,203.2	71,300.0	2,710.1
Currency-related	22,967.8	3,434.9	13,606.6	1,961.7	13,606.6	2,280.8
<i>Other derivatives</i>						
Interest-related	5,000.0	0.4	-	-	-	-
Total derivatives with positive values	110,784.8	6,531.9	79,377.6	4,164.9	84,906.6	4,990.9
Derivatives with negative values						
<i>Derivatives in hedge accounting</i>						
Interest-related	57,850.0	1,004.6	72,125.0	1,139.7	66,555.0	1,241.1
Currency-related	3,213.2	134.7	7,699.4	570.6	7,606.2	393.0
<i>Other derivatives</i>						
Interest-related	5,000.0	0.4	-	-	-	-
Total derivatives with negative values	66,063.2	1,139.7	79,824.4	1,710.3	74,161.2	1,634.1

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 Sep 2016	31 Dec 2015	30 Sep 2015
For own liabilities, pledged assets			
Collateral pledged due to repurchase agreements	3,625.6	104.7	378.8
Loan receivables, covered bonds	153,417.4	137,484.4	132,299.0
Loan receivables, substitute collateral	9,675.0	8,775.0	9,325.0
Total for own liabilities, pledged assets	166,717.0	146,364.1	142,002.8
Other pledged assets	None	None	None
Commitments			
Loans approved but not disbursed	10,379.6	7,923.4	9,066.0

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 September 2016				
Assets				
Bonds and other interest-bearing securities	10,309.1			10,309.1
Derivatives		6,531.9		6,531.9
Liabilities				
Derivatives		1,139.7		1,139.7
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 September 2015				
Assets				
Bonds and other interest-bearing securities	9,954.5			9,954.5
Derivatives		4,990.9		4,990.9
Liabilities				
Derivatives		1,634.1		1,634.1

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 Sep 2016		31 Dec 2015		30 Sep 2015	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Financial assets						
Loans to credit institutions	5,475.4	5,475.4	4,395.3	4,395.3	3,924.5	3,924.5
Loans to the public	162,880.6	163,520.8	147,055.5	147,711.2	141,924.3	142,788.8
Bonds and other interest-bearing securities	10,309.1	10,309.1	9,344.8	9,344.8	9,954.5	9,954.5
Derivatives	6,531.9	6,531.9	4,164.9	4,164.9	4,990.9	4,990.9
Total	185,197.0	185,837.2	164,960.5	165,616.2	160,794.2	161,658.7
Financial Liabilities						
Due to credit institutions	48,085.4	48,085.4	41,267.7	41,267.7	40,965.0	40,965.0
Debt securities in issue	122,274.4	127,820.1	110,399.8	114,581.1	106,511.8	110,555.8
Derivatives	1,139.7	1,139.7	1,710.3	1,710.3	1,634.1	1,634.1
Other liabilities	6.7	6.7	6.8	6.8	46.8	46.8
Subordinated liabilities	1,001.0	1,007.9	1,001.0	1,001.6	1,001.0	1,033.4
Total	172,507.2	178,059.8	154,385.6	158,567.5	150,158.7	154,235.1

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 in the 2015 Annual Report.

NOT 13 CAPITAL-ADEQUACY

SEK M	30 Sep 2016	31 Dec 2015	30 Sep 2015
Total Equity	7,683.2	6,707.8	6,718.9
78 % of untaxed reserves	240.9	240.9	141.8
Own funds eligible for capital-adequacy	7,924.1	6,948.7	6,860.7
Adjustment for cash flow hedge	-56.0	-79.5	-111.3
IRB Provisions deficit (-) / surplus (+)	-79.6	-80.9	-82.0
Adjustment for prudent valuation	-18.0	-15.2	-16.6
Common Equity Tier 1 capital	7,770.5	6,773.1	6,650.8
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	8,771.5	7,780.8	7,651.8
Risk exposure amount according to CRD IV	17,582.2	18,119.9	17,842.0
Total Capital requirement according to CRD IV	1,406.6	1,449.6	1,427.4
Capital requirement for credit risk according to Standardised Approach	142.4	236.3	224.9
Capital requirement for credit risk according to IRB Approach	1,082.7	1,052.7	1,033.3
Capital requirement for operational risk	59.2	52.0	52.0
Capital requirement according to credit valuation adjustment	122.2	108.6	117.1
Core Tier 1 ratio according to CRD IV	44.2%	37.4%	37.3%
Tier 1 ratio according to CRD IV	44.2%	37.4%	37.3%
Capital adequacy ratio according to CRD IV	49.9%	42.9%	42.9%
Special disclosures			
IRB Provisions surplus (+) / deficit (-)	-79.6	-74.2	-82.0
- IRB Total provisions (+)	44.4	43.1	42.7
- IRB Anticipated loss (-)	-124.0	-117.3	-124.7
Capital requirement according to Basel I floor	6,793.6	6,023.3	5,847.6
Capital base adjusted according to Basel I floor	8,851.1	7,855.0	7,733.8
Surplus of capital according to Basel I floor	2,057.5	1,831.7	1,886.3

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	791.2	439.6	263.7	n/a	1,494.5
Tier 1 capital	1,054.9	439.6	263.7	n/a	1,758.2
Capital base	1,406.6	439.6	263.7	n/a	2,109.8
Core Tier 1 capital available for use as buffer					38.2%

NOT 13 CAPITAL-ADEQUACY ANALYSIS, CONTINUED

	30 Sep 2016		31 Dec 2015		30 Sep 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	57.3	716.1	159.3	1,991.4	143.7	1,796.3
Covered bonds	83.4	1,042.5	75.9	948.7	80.8	1,009.6
Other items	1.7	21.5	1.1	13.4	0.4	5.3
Total capital requirement and risk exposure amount	142.4	1,780.1	236.3	2,953.4	224.9	2,811.2
Credit risk according to IRB Approach						
<i>Retail exposures</i>						
Exposures secured by real estate collateral	814.7	10,183.7	772.4	9,655.6	754.8	9,434.5
Other retail exposures	2.7	33.7	2.8	34.4	2.6	32.5
Total retail exposures	817.4	10,217.4	775.2	9,690.0	757.4	9,467.0
Exposures to corporates	265.3	3,316.4	277.5	3,469.1	276.0	3,449.8
Total capital requirement and risk exposure amount	1,082.7	13,533.8	1,052.7	13,159.1	1,033.3	12,916.9
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	122.2	1,527.9	108.6	1,357.5	117.1	1,464.0

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, 25 October 2016

Anders Borgcrantz
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 September 2016 and the nine-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, 25 October 2016

Dan Beitner
Authorised Public Accountant

Financial calendar

Year-end report Länsförsäkringar Hypotek **10 February 2017**

Year-end report Länsförsäkringar Bank..... **10 February 2017**

This report contains such information that Länsförsäkringar Hypotek AB (publ) must publish in accordance with the Securities Market Act. The information was submitted for publication on 25 October 2016 at 11:00 a.m. Swedish time.

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