

Länsförsäkringar Hypotek

Interim Report January–March 2017

The period in brief

- Operating profit declined 8% to SEK 172.2 M (187.3) and the return on equity amounted to 6.6% (8.1).
- Net interest income increased 32% to SEK 490.6 M (371.9).
- Loan losses amounted to SEK -0.7 M (-0.1), net, corresponding to a loan loss level of -0.00% (-0.00).
- Lending increased 15% to SEK 174.2 billion (151.1).
- The Common Equity Tier 1 capital ratio amounted to 50.2% (44.1*) on 31 March 2017.
- The number of customers increased 8% to 236,000 (219,000).

* Refers to 31 December 2016.
Figures in parentheses pertain to the same period in 2016.

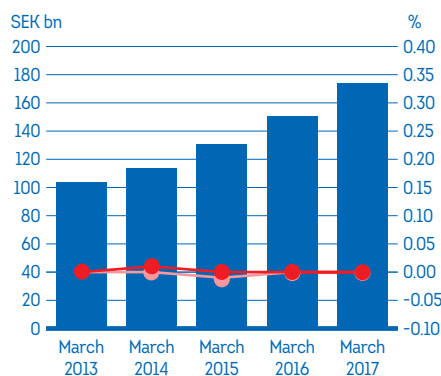
President's comment

Länsförsäkringar Hypotek's retail mortgage operations are continuing to perform strongly and we see an increase in the number of customers and we are successively growing our market shares. The high credit quality of the mortgage portfolio is the result of the conservative credit regulations and the stringent requirements placed on customers' repayment capacity as well as the quality of collateral. We are closely monitoring how the macroeconomic risks related to households' increasing indebtedness are managed and are following the trends in the housing market and continued rising housing prices.

Anders Borgcrantz

President of Länsförsäkringar Hypotek

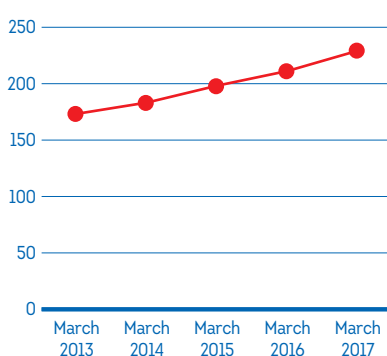
Loans to the public



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

Customer trend

Number of customers, 000s



Key figures

	Q1 2017	Q4 2016	Q1 2016	Full-Year 2016
Return on equity, %	6.6	6.5	8.1	6.7
Return on total capital, %	0.35	0.35	0.44	0.37
Investment margin, %	1.01	0.98	0.87	0.92
Cost/income ratio before loan losses	0.13	0.13	0.11	0.13
Common Equity Tier 1 capital ratio, %	50.2	44.1	40.8	44.1
Total capital ratio, %	55.9	49.7	46.2	49.7
Percentage of impaired loans, gross, %	0.00	0.00	0.00	0.00
Reserve ratio in relation to loans, %	0.01	0.02	0.02	0.02
Reserve ratio in relation to loans, incl. held remuneration to regional insurance companies, %	0.02	0.02	0.03	0.02
Loan loss level, %	0.00	-0.01*	0.00	0.00*

* Includes the dissolution of reserves.

Income statement, quarterly

SEK M	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net interest income	490.6	457.8	426.2	391.1	371.9
Net commission	-259.6	-257.0	-245.4	-241.5	-191.3
Net gains/losses from financial items	-33.1	-16.9	-5.1	30.6	30.6
Other operating income	0.0	0.1	0.0	0.0	0.1
Total operating income	197.8	183.9	175.6	180.2	211.2
Staff costs	-4.0	-2.9	-3.5	-4.5	-3.8
Other administration expenses	-22.2	-20.7	-20.5	-21.1	-20.1
Total operating expenses	-26.2	-23.7	-24.0	-25.7	-24.0
Profit before loan losses	171.5	160.2	151.6	154.6	187.2
Loan losses, net	0.7	3.8	-0.2	1.1	0.1
Operating profit	172.2	164.0	151.4	155.7	187.3

Market commentary

An optimistic outlook on growth characterised the first quarter of the year, which was reflected in the financial markets. Global stock markets rose in pace with the increasing optimism among companies and households, and were boosted by strong incoming economic data. The political climate remains unclear; at the end of March, the UK formally applied to leave the EU and uncertainty surrounds the outcome of President Trump's first budget proposal and the French presidential election.

With historically low volatility, the fixed-income market was stable during the period. Short-term interest rates increased as a result of the Federal Reserve raising the rate in March and market expectations of future raises. Long-term interest rates were largely unchanged which, given the strong stock-market trend and favourable economic climate, could indicate that doubts remain regarding future pressure on inflation. The ECB did not change its key interest rate or the deposit facility rate in the quarter and continued the pace of its corporate sector purchase programme. But the March me-

eting concluded that the risk profile had improved. The market interpreted this as the ECB moving slowly towards an interest-rate hike and that the next step could be discontinuing the bond-purchasing stimulus, which led to a rise in European interest rates. However, continued low core inflation and high unemployment rates mean that stimulus measures are still warranted. The Riksbank did not alter its key interest rate or bond-buying programme at its February meeting, but extended the mandate that facilitates a quick intervention on the foreign exchange market to October. The Riksbank still expects to raise the rate in the second quarter of 2018. Rates on covered bonds were largely unchanged during the quarter and demand from investors was high.

The real-economic performance at the start of the year was mostly positive. Growth figures for the fourth quarter of 2016 were revised upward, indicating the sustained strength of the global economic climate. Leading indicators also suggest initial healthy growth. However, hopes of a rapid fiscal stimulus in the US were diminished, although

strong private demand means that the economic outlook remains positive nevertheless. The tight labour market could hamper the rate of growth in the future. The economic scenario for Europe was somewhat brighter than previously; neither Brexit nor prevailing political uncertainty seem to have burdened companies and households - on the contrary, they are increasingly positive.

Optimism in Sweden is high and the domestic economy is improving. The inflation trend has generally surpassed expectations, with the upturn mainly driven by rising energy and food prices. Underlying inflation remains very low in Europe, Sweden included. The SEK strengthened marginally against the USD in the quarter, while the SEK/EUR rate was largely unchanged. Housing prices continued to rise again in the quarter following a slightly more cautious end to 2016.

First quarter of 2017 compared with first quarter of 2016

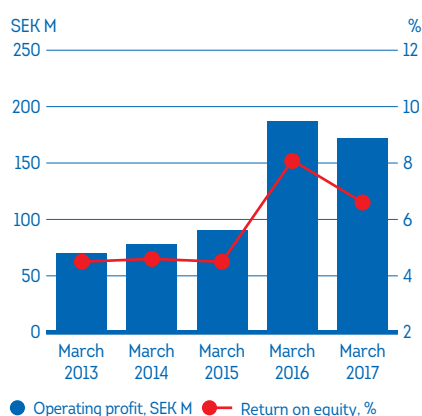
Growth and customer trend

Loans to the public increased 15%, or SEK 23.1 billion, to SEK 174.2 billion (151.1), with continued very high credit quality. The number of customers rose 8%, or 17,000, to 236,000 (219,000), and 87% (86) of retail mortgage customers have Länsförsäkringar as their primary bank.

Earnings and profitability

Operating profit declined 8% to SEK 172.2 M (187.3) attributable to unrealised changes in value in net gains from financial transactions. The investment margin strengthened to 1.01% (0.87). Profit before loan losses declined 8% to SEK 171.5 M (187.2). The return on equity amounted to 6.6% (8.1). The change was mainly the result of increased capital from the capital contribution received from the Parent Company.

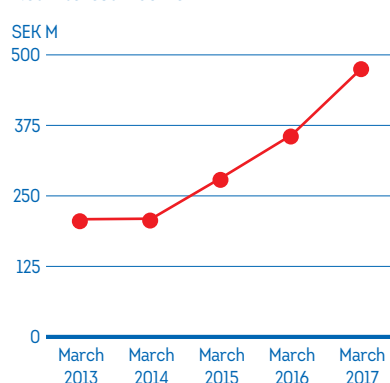
Operating profit and return on equity



Income

Operating income declined 6% to SEK 197.8 M (211.2) attributable to unrealised changes in value in net gains from financial transactions. Net interest income increased 32% to SEK 490.6 M (371.9), due to higher volumes and lower refinancing costs. Net losses from financial items amounted to SEK -33.1 M (gains: 30.6). Net commission amounted to SEK -259.6 M (-191.3), as a result of increased remuneration to the regional insurance companies due to a favourable volume trend and the strengthened profitability of the business.

Net interest income



Expenses

Operating expenses amounted to SEK 26.3 M (24.0). The cost/income ratio before loan losses amounted to 0.13 (0.11).

Loan losses

Loan losses amounted to SEK -0.7 M (-0.1), net, corresponding to a loan loss level of -0.00% (-0.00). Impaired loans, gross, amounted to SEK 0.0 M (1.0), corresponding to a percentage of impaired loans, gross, of 0.00% (0.00). Reserves amounted to SEK 26.7 M (30.4), corresponding to a reserve ratio in relation to loans of 0.01% (0.02). In addition, SEK 14.8 M (14.3) of the remuneration to the regional insurance companies is withheld in accordance with the settlement model. The reserve ratio in relation to loans, including withheld remuneration to the regional insurance companies, was 0.02% (0.03).

For more information regarding loan losses, reserves and impaired loans, see notes 6 and 8.

Loans

All loans are granted in Sweden and in SEK. Loans to the public increased 15%, or SEK 23.1 billion, to SEK 174.2 billion (151.1). The credit quality of the loan portfolio, comprising 72% (73) single-family homes, 23% (22) tenant-owned apartments and 5% (5) multi-family housing, remained favourable. On 28 February 2017, the market share of retail mortgages had strengthened to 5.9% (5.5) according to Statistics Sweden.

Cover pool

The cover pool, which forms the basis of issuance of covered bonds, contains SEK 164.8 billion, corresponding to 95% of the loan portfolio. The collateral comprises only private homes, of which 73% (74) are single-family homes, 25% (23) tenant-owned apartments and 2% (2) vacation homes. The

geographic spread throughout Sweden is favourable and the average loan commitment is low at SEK 1.13 M (1.05). The weighted average loan-to-value ratio, LTV, was 58% (60) and the nominal, current OC (overcollateralisation) amounted to 30% (41). 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 loan-to-value ratio of 65% (67) on 31 March 2017. No impaired loans are included in the cover pool. Länsförsäkringar Hypotek's cover pool has a healthy buffer to manage any downturns in housing prices. According to Moody's report (Global Covered Bonds Monitoring Overview) from 10 November 2016, the assets in Länsförsäkringar Hypotek's cover pool continue to maintain the highest credit quality among all Swedish covered-bond issuers, and are among the foremost in Europe.

Cover pool	31 Mar 2017	31 Mar 2016
Cover pool, SEK billion	174	150
OC ¹ , nominal level, %	30	41
Weighted average LTV, %	58	60
Collateral	Private homes	Private homes
Seasoning, months	59	59
Number of loans	328,250	299,912
Number of borrowers	146,270	135,355
Number of properties	145,976	135,198
Average commitment, SEK 000s	1 129	1 047
Average loan, SEK 000s	502	472
Interest rate type, variable, %	67	63
Interest rate type, fixed, %	33	37
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 26% to SEK 139.0 billion (110.6). Issued covered bonds during the quarter totalled a nominal SEK 14.4 billion (7.9) and repurchases of a nominal SEK 2.1 billion (0.1) were executed. Matured covered bonds amounted to a nominal SEK 0.0 billion (8.0). In March, Länsförsäkringar Hypotek issued a seven-year Euro benchmark-covered bond for a nominal EUR 500 M. Demand was high and the transaction was well-received by the market. In addition, Länsförsäkringar Hypotek issued a new Swedish benchmark bond (LF516) during the period, with maturity in September 2023.

Liquidity

On 31 March 2017, the liquidity reserve totalled SEK 9.6 billion (9.5), according to the Swedish Bankers' Association's definition. The liquidity situation remained healthy and the survival horizon was more than two years. The liquidity reserve comprised 100% (100) Swedish covered bonds with the credit rating of AAA/Aaa.

Rating

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

Capital ratio¹

Länsförsäkringar Hypotek AB (SEK M)	31 Mar 2017	31 Dec 2016
IRB Approach	14,323	13,860
retail exposures	10,971	10,510
exposures to corporates	3,352	3,350
Standardised Approach	1,506	2,356
Operational risks	915	740
Total REA	17,562	17,894
Common Equity Tier 1 capital	8,817	7,891
Tier 1 capital	8,817	7,891
Total capital	9,818	8,892
Common Equity Tier 1 capital ratio	50.2%	44.1%
Tier 1 ratio	50.2%	44.1%
Total capital ratio	55.9%	49.7%

The Common Equity Tier 1 capital ratio amounted to 50.2% (44.1). Common Equity Tier 1 capital strengthened SEK 926 M during the first quarter, mainly due to generated profit and the capital contribution received from the Parent Company.

On 31 March 2017, the total Risk Exposure Amount (REA) amounted to SEK 17,562 M (17,894). For more information on capital adequacy, see note 12.

¹ The comparative period is 31 December 2016.

Internally assessed capital requirement and buffer

The internally assessed capital requirement for Länsförsäkringar Hypotek AB on 31 March 2017 amounted to SEK 1,767 M, comprising the minimum capital requirement under Pillar I and the capital requirement for risks managed under Pillar II. The internally assessed capital requirement is calculated based on the methods and models used to calculate the capital requirement under the framework of Pillar I. Internal models are used for Pillar II risks.

In addition to this, there is the capital requirement for the risk weight floor for Swedish mortgages, the countercyclical capital buffer and the capital conservation buffer. The risk weight floor for mortgages of 25% entailed a capital requirement of SEK 3,936 M as at 31 March 2017. The countercyclical capital buffer at 2% of REA totalled SEK 351 M. This capital conservation buffer that is to correspond to 2.5% of REA amounted to SEK 439 M on 31 March 2017.

The capital meeting the internal capital requirement including buffer, own funds, amounted to SEK 9,818 M.

Interest-rate risk

On 31 March 2017, 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 16.6 M (decrease: 5.8).

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, 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 2016 Annual Report. No significant changes in the allocation of risk have taken place compared with the description provided in the Annual Report.

First quarter of 2017 compared with fourth quarter of 2016

Operating profit increased 5% to SEK 172.2 M (164.0), due to higher net interest income. Return on equity amounted to 6.6% (6.5). Operating income increased 8% to SEK 197.8 M (183.9). Net interest income increased 7% to SEK 490.6 M (457.8). Net losses from financial items amounted to SEK -33.1 M (-16.9) as a result of changes in fair value. Commission expense amounted to SEK 260.2 M (257.5). Operating expenses amounted to SEK 26.3 M (23.7) and the cost/income ratio before loan losses to 0.13% (0.13). Loan losses amounted to SEK -0.7 M (-3.8).

Events after the end of the period

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

Rating

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

[†] Pertains to the company's covered bonds.

Income statement

SEK M	Note	Q1 2017	Q4 2016	Change	Q1 2016	Change	Full-Year 2016
Interest income		656.9	628.6	5%	559.0	18%	2,355.6
Interest expense		-166.3	-170.8	-3%	-187.2	-11%	-708.7
Net interest income	3	490.6	457.8	7%	371.9	32%	1,646.9
Commission income		0.6	0.5	20%	0.6		2.2
Commission expense		-260.2	-257.5	1%	-191.9	36%	-937.5
Net commission income	4	-259.6	-257.0	1%	-191.3	36%	-935.3
Net gains/losses from financial items	5	-33.1	-16.9	96%	30.6		39.1
Other operating income		0.0	0.1		0.1		0.2
Total operating income		197.8	183.9	8%	211.2	-6%	751.0
Staff costs		-4.0	-2.9	38%	-3.8	5%	-14.8
Other administration expenses		-22.2	-20.7	7%	-20.1	10%	-82.5
Total operating expenses		-26.2	-23.6	11%	-24.0	9%	-97.3
Depreciation and impairment of tangible assets		-0.1	0.0		0.0		-0.1
Total operating expenses		-26.3	-23.6	11%	-24.0	10%	-97.4
Profit before loan losses		171.5	160.2	7%	187.2	-8%	653.6
Loan losses, net	6	0.7	3.8	-82%	0.1		4.8
Operating profit		172.2	164.0	5%	187.3	-8%	658.4
Appropriations		6.2	-150.0		-		-150.0
Tax		-39.2	-12.5		-41.2	-5%	-121.1
Profit for the period		139.2	1.5		146.1	-5%	387.3

Statement of comprehensive income

SEK M	Q1 2017	Q4 2016	Change	Q1 2016	Change	Full-Year 2016
Profit for the period	139.2	1.5		146.1	-5%	387.3
Other comprehensive income						
Items that have been reclassified or may subsequently be reclassified to the income statement						
Cash-flow hedges	-65.0	-70.6	-8%	71.5		-100.7
Change in fair value from available-for-sale financial assets	0.8	0.2		-0.5		17.1
Tax attributable to items that have been transferred or can be transferred to profit for the period	14.1	15.5	-9%	-15.6		18.4
Total other comprehensive income for the period, net after tax	-50.1	-54.9	-9%	55.4		-65.2
Total comprehensive income for the period	89.1	-53.4		201.5	-81%	322.1

Balance sheet

SEK M	Note	31 Mar 2017	31 Dec 2016	31 Mar 2016
Assets				
Loans to credit institutions	7	9,747.2	4,614.7	2,376.9
Loans to the public	8	174,231.5	168,947.9	151,146.5
Bonds and other interest-bearing securities		9,617.9	9,313.9	9,503.2
Derivatives	9	5,348.9	5,744.5	5,981.4
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		415.5	536.4	868.2
Tangible assets		0.4	0.5	0.6
Deferred tax assets		14.0	-	2.9
Other assets		11.2	23.2	3.7
Prepaid expenses and accrued income		21.0	46.6	33.5
Total assets		199,407.8	189,227.6	169,916.9
Liabilities, provisions and equity				
Due to credit institutions	7	44,023.7	47,002.4	42,274.6
Debt securities in issue		138,997.7	126,887.9	110,622.9
Derivatives	9	1,082.1	1,138.7	1,775.0
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		2,624.5	3,027.2	3,868.7
Deferred tax liabilities		-	0.3	-
Other liabilities		89.8	77.9	84.5
Accrued expenses and deferred income		2,616.5	2,002.6	2,471.1
Provisions		1.0	1.0	0.9
Subordinated liabilities		1,001.0	1,001.0	1,001.0
Total liabilities and provisions		190,436.3	181,139.0	162,098.8
Untaxed reserves		452.6	458.8	308.8
Equity				
Share capital		70.3	70.3	70.3
Statutory reserve		14.1	14.1	14.1
Fair value reserve		-25.7	24.4	145.0
Retained earnings		8,321.1	7,133.8	7,133.8
Profit for the period		139.2	387.3	146.1
Total equity		8,518.9	7,629.9	7,509.4
Total liabilities, provisions and equity		199,407.8	189,227.6	169,916.9
Other notes				
Accounting policies	1			
Segment reporting	2			
Pledged assets, contingent liabilities and commitments	10			
Fair value valuation techniques	11			
Capital-adequacy analysis	12			
Disclosures on related parties	13			

Cash-flow statement in summary, indirect method

SEK M	Jan-Mar 2017	Jan-Mar 2016
Cash and cash equivalents, 1 January	11.5	17.0
Cash flow from operating activities	-801.7	-604.4
Cash flow from investing activities	0.0	0.0
Cash flow from financing activities	800.0	600.0
Cash flow for the period	-1.7	-4.4
Cash and cash equivalents, 31 March	9.8	12.6

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 -5,284.0 (-4,091.3) M, Loans to credit institutions to SEK -5,134.2 (2,016.7) M and Debt securities in issue to SEK 12,346.8 (36.3) Mkr. Changes to the cash flow from the financing activities are largely attributable to shareholder's contribution received SEK 800.0 (600.0) M.

Statement of changes in Shareholders' equity

SEK M	Restricted equity		Non-restricted equity				Total
	Share capital	Statutory reserve	Fair value reserve			Profit for the period	
			Fair value reserve	Hedge reserve	Retained earnings		
Opening balance, 1 January 2016	70.3	14.1	10.1	79.5	6,225.5	308.3	6,707.8
Profit for the period						146.1	146.1
Other comprehensive income for the period			-0.4	55.8			55.4
<i>Comprehensive income for the period</i>			<i>-0.4</i>	<i>55.8</i>		<i>146.1</i>	<i>201.5</i>
Resolution by Annual General Meeting					308.3	-308.3	-
Conditional shareholders' contribution received					600.0		600.0
Closing balance, 31 March 2016	70.3	14.1	9.7	135.3	7,133.8	146.1	7,509.4
Opening balance, 1 April 2016	70.3	14.1	9.7	135.3	7,133.8	146.1	7,509.4
Profit for the period						241.2	241.2
Other comprehensive income for the period			13.7	-134.3			-120.6
<i>Comprehensive income for the period</i>			<i>13.7</i>	<i>-134.3</i>		<i>241.2</i>	<i>120.6</i>
Closing balance, 31 December 2016	70.3	14.1	23.4	1.0	7,133.8	387.3	7,629.9
Opening balance, 1 January 2017	70.3	14.1	23.4	1.0	7,133.8	387.3	7,629.9
Profit for the period						139.2	139.2
Other comprehensive income for the period			0.6	-50.7			-50.1
<i>Comprehensive income for the period</i>			<i>0.6</i>	<i>-50.7</i>		<i>139.2</i>	<i>89.1</i>
Resolution by Annual General Meeting					387.3	-387.3	-
Conditional shareholders' contribution received					800.0		800.0
Closing balance, 31 March 2017	70.3	14.1	24.0	-49.7	8,321.1¹	139.2	8,518.9

¹The shareholders' contributions that have been paid are conditional and the Parent Company Länsförsäkringar Bank AB (publ) is entitled to receive repayment of the contributions from the unappropriated earnings of Länsförsäkringar Hypotek AB (publ), provided that approval is obtained from the general meeting. On 31 March 2017, the amount of the conditional shareholders' contribution received was SEK 4,460.6 (4,460.6) M.

Notes

Amounts in SEK million if not otherwise stated.

Note 1 Accounting policies

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

Changes to 2017 reporting

The company has decided to present financial instruments measured at fair value including accrued interest, which conforms with the classifications in the CRR regulations. The change has affected the comparative figures in the balance sheet as of 2016-12-31. Assets that have been affected are: Derivatives has increased with SEK 574 M, Bonds and other interest-bearing securities has increased with SEK 112 M and Prepaid expenses and accrued income has decreased with SEK 687 M. Liabilities that have been affected are: Derivatives has increased with SEK 138 M and Accrued expenses and deferred income decreased with SEK 138 M. Comparative figures and performance measures have been updated to the new classification. The change has not affect equity.

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.

NEW IFRS AND INTERPRETATIONS THAT HAVE NOT YET BEEN APPLIED

IFRS 9 Financial instruments

IFRS 9 Financial Instruments will take effect on 1 January 2018. The standard contains new requirements for the classification and measurement of financial instruments, an expected loss impairment model and hedge accounting rules. The company's project on implementing the new accounting regulations is progressing according to plan. A key milestone in the project is the implementation of a system solution for calculating expected credit losses. The system is currently being tested and is scheduled to be completed in the next quarter. A method for integrating prospective information in the model has been prepared and other standpoints and definitions based on the credit loss rules have been established. The parts of the project that involve classification, measurement and hedge accounting are in the final phase.

IFRS 15 Revenue from Contracts with Customers

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 consolidated financial statements except for enhanced disclosure requirements.

In all other respects, the interim report has been prepared in accordance with the same accounting policies and calculation methods applied in the 2016 Annual Report.

Note 3	Net interest income					
SEK M	Q1 2017	Q4 2016	Change	Q1 2016	Change	Full-Year 2016
Interest income						
Loans to credit institutions	13.8 ¹	2.6		7.4	86%	12.4
Loans to the public	786.3	768.1	2%	735.1	7%	3,004.3
Interest-bearing securities	25.3 ¹	31.0	-18%	40.2	-37%	144.4
Derivatives	-168.6	-173.3	-3%	-223.8	-25%	-805.6
Other interest income	0.0	0.1		0.0		0.1
Total interest income	656.9	628.6	5%	559.0	18%	2,355.6
Interest Expense						
Due to credit institutions	-112.1 ¹	-114.0	-2%	-98.9	13%	-412.3
Dept securities in issue	-454.4	-442.0	3%	-492.7	-8%	-1,853.8
Subordinated liabilities	-3.6	-3.9	-8%	-4.1	-12%	-15.9
Derivatives	430.3	398.4	8%	425.6	1%	1,621.3
Other interest expense	-26.5	-9.3		-17.2	54%	-48.0
Total interest expense	-166.3	-170.8	-3%	-187.2	-11%	-708.7
Total net interest income	490.6	457.8	7%	371.9	32%	1,646.9
Average interest rate on loans to the public during the period, %	1.8	1.9		2.0		1.9

¹ Of which negative interest of Loans to credit institutions SEK -1,4 M, Interest-bearing securities SEK -0,7 M and Due to credit institutions SEK 1,4 M.

Note 4	Commission income					
SEK M	Q1 2017	Q4 2016	Change	Q1 2016	Change	Full-Year 2016
Commission income						
Loans	0.6	0.5	20%	0.6		2.2
Total commission income	0.6	0.5	20%	0.6		2.2
Commission Expense						
Remuneration to regional insurance companies	-260.1	-257.3	1%	-190.8	36%	-936.0
Other commission	-0.1	-0.2	-50%	-1.1	-91%	-1.6
Total commission expense	-260.2	-257.5	1%	-191.9	36%	-937.5
Total commission income	-259.6	-257.0	1%	-191.3	36%	-935.3

Note 5	Net gains / losses from financial items					
SEK M	Q1 2017	Q4 2016	Change	Q1 2016	Change	Full-Year 2016
Interest-bearing assets and liabilities and related derivatives	-40.0	-24.2	65%	22.2		1.2
Other financial assets and liabilities	0.6	-0.1		0.0		0.2
Interest compensation	6.3	7.3	-14%	8.4	-25%	37.8
Total net gains / losses from financial items	-33.1	-16.9	96%	30.6		39.1

Note 6	Loan losses and impaired loans					
Net loan losses, SEK M	Q1 2017	Q4 2016	Change	Q1 2016	Change	Full-Year 2016
Specific reserve for individually assessed loan receivables						
Write-off of confirmed loan losses during the period	-0.3	-0.1		-0.2	50%	-0.7
Reversed earlier impairment of loan losses recognised as confirmed losses	0.1	0.0		0.2	-50%	0.4
Impairment of loan losses during the period	-0.4	-1.1	-64%	-1.2	-67%	-5.0
Payment received for prior confirmed loan losses	0.7	0.5	40%	0.6	17%	2.4
Reversed impairment of loan losses no longer required	0.8	3.3	-76%	0.8		6.5
Net expense for the year for individually assessed loan receivables	0.8	2.7	-70%	0.2		3.7
Collective assessed homogenous groups of loan receivables with limited value and similar credit risk						
Provision / reversal of impairment of loan losses	-0.1	1.1		-0.1		1.1
Net expense for the year for collectively assessed receivables	-0.1	1.1		-0.1		1.1
Annual net expense for the year for fulfillment of guarantees				-		
Net expense of loan losses for the period	0.7	3.8	-82%	0.1		4.8

All information pertains to receivables from the public.

Impaired loans, SEK M	31 March 2017			31 December 2016			31 March 2016					
	Gross	Individual impairments	Collective impairments	Net	Gross	Individual impairments	Collective impairments	Net	Gross	Individual impairments	Collective impairments	Net
Retail sector		-2.3	-24.4	-26.7	-	-2.7	-24.3	-27.0	1.0	-4.9	-25.5	-29.4
Total		-2.3	-24.4	-26.7	-	-2.7	-24.3	-27.0	1.0	-4.9	-25.5	-29.4

The settlement model regarding the commitment that the regional insurance companies have for loan losses related to the business they have originated, entails that the regional insurance companies cover 80% of the provision requirement on the date when an impairment is identified. Off-setting takes place against, and can amount to a maximum of, accrued commission. Remuneration corresponding to 80% of the provision requirement is withheld on every occasion until the lending mediated by the regional insurance company has been regulated. On 31 March 2017, the total credit reserve requirement amounted to SEK 42 M of which Länsförsäkringar Hypoteks recognised credit reserve accounted for SEK 27 M and the remainder of SEK 15 M was offset against the regional insurance companies' withheld funds, according to the model described above.

Note 7	Loans / due to credit institutions
---------------	---

Loans to credit institutions include deposits with the Parent Company of SEK 7,985.1 (1,394.4) M. Due to credit institutions includes borrowings from the Parent Company of SEK 42,551.2 (41,249.1) M.

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

Note 8	Loans to the public Loan receivables are geographically attributable in their entirety to Sweden		
SEK M	31 Mar 2017	31 Dec 2016	31 Mar 2016
Corporate sector	7,033.0	7,136.2	7,213.8
Retail sector	167,225.3	161,838.6	143,963.2
Loans to the public before reserves	174,258.3	168,974.9	151,177.0
Reservations	-26.7	-27.0	-30.4
Loans to the public	174,231.5	168,947.9	151,146.5
Fixed-interest period			
Remaining term of not more than 3 month	110,136.1	106,118.5	87,877.3
Remaining term of more than 3 months but not more than 1 year	25,545.4	15,444.7	17,299.4
Remaining term of more than 1 year but not more than 5 years	37,319.9	45,649.4	44,681.2
Remaining term of more than 5 years	1,230.2	1,735.2	1,288.6
Loans to the public	174,231.5	168,947.9	151,146.5

Definition

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

Note 9	Derivatives					
SEK M	31 Mar 2017		31 Dec 2016		31 Mar 2016	
	Nominal value	Fair value	Nominal value	Fair value	Nominal value	Fair value
Derivatives with positive values						
<i>Derivatives in hedge accounting</i>						
Interest-related	91,232.0	2,528.4	83,647.0	2,629.2	74,697.0	3,447.7
Currency-related	23,517.5	2,819.9	22,967.8	3,115.3	18,335.3	2,533.7
<i>Other derivatives</i>						
Interest-related	10,000.0	0.6	-	-		
Total derivatives with positive values	124,749.5	5,348.9	106,614.8	5,774.5	93,032.3	5,981.4
Derivatives with negative values						
<i>Derivatives in hedge accounting</i>						
Interest-related	61,085.0	819.8	61,530.0	960.7	61,240.0	1,391.2
Currency-related	7,981.7	262.2	3,123.2	177.9	3,213.3	383.8
<i>Other derivatives</i>						
Interest-related	1,000.0	0.1	2,000.0	0.1		
Total derivatives with negative values	70,066.7	1,082.1	66,743.2	1,138.7	64,453.3	1,775.0

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 10	Pledged assets, contingent liabilities and commitments		
SEK M	31 Mar 2017	31 Dec 2016	31 Mar 2016
For own liabilities, pledged assets	175,064.8	168,137.0	151,212.4
Commitments	12,492.7	9,545.0	10,679.9

SEK M	31 Mar 2017		31 Dec 2016		31 Mar 2016	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Financial assets						
Loans to credit institutions	9,747.2	9,747.2	4,614.7	4,614.7	2,376.9	2,376.9
Loans to the public	174,231.5	174,664.5	168,947.9	169,562.9	151,146.5	151,649.6
Bonds and other interest-bearing securities	9,617.9	9,617.9	9,313.9	9,313.9	9,503.2	9,503.2
Derivatives	5,348.9	5,348.9	5,744.5	5,744.5	5,981.4	5,981.4
Total	198,945.5	199,378.5	188,621.0	189,236.0	169,008.0	169,511.1
Financial Liabilities						
Due to credit institutions	44,023.7	44,023.7	47,002.4	47,002.4	42,274.6	42,274.6
Debt securities in issue	138,997.7	144,104.0	126,887.9	131,774.9	110,622.9	116,103.1
Derivatives	1,082.1	1,082.1	1,138.7	1,138.7	1,775.0	1,775.0
Other liabilities	7.2	7.2	6.7	6.7	21.4	21.4
Subordinated liabilities	1,001.0	1,105.3	1,001.0	1,023.3	1,001.0	1,029.8
Total	185,111.7	190,322.3	176,036.7	180,946.0	155,694.9	161,203.9

The carrying amount of loans to credit institutions, due to credit institutions and other liabilities comprises a reasonable approximation of the fair value based on the cost of the assets and liabilities.

Gains and losses are recognised in profit and loss under "net gains from financial items."

Determination of fair value through published price quotations or valuation techniques where				
Level 1 includes Instruments with published price quotations				
Level 2 includes Valuation techniques based on observable market prices				
Level 3 includes Valuation techniques based on unobservable market price				
Financial instruments measured at fair value in the balance sheet				
31 March 2017, SEK M	Level 1	Level 2	Level 3	Total
Assets				
Bonds and other interest-bearing securities	9,617.9			9,617.9
Derivatives		5,348.9		5,348.9
Liabilities				
Derivatives		1,082.1		1,082.1
31 December 2016, SEK M				
Assets				
Bonds and other interest-bearing securities	9,313.9			9,313.9
Derivatives		5,744.5		5,744.5
Liabilities				
Derivatives		1,138.7		1,138.7
31 March 2016, SEK M				
Assets				
Bonds and other interest-bearing securities	9,503.2			9,503.2
Derivatives		5,981.4		5,981.4
Liabilities				
Derivatives		1,775.0		1,775.0

Derivatives in Level 2 essentially refer to swaps for which fair value has been calculated by discounting expected future cash flows.

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

Note 11 Fair value valuation techniques, continued**Financial instruments measured at amortised cost in the balance sheet**

31 March 2017, SEK M	Level 1	Level 2	Level 3	Total
Assets				
Loans to the public		174,664.5		174,664.5
Liabilities				
Debt securities in issue		144,104.0		144,104.0
Subordinated liabilities		1,105.3		1,105.3
31 December 2016				
Assets				
Loans to the public		169,562.9		169,562.9
Liabilities				
Debt securities in issue		131,774.9		131,774.9
Subordinated liabilities		1,023.3		1,023.3
31 March 2016				
Assets				
Loans to the public		151,649.6		151,649.6
Liabilities				
Debt securities in issue		116,103.1		116,103.1
Subordinated liabilities		1,029.8		1,029.8

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

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

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

Note 12	Capital-adequacy				
SEK M	31 Mar 2017	31 Dec 2016	31 Mar 2016		
Total Equity	8,518.9	7,629.9	7,509.4		
78 % of untaxed reserves	353.0	357.9	240.9		
Own funds eligible for capital-adequacy	8,871.9	7,987.8	7,750.3		
Adjustment for cash flow hedge	49.7	-1.0	-135.3		
IRB Provisions deficit (-) / surplus (+)	-89.5	-80.9	-84.3		
Adjustment for prudent valuation	-15.0	-15.4	-16.1		
Common Equity Tier 1 capital	8,817.1	7,890.5	7,514.6		
Tier 2 instruments	1,001.0	1,001.0	1,001.0		
IRB Provisions deficit (-) / surplus (+)	-	-	5.4		
Tier 2 capital	1,001.0	1,001.0	1,006.4		
Total Own funds	9,818.1	8,891.5	8,521.0		
Risk exposure amount according to CRD IV	17,562.4	17,893.6	18,438.8		
Total Capital requirement according to CRD IV	1,405.0	1,431.5	1,475.1		
Capital requirement for credit risk according to Standardised Approach	120.5	188.5	209.3		
Capital requirement for credit risk according to IRB Approach	1,145.9	1,108.8	1,086.4		
Capital requirement for operational risk	73.2	59.2	59.2		
Capital requirement according to credit valuation adjustment	65.4	75.0	120.2		
Core Tier 1 ratio according to CRD IV	50.2%	44.1%	40.8%		
Tier 1 ratio according to CRD IV	50.2%	44.1%	40.8%		
Capital adequacy ratio according to CRD IV	55.9%	49.7%	46.2%		
Special disclosures					
IRB Provisions surplus (+) / deficit (-)	-89.5	-80.9	-78.9		
- IRB Total provisions (+)	41.6	43.1	44.7		
- IRB Anticipated loss (-)	-131.0	-124.0	-123.6		
Capital requirement according to Basel I floor	7,282.3	6,992.2	6,273.1		
Capital base adjusted according to Basel I floor	9,907.6	8,972.4	8,599.9		
Surplus of capital according to Basel I floor	2,625.3	1,980.2	2,326.8		
	Minimum capital requirements	Capital conservation buffer	Counter-cyclical buffer	Systemic risk buffer	Total
Minimum capital requirements and buffers					
Core Tier 1 capital	4.5%	2.5%	2.0%	n/a	8.5%
Tier 1 capital	6.0%	2.5%	2.0%	n/a	10.0%
Capital base	8.0%	2.5%	2.0%	n/a	12.0%
SEK M					
Core Tier 1 capital	790.3	439.1	351.2	n/a	1,580.6
Tier 1 capital	1,053.7	439.1	351.2	n/a	1,844.0
Capital base	1,405.0	439.1	351.2	n/a	2,195.3
Core Tier 1 capital available for use as buffer					45.7%

SEK M	Capital-adequacy analysis, continued					
	31 Mar 2017		31 Dec 2016		31 Mar 2016	
	Capital requirement	Risk exposure amount	Capital requirement	Risk exposure amount	Capital requirement	Risk exposure amount
Credit risk according to Standardised Approach						
Exposures to institutions	40.4	505.1	113.6	1,419.8	132.3	1,653.8
Covered bonds	77.0	962.1	74.5	931.6	76.0	950.3
Other items	3.1	38.8	0.4	4.8	1.0	12.0
Total capital requirement and risk exposure amount	120.5	1,506.0	188.5	2,356.3	209.3	2,616.2
Credit risk according to IRB Approach						
<i>Retail exposures</i>						
Exposures secured by real estate collateral	36.0	450.3	33.9	423.2	38.4	480.0
Other retail exposures	840.3	10,503.3	804.6	10,058.1	766.0	9,575.0
Other retail exposures, small and medium-sized businesses	0.2	2.8	0.2	2.9	0.3	3.9
Other retail exposures	1.2	14.8	2.1	26.1	2.9	35.6
Total retail exposures	877.7	10,971.2	840.8	10,510.2	807.6	10,094.6
Exposures to corporates	268.2	3,352.3	268.0	3,349.7	278.8	3,485.2
Total capital requirement and risk exposure amount	1,145.9	14,323.5	1,108.8	13,859.9	1,086.4	13,579.7
Operational risk						
Standardised Approach	73.2	915.3	59.2	740.4	59.2	740.4
Total capital requirement for operational risk	73.2	915.3	59.2	740.4	59.2	740.4
Total capital requirement for credit valuation adjustments	65.4	817.7	75.0	937.1	120.2	1,502.5

Note 13	Disclosures on related parties
----------------	---------------------------------------

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

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, 5 May 2017

Anders Borgcrantz
President

Auditor's report on review of interim report prepared in accordance with Chapter 9 of the Annual Accounts Act

To the Board of Directors of Länsförsäkringar Hypotek AB (publ)

Corp. id. 556244-1781

Introduction

I have reviewed the attached interim report of Länsförsäkringar Hypotek AB (publ) as of 31 March 2017 and the three-month period then ended. The Board of Directors and the Managing Director are responsible for the preparation and presentation of this interim report in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. My responsibility is to express a conclusion on this interim financial information report based on my review.

Scope of review

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

Conclusion

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

Stockholm 5 May 2017

Dan Beitner
Authorized Public Accountant

Financial calendar

Interim report January–August Länsförsäkringar Bank 10 august 2017

Interim report January–August Länsförsäkringar Hypotek 10 august 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 5 May 2017 at 12:00 a.m. Swedish time.

For further information, please contact:

Anders Borgcrantz, President, Länsförsäkringar Hypotek AB
anders.borgcrantz@lansforsakringar.se, +46 (0)8-588 412 51, +46 (0)73-964 12 51

Martin Rydin, Vice Executive President, Länsförsäkringar Hypotek AB,
martin.rydin@lansforsakringar.se, +46 (0)8-588 412 79, +46 (0)73-964 28 23

Stefan Karkamanis, Investor Relations, Länsförsäkringar Bank AB
stefan.karkamanis@lansforsakringar.se, +46 (0)8-588 402 90, +46 (0)72-147 22 93

Länsförsäkringar Hypotek AB (publ),
Corporate Registration Number 556244-1781,
Street address: Tegeluddsvägen 11-13,
Postal address: 106 50 Stockholm,
Telephone: +46 (0)8-588 400 00