

Länsförsäkringar Hypotek

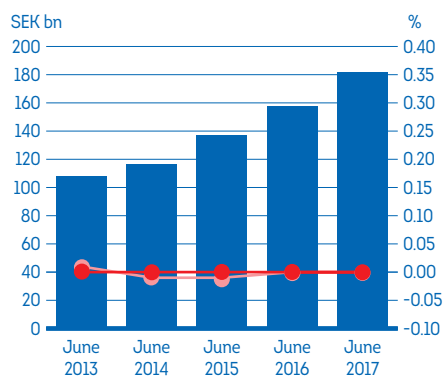
Interim Report January–June 2017

The period in brief

- Operating profit increased 10% to SEK 377.8 M (343.0) and the return on equity amounted to 6.9% (7.2).
- Net interest income increased 31% to SEK 998.7 M (762.9).
- Loan losses amounted to SEK -1.4 M (-1.2), net, corresponding to a loan loss level of -0.00% (-0.00).
- Lending increased 15% to SEK 182.0 billion (157.6).
- The Common Equity Tier 1 capital ratio amounted to 50.6% (50.2*) on 30 June 2017.
- The number of customers rose 8% to 242,000 (224,000).

Figures in parentheses pertain to the same period in 2016.
* Pertains to 31 March 2017.

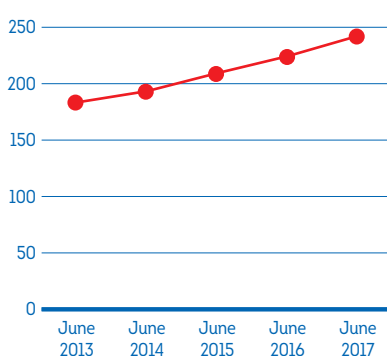
Loans to the public



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

Customer trend

Number of customers, 000s



President's comment

Länsförsäkringar Hypotek is continuing to strengthen its position in the mortgage market and delivered strong operating profit. Lending growth is stable and our market share is successively increasing, while credit quality remains high and loan losses very low. The housing market remains a focal point and a slight weakening price trend could be noted in the second quarter following an upturn during the first few months of the year. In May, the Swedish Financial Supervisory Authority announced its intention to introduce stricter repayment requirements for households with high debt ratios to counteract risks related to rising house prices. However, it is important that the underlying problem of a poorly functioning housing market and the imbalance between supply and demand for housing are also addressed.

Martin Rydin

President of Länsförsäkringar Hypotek

Key figures

	Q 2 2017	Q 1 2017	Q 2 2016	Jan-Jun 2017	Jan-Jun 2016	Full-Year 2016
Return on equity, %	7.1	6.6	6.3	6.9	7.2	6.7
Return on total capital, %	0.41	0.35	0.36	0.38	0.40	0.37
Investment margin, %	1.01	1.01	0.90	1.01	0.89	0.92
Cost/income ratio before loan losses	0.11	0.13	0.14	0.12	0.13	0.13
Common Equity Tier 1 capital ratio, %	50.6	50.2	44.0	50.6	44.0	44.1
Total capital ratio, %	56.2	55.9	49.8	56.2	49.8	49.7
Percentage of impaired loans, gross, %	0.00	0.00	0.00	0.00	0.00	0.00
Reserve ratio in relation to loans, %	0.01	0.01	0.02	0.01	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	0.03	0.02
Loan loss level, %	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00*

* Includes the dissolution of reserves.

Income statement, quarterly

SEK M	Q 2 2017	Q 1 2017	Q 4 2016	Q 3 2016	Q 2 2016
Net interest income	508.2	490.6	457.8	426.2	391.1
Net commission	-267.0	-259.6	-257.0	-245.4	-241.5
Net gains/losses from financial items	-10.3	-33.1	-16.9	-5.1	30.6
Other operating income	0.0	0.0	0.1	0.0	0.0
Total operating income	230.8	197.8	183.9	175.6	180.2
Staff costs	-4.3	-4.0	-2.9	-3.5	-4.5
Other administration expenses	-21.6	-22.2	-20.7	-20.5	-21.1
Total operating expenses	-25.8	-26.2	-23.7	-24.0	-25.7
Profit before loan losses	205.1	171.5	160.2	151.6	154.6
Loan losses, net	0.7	0.7	3.8	-0.2	1.1
Operating profit	205.8	172.2	164.0	151.4	155.7

Market commentary

Sentiment remained positive in the second quarter in relation to growth and financial markets. Political risks in Europe have declined, mainly due to the results of the French parliamentary elections. In the US, President Trump presented his budget proposal that focused on boosting spending on defence while making cuts to welfare programmes. Global stock markets continued to rise on par with the strong economy and improved profit forecasts. Both the Swedish stock market and emerging markets were stronger than global indexes.

Swedish and European long-term interest rates rose slightly during the second quarter due to expectations of gradually less expansive monetary policies from the central banks. The US Federal Reserve raised its key interest rate in June, announcing that it would decrease reinvestment of maturing securities holdings but without providing a specific timetable. The ECB kept the key interest rate and the deposit facility rate unchanged in the second quarter and maintained the pace of its corporate sector purchase programme. Mario Draghi, Presi-

dent of the ECB, stated in June that the ECB's monetary policy measures may need to be adjusted in the future due to the strong economic trend in the eurozone, but wanted to maintain the level of economic stimulus measures. The statement could be interpreted as the ECB now preparing the market for normalising monetary policy, although the process will be very slow. The Riksbank unexpectedly extended its government bond purchases by SEK 15 billion in April. The subsequent impact on inflation was higher than the Riksbank and other analysts had anticipated, although a rise in interest rates is not expected until mid-2018. Rates on covered bonds fell slightly during the quarter, while demand from investors remained high.

The real economic trend for the second quarter was mostly positive. First-quarter growth figures indicate a continued strong global economy and leading indicators suggest a robust continuation of growth this year. However, hopes of a rapid fiscal stimulus in the US have diminished, but strong private sector demand meant that the economic outlook nevertheless remains positive.

The tight labour market could hamper the rate of growth in the future.

The economic scenario in Europe is brighter than previously. Reduced political risk and higher business investment are paving the way for the favourable economic trend to continue. Optimism in Sweden remains high and the domestic economy has improved further. The inflation trend in Sweden has generally exceeded expectations with upturns in all inflation indicators.

The SEK strengthened against the USD but weakened against the EUR in the second quarter. Housing prices rose by just over 1% in April and May excluding seasonal effects. The Swedish Financial Supervisory Authority announced in May a proposal for stricter amortisation requirements and the housing market have slowed slightly in June.

January-June 2017 compared with January-June 2016

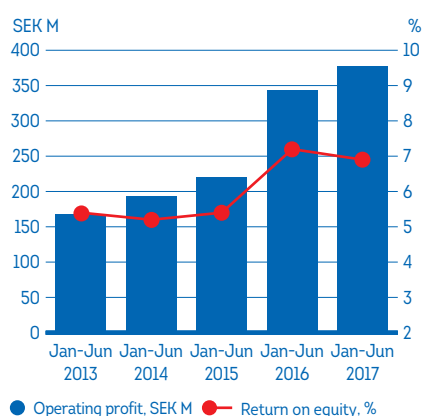
Growth and customer trend

Loans to the public rose 15%, or SEK 24.4 billion, to SEK 182.0 billion (157.6), with continued very high credit quality. The number of customers rose 8%, or 18,000, to 242,000 (224,000), and 87% (86) of retail mortgage customers have Länsförsäkringar as their primary bank.

Earnings and profitability

Operating profit increased 10% to SEK 377.8 M (343.0), primarily due to higher net interest income. The investment margin strengthened to 1.01% (0.89). Profit before loan losses rose 10% to SEK 376.4 M (341.8) due to higher net interest income. The return on equity amounted to 6.9% (7.2). The change was mainly the result of increased capital from the capital contribution received from the Parent Company and lower net gains from financial items.

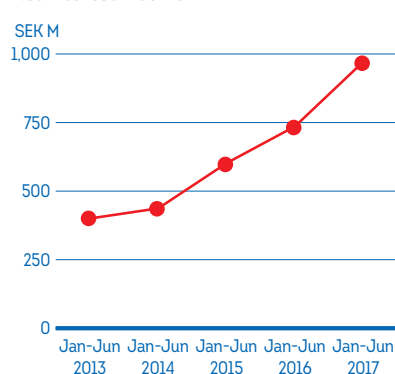
Operating profit and return on equity



Income

Operating income rose 10% to SEK 428.6 M (391.4) as a result of higher net interest income attributable to increased volumes and improved margins. Net interest income increased 31% to SEK 998.7 M (762.9), due to higher volumes and lower refinancing costs. Net losses from financial items amounted to SEK -43.5 M (61.2) due to changes in fair value. Net commission amounted to SEK -526.7 M (-432.8), 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 52.2 M (49.7). The cost/income ratio was 0.12 (0.13) before loan losses and 0.12 (0.12) after loan losses.

Loan losses

Loan losses amounted to SEK -1.4 M (-1.2), net, corresponding to a loan loss level of -0.00% (-0.00). Impaired loans, gross, amounted to SEK 0 M (0), corresponding to a percentage of impaired loans, gross, of 0.00% (0.00). Reserves amounted to SEK 27.2 M (29.7), corresponding to a reserve ratio in relation to loans of 0.01% (0.02). In addition, SEK 16.6 M (11.3) 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, in SEK and have a well-diversified geographic distribution. Loans to the public increased 15%, or SEK 24.4 billion, to SEK 182.0 billion (157.6). The credit quality of the loan portfolio, comprising 71% (72) single-family homes, 24% (23) tenant-owned apartments and 5% (5) multi-family housing, remained favourable. On 31 May 2017, the market share of retail mortgages had strengthened to 6.0% (5.6) according to Statistics Sweden.

Cover pool

The cover pool, which forms the basis of issuance of covered bonds, contains SEK 172.6 billion, corresponding to 95% of the loan portfolio. The collateral comprises only private homes, of which 73% (74) are single-family homes, 25% (24) tenant-owned apartments

and 2% (2) vacation homes. The geographic spread throughout Sweden is favourable and the average loan commitment is low at SEK 1.15 M (1.07). The weighted average loan-to-value ratio, LTV, was 59% (61) and the nominal, current OC (overcollateralisation) amounted to 34% (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 loan-to-value ratio of 65% (67) on 30 June 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 collateral score among all Swedish covered-bond issuers, and are among the foremost in Europe.

Cover pool	30 Jun 2017	30 Jun 2016
Cover pool, SEK billion	180	157
OC ¹ , nominal level, %	34	37
Weighted average LTV, %	59	61
Collateral	Private homes	Private homes
Seasoning, months	58	58
Number of loans	337,971	307,618
Number of borrowers	150,107	138,348
Number of properties	149,895	138,112
Average commitment, SEK 000s	1,151	1,072
Average loan, SEK 000s	511	481
Interest rate type, variable, %	68	64
Interest rate type, fixed, %	32	36
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% to SEK 139.0 billion (119.5). Issued covered bonds during the period totalled a nominal SEK 20.0 billion (18.7) and repurchases of a nominal SEK 2.1 billion (2.6) were executed. Matured covered bonds amounted to a nominal SEK 5.7 billion (8.0). In March, Länsförsäkringar Hypotek issued a seven-year Euro benchmark-covered bond for a nominal EUR 500 M. In addition, Länsförsäkringar Hypotek issued a new Swedish benchmark bond (LFH516) during the period, which matures in September 2023.

Liquidity

On 30 June 2017, the liquidity reserve totalled SEK 8.3 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.

Capital ratio¹

Länsförsäkringar Hypotek AB (SEK M)	30 Jun 2017	31 Mar 2017
IRB Approach	14,708	14,323
retail exposures	11,361	10,971
exposures to corporates	3,347	3,352
Standardised Approach	1,420	1,506
Operational risks	915	915
Total REA	17,770	17,562
Common Equity Tier 1 capital	8,987	8,817
Tier 1 capital	8,987	8,817
Total capital	9,988	9,818
Common Equity Tier 1 capital ratio	50.6%	50.2%
Tier 1 ratio	50.6%	50.2%
Total capital ratio	56.2%	55.9%

The Common Equity Tier 1 capital ratio amounted to 50.6% (50.2). Common Equity Tier 1 capital strengthened during the second quarter due to generated profit.

On 30 June 2017, the total Risk Exposure Amount (REA) amounted to SEK 17,770 M (17,562).

For more information on capital adequacy, see note 12.

¹ The comparative period is 31 March 2017.

Internally assessed capital requirement and buffer

The internally assessed capital requirement for Länsförsäkringar Hypotek AB on 30 June 2017 amounted to SEK 1,783 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 4,324 M as at 30 June 2017. The countercyclical capital buffer at 2% of REA totalled SEK 355 M. This capital conservation buffer that is to correspond to 2.5% of REA amounted to SEK 444 M on 30 June 2017.

The capital meeting the internal capital requirement including buffer, meaning own funds, amounted to SEK 9,988 M.

Interest-rate risk

On 30 June 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 36.1 M (decrease: 17).

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.

Second quarter of 2017 compared with first quarter of 2017

Operating profit rose 20% to SEK 205.8 M (172.2), primarily due to higher net interest income and improved net gains from financial items. The return on equity amounted to 7.1% (6.6). Operating income increased 17% to SEK 230.8 M (197.8). Net interest income increased 4% to SEK 508.2 M (490.6). Net losses from financial items amounted to SEK -10.3 M (-33.1) as a result of changes in fair value. Commission expense amounted to SEK 267.6 M (260.2). Operating expenses amounted to SEK 25.8 M (26.3) and the cost/income ratio before loan losses to 0.11% (0.13). Loan losses amounted to SEK -0.7 M (-0.7).

Other events

On 30 June 2017, Rikard Josefson left his position as Chairman of Länsförsäkringar Hypotek. In connection with this, Anders Borgcrantz, former President of Länsförsäkringar Hypotek, became the Chairman of the Board. Martin Rydin was appointed President of Länsförsäkringar Hypotek.

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	Q2 2017	Q1 2017	Change	Q2 2016	Change	Jan-Jun 2017	Jan-Jun 2016	Change	Full-Year 2016
Interest income		698.4	656.9	6%	571.7	22%	1,355.3	1,130.7	20%	2,355.6
Interest expense		-190.2	-166.3	14%	-180.6	5%	-356.5	-367.8	-3%	-708.7
Net interest income	3	508.2	490.6	4%	391.1	30%	998.7	762.9	31%	1,646.9
Commission income		0.6	0.6		0.6		1.1	1.2	-8%	2.2
Commission expense		-267.6	-260.2	3%	-242.1	11%	-527.8	-434.0	22%	-937.5
Net commission income	4	-267.0	-259.6	3%	-241.5	11%	-526.7	-432.8	22%	-935.3
Net gains/losses from financial items	5	-10.3	-33.1	-69%	30.6		-43.5	61.2		39.1
Other operating income		-	-		0.0		-	0.1		0.2
Total operating income		230.8	197.8	17%	180.2	28%	428.6	391.4	10%	751.0
Staff costs		-4.3	-4.0	8%	-4.5	-4%	-8.3	-8.4	-1%	-14.8
Other administration expenses		-21.6	-22.2	-3%	-21.1	2%	-43.8	-41.2	6%	-82.5
Total operating expenses		-25.8	-26.2	-2%	-25.6	1%	-52.1	-49.6	5%	-97.3
Depreciation and impairment of tangible assets		0.1	-0.1		0.0		-0.1	-0.1		-0.1
Total operating expenses		-25.8	-26.3	-2%	-25.7		-52.2	-49.7	5%	-97.4
Profit before loan losses		205.1	171.5	20%	154.6	33%	376.4	341.8	10%	653.6
Loan losses, net	6	0.7	0.7		1.1	-36%	1.4	1.2	17%	4.8
Operating profit		205.8	172.2	20%	155.7	32%	377.8	343.0	10%	658.4
Appropriations		-	6.2		-		6.2	-		-150.0
Tax		-45.2	-39.2	15%	-34.1	33%	-84.5	-75.4	12%	-121.1
Profit for the period		160.5	139.2	15%	121.5	32%	299.6	267.6	12%	387.3

Statement of comprehensive income

SEK M	Q2 2017	Q1 2017	Change	Q2 2016	Change	Jan-Jun 2017	Jan-Jun 2016	Change	Full-Year 2016
Profit for the period	160.5	139.2	15%	121.5	32%	299.6	267.6	12%	387.3
Other comprehensive income									
Items that have been reclassified or may subsequently be reclassified to the income statement									
Cash-flow hedges	-49.1	-65.0	-24%	-64.0	-23%	-114.1	7.5		-100.7
Change in fair value from available-for-sale financial assets	15.2	0.8		2.4		16.0	1.9		17.1
Tax attributable to items that have been transferred or can be transferred to profit for the period	7.4	14.1	-47%	13.5	-44%	21.5	-2.1		18.4
Total other comprehensive income for the period, net after tax	-26.5	-50.1	-47%	-48.1	-45%	-76.6	7.3		-65.2
Total comprehensive income for the period	134.0	89.1	51%	73.4	83%	223.0	274.9	-19%	322.1

Balance sheet

SEK M	Note	30 Jun 2017	31 Dec 2016	30 Jun 2016
Assets				
Loans to credit institutions	7	5,873.3	4,614.7	3,106.5
Loans to the public	8	181,987.9	168,947.9	157,624.9
Bonds and other interest-bearing securities		8,309.4	9,313.9	9,939.1
Derivatives	9	4,654.0	5,744.5	6,520.3
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		329.9	536.4	890.0
Tangible assets		0.8	0.5	0.5
Deferred tax assets		24.8	-	2.9
Other assets		10.7	23.2	1.6
Prepaid expenses and accrued income		85.6	46.6	52.0
Total assets		201,276.5	189,227.6	178,137.8
Liabilities, provisions and equity				
Due to credit institutions	7	46,655.1	47,002.4	41,837.7
Debt securities in issue		138,958.2	126,887.9	119,460.7
Derivatives	9	1,093.4	1,138.7	1,659.1
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		2,165.6	3,027.2	4,522.9
Deferred tax liabilities		-	0.3	-
Other liabilities		112.4	77.9	79.9
Accrued expenses and deferred income		2,184.1	2,002.6	1,684.0
Provisions		1.1	1.0	1.0
Subordinated liabilities		1,001.0	1,001.0	1,001.0
Total liabilities and provisions		192,171.0	181,139.0	170,246.3
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		-52.1	24.4	96.9
Retained earnings		8,321.1	7,133.8	7,133.8
Profit for the period		299.6	387.3	267.6
Total equity		8,652.9	7,629.9	7,582.8
Total liabilities, provisions and equity		201,276.5	189,227.6	178,137.8
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-Jun 2017	Jan-Jun 2016
Cash and cash equivalents, 1 January	11.5	17.0
Cash flow from operating activities	-800.3	-600.2
Cash flow from investing activities	-0.4	0.0
Cash flow from financing activities	800.0	600.0
Cash flow for the period	-0.7	-0.2
Cash and cash equivalents, 31 March	10.8	16.8

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 -13,039.7 (-10,568.2) M, Loans to credit institutions to SEK -1,259.4 (1,288.6) M and Debt securities in issue to SEK 12,105.4 (8,423.7) M. 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						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
Resolution by Annual General Meeting					308.3	-308.3	-
Conditional shareholders' contribution received					600.0		600.0
Closing balance, 30 Jun 2016	70.3	14.1	11.6	85.3	7,133.8	267.6	7,582.8
Opening balance, 1 July 2016	70.3	14.1	11.6	85.3	7,133.8	267.6	7,582.8
Profit for the period						119.7	119.7
Other comprehensive income for the period			11.8	-84.3			-72.5
<i>Comprehensive income for the period</i>			11.8	-84.3		119.7	47.2
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						299.6	299.6
Other comprehensive income for the period			12.5	-89.1			-76.6
<i>Comprehensive income for the period</i>			12.5	-89.1		299.6	223.0
Resolution by Annual General Meeting					387.3	-387.3	-
Conditional shareholders' contribution received					800.0		800.0
Closing balance, 30 June 2017	70.3	14.1	35.9	-88.1	8,321.1¹	299.6	8,652.9

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 model for recognising revenue from contracts with customers that is not encompassed by other standards. The company has performed an analysis of the effects of IFRS 15, and implementation is ongoing. The assessment is that the standard will not have any significant effect on the consolidated financial statements except for enhanced disclosure requirements.

Alternative performance measures

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 provided. Alternative performance measures, such as return on equity, return on total capital, investment margin, cost/income ratio before loan losses, reserve ratio in relation to loans and loan loss level are defined in the 2016 Annual Report.

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	Q2 2017	Q1 2017	Change	Q2 2016	Change	Jan-Jun 2017	Jan-Jun 2016	Change	Full-Year 2016
Interest income									
Loans to credit institutions	11.0	13.8	-20%	1.7		24.8 ¹	9.1		12.4
Loans to the public	804.7	786.3	2%	742.0	8%	1,591.0	1,477.1	8%	3,004.3
Interest-bearing securities	24.3	25.3	-4%	39.5	-38%	49.6 ¹	79.7	-38%	144.4
Derivatives	-141.5	-168.6	-16%	-211.4	-33%	-310.1	-435.2	-29%	-805.6
Other interest income	-0.1	0.0		0.0		-0.1	0.0		0.1
Total interest income	698.4	656.9	6%	571.7	22%	1,355.3	1,130.7	20%	2,355.6
Interest Expense									
Due to credit institutions	-101.9	-112.1	-9%	-96.7	5%	-214.0 ¹	-195.6	9%	-412.3
Dept securities in issue	-467.8	-454.4	3%	-463.7	1%	-922.2	-956.4	-4%	-1,853.8
Subordinated liabilities	-3.9	-3.6	8%	-4.0	-3%	-7.4	-8.1	-9%	-15.9
Derivatives	412.5	430.3	-4%	396.2	4%	842.8	821.8	3%	1,621.3
Other interest expense	-29.1	-26.5	10%	-12.4		-55.6	-29.6	88%	-48.0
Total interest expense	-190.2	-166.3	14%	-180.6	5%	-356.5	-367.8	-3%	-708.7
Total net interest income	508.2	490.6	4%	391.1	30%	998.7	762.9	31%	1,646.9
Average interest rate on loans to the public during the period, %	1.8	1.8		1.9		1.8	2.0		1.9

¹ Of which negative interest of Loans to credit institutions SEK -3,0 M, Interest-bearing securities SEK -1,7 M and Due to credit institutions SEK 3,2 M.

Note 4 Commission income									
SEK M	Q2 2017	Q1 2017	Change	Q2 2016	Change	Jan-Jun 2017	Jan-Jun 2016	Change	Full-Year 2016
Commission income									
Loans	0.6	0.6		0.6		1.1	1.2	-8%	2.2
Total commission income	0.6	0.6		0.6		1.1	1.2	-8%	2.2
Commission Expense									
Remuneration to regional insurance companies	-267.5	-260.1	3%	-242.0	11%	-527.6	-432.8	22%	-936.0
Other commission	-0.2	-0.1		-0.1		-0.3	-1.2	-75%	-1.6
Total commission expense	-267.6	-260.2	3%	-242.1	11%	-527.8	-434.0	22%	-937.5
Total commission income	-267.0	-259.6	3%	-241.5	11%	-526.7	-432.8	22%	-935.3

Note 5 Net gains / losses from financial items									
SEK M	Q2 2017	Q1 2017	Change	Q2 2016	Change	Jan-Jun 2017	Jan-Jun 2016	Change	Full-Year 2016
Interest-bearing assets and liabilities and related derivatives	-16.9	-40.0	-58%	18.0		-56.9	40.2		1.2
Other financial assets and liabilities	-0.7	0.6		0.7		-0.1	0.7		0.2
Interest compensation	7.3	6.3	14%	11.9	-39%	13.5	20.3	-33%	37.8
Total net gains / losses from financial items	-10.3	-33.1	-69%	30.6		-43.5	61.2		39.1

Note 6		Loan losses and impaired loans								
Net loan losses, SEK M	Q 2 2017	Q 1 2017	Change	Q 2 2016	Change	Jan-Jun 2017	Jan-Jun 2016	Change	Full-Year 2016	
Specific reserve for individually assessed loan receivables										
Write-off of confirmed loan losses during the period	0.5	-0.3		-0.4		0.2	-0.5		-0.7	
Reversed earlier impairment of loan losses recognised as confirmed losses	0.0	0.1		0.2		0.1	0.4	-75%	0.4	
Impairment of loan losses during the period	-1.3	-0.4		-1.0	30%	-1.7	-2.2	-23%	-5.0	
Payment received for prior confirmed loan losses	0.6	0.7	-14%	0.7	-14%	1.3	1.3		2.4	
Reversed impairment of loan losses no longer required	0.9	0.8	-13%	1.4	-36%	1.7	2.2	-23%	6.5	
Net expense for the year for individually assessed loan receivables	0.8	0.8		1.0	-20%	1.5	1.2	25%	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	-0.1		0.1		-0.2	0.0		1.1	
Net expense for the year for collectively assessed receivables	0.0	-0.1		0.1		-0.2	0.0		1.1	
Annual net expense for the year for fulfillment of guarantees	-	-		-		-	-		-	
Net expense of loan losses for the period	0.7	0.7		1.1	-36%	1.4	1.2	17%	4.8	

All information pertains to receivables from the public.

Impaired loans, SEK M	30 June 2017				31 December 2016				30 June 2016			
	Gross	Individual impairments	Collective impairments	Net	Gross	Individual impairments	Collective impairments	Net	Gross	Individual impairments	Collective impairments	Net
Retail sector	-	-2.6	-24.5	-27.2	-	-2.7	-24.3	-27.0	0.0	-4.3	-25.4	-29.7
Total	-	-2.6	-24.5	-27.2	-	-2.7	-24.3	-27.0	0.0	-4.3	-25.4	-29.7

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 Hypotek 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 3 116,3 (1 455,1) M. Due to credit institutions includes borrowings from the Parent Company of SEK 43 957,1 (40 015,3) 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	30 Jun 2017	31 Dec 2016	30 Jun 2016
Corporate sector	7,042.3	7,136.2	7,264.7
Retail sector	174,972.7	161,838.6	150,389.9
Loans to the public before reserves	182,015.0	168,974.9	157,654.6
Reservations	-27.2	-27.0	-29.7
Loans to the public	181,987.9	168,947.9	157,624.9
Fixed-interest period			
Remaining term of not more than 3 month	115,912.2	106,118.5	94,295.4
Remaining term of more than 3 months but not more than 1 year	23,230.0	15,444.7	13,477.8
Remaining term of more than 1 year but not more than 5 years	41,125.5	45,649.4	48,069.0
Remaining term of more than 5 years	1,720.2	1,735.2	1,782.8
Loans to the public	181,987.9	168,947.9	157,624.9

Definition

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

Note 9	Derivatives					
SEK M	30 Jun 2017		31 Dec 2016		30 Jun 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	81,842.0	1,983.2	83,647.0	2,629.2	80,337.0	3,451.5
Currency-related	22,967.8	2,670.8	22,967.8	3,115.3	22,967.8	3,060.1
<i>Other derivatives</i>						
Interest-related			-	-	20,000.0	8.7
Total derivatives with positive values	104,809.8	4,654.0	106,614.8	5,774.5	123,304.8	6,520.3
Derivatives with negative values						
<i>Derivatives in hedge accounting</i>						
Interest-related	84,430.0	746.9	61,530.0	960.7	58,635.0	1,366.1
Currency-related	8,531.5	346.5	3,123.2	177.9	3,213.2	284.7
<i>Other derivatives</i>						
Interest-related			2,000.0	0.1	20,000.0	8.3
Total derivatives with negative values	92,961.5	1,093.4	66,743.2	1,138.7	81,848.2	1,659.1

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 10	Pledged assets, contingent liabilities and commitments		
SEK M	30 Jun 2017	31 Dec 2016	30 Jun 2016
For own liabilities, pledged assets	182,476.4	168,137.0	158,826.2
Commitments	13,581.8	9,545.0	12,204.1

SEK M	30 Jun 2017		31 Dec 2016		30 Jun 2016	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Financial assets						
Loans to credit institutions	5,873.3	5,873.3	4,614.7	4,614.7	3,106.5	3,106.5
Loans to the public	181,987.9	182,645.4	168,947.9	169,562.9	157,624.9	158,270.5
Bonds and other interest-bearing securities	8,309.4	8,309.4	9,313.9	9,313.9	9,939.1	9,939.1
Derivatives	4,654.0	4,654.0	5,744.5	5,744.5	6,520.3	6,520.3
Total	200,824.6	201,482.1	188,621.0	189,236.0	177,190.8	177,836.4
Financial Liabilities						
Due to credit institutions	46,655.1	46,655.1	47,002.4	47,002.4	41,837.7	41,837.7
Debt securities in issue	138,958.2	143,554.9	126,887.9	131,774.9	119,460.7	124,762.9
Derivatives	1,093.4	1,093.4	1,138.7	1,138.7	1,659.1	1,659.1
Other liabilities	7.6	7.6	6.7	6.7	6.8	6.8
Subordinated liabilities	1,001.0	1,023.4	1,001.0	1,023.3	1,001.0	1,001.0
Total	187,715.3	192,334.4	176,036.7	180,946.0	163,965.3	169,267.5

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					
30 June 2017, SEK M	Level 1	Level 2	Level 3	Total	
Assets					
Bonds and other interest-bearing securities	8,309.4			8,309.4	
Derivatives		4,654.0		4,654.0	
Liabilities					
Derivatives		1,093.4		1,093.4	
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	
30 June 2016, SEK M					
Assets					
Bonds and other interest-bearing securities	9,939.1			9,939.1	
Derivatives		6,520.3		6,520.3	
Liabilities					
Derivatives		1,659.1		1,659.1	

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**

30 June 2017, SEK M	Level 1	Level 2	Level 3	Total
Assets				
Loans to the public		182,645.4		182,645.4
Liabilities				
Debt securities in issue		143,554.9		143,554.9
Subordinated liabilities		1,023.4		1,023.4
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
30 June 2016				
Assets				
Loans to the public		158,270.5		158,270.5
Liabilities				
Debt securities in issue		124,762.9		124,762.9
Subordinated liabilities		1,001.0		1,001.0

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	30 Jun 2017	31 Dec 2016	30 Jun 2016		
Total Equity	8 652.9	7,629.9	7,582.8		
78 % of untaxed reserves	353.0	357.9	240.9		
Own funds eligible for capital-adequacy	9,005.9	7,987.8	7,823.7		
Adjustment for cash flow hedge	88.1	-1.0	-85.3		
IRB Provisions deficit (-) / surplus (+)	-93.4	-80.9	-83.9		
Adjustment for prudent valuation	-13.6	-15.4	-17.5		
Common Equity Tier 1 capital	8,987.1	7,890.5	7,636.9		
Tier 2 instruments	1,001.0	1,001.0	1,001.0		
IRB Provisions deficit (-) / surplus (+)	-	-	-		
Tier 2 capital	1,001.0	1,001.0	1,001.0		
Total Own funds	9,988.1	8,891.5	8,637.9		
Risk exposure amount according to CRD IV	17,769.6	17,893.6	17,337.0		
Total Capital requirement according to CRD IV	1,421.6	1,431.5	1,387.0		
Capital requirement for credit risk according to Standardised Approach	113.6	188.5	140.4		
Capital requirement for credit risk according to IRB Approach	1,176.7	1,108.8	1,063.5		
Capital requirement for operational risk	73.2	59.2	59.2		
Capital requirement according to credit valuation adjustment	58.1	75.0	123.9		
Core Tier 1 ratio according to CRD IV	50.6%	44.1%	44.0%		
Tier 1 ratio according to CRD IV	50.6%	44.1%	44.0%		
Capital adequacy ratio according to CRD IV	56.2%	49.7%	49.8%		
Special disclosures					
IRB Provisions surplus (+) / deficit (-)	-93.4	-80.9	-83.9		
- IRB Total provisions (+)	43.8	43.1	41.0		
- IRB Anticipated loss (-)	-137.2	-124.0	-125.0		
Capital requirement according to Basel I floor	7,632.2	6,992.2	6,591.9		
Capital base adjusted according to Basel I floor	10,081.5	8,972.4	8,721.9		
Surplus of capital according to Basel I floor	2,449.5	1,980.2	2,130.0		
	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	9.0%
Tier 1 capital	6.0%	2.5%	2.0%	n/a	10.5%
Capital base	8.0%	2.5%	2.0%	n/a	12.5%
SEK M					
Core Tier 1 capital	799.7	444.3	355.4	n/a	1,599.3
Tier 1 capital	1,066.2	444.3	355.4	n/a	1,865.9
Capital base	1,421.6	444.3	355.4	n/a	2,221.3
Core Tier 1 capital available for use as buffer					46.1%

SEK M	30 Jun 2017		31 Dec 2016		30 Jun 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	36.9	461.8	113.6	1,419.8	58.3	728.5
Covered bonds	66.5	830.9	74.5	931.6	79.5	993.9
Other items	10.2	127.4	0.4	4.8	2.6	32.0
Total capital requirement and risk exposure amount	113.6	1,420.1	188.5	2,356.3	140.4	1,754.4
Credit risk according to IRB Approach						
<i>Retail exposures</i>						
Exposures secured by real estate collateral	32.4	404.8	33.9	423.2	36.0	450.1
Other retail exposures	874.2	10,927.1	804.6	10,058.1	754.3	9,428.6
Other retail exposures, small and medium-sized businesses	0.7	8.8	0.2	2.9	0.3	4.0
Other retail exposures	1.6	20.4	2.1	26.1	2.5	31.2
Total retail exposures	908.9	11,361.1	840.8	10,510.2	793.1	9,913.9
Exposures to corporates	267.8	3,347.3	268.0	3,349.7	270.4	3,379.4
Total capital requirement and risk exposure amount	1,176.7	14,708.4	1,108.8	13,859.9	1,063.5	13,293.3
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	58.1	725.8	75.0	937.1	123.9	1,549.0

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, 10 August 2017

Anders Borgcrantz
Chairman of the board

Gert Andersson
Board member

Christian Bille
Board member

Bengt Clemedtson
Board member

Göran Zakrisson
Board member

Martin Rydin
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 30 June 2017 and the six-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 10 August 2017

Dan Beitner
Authorized Public Accountant

Financial calendar

Interim report January–September Länsförsäkringar Bank 10 November 2017

Interim report January–September Länsförsäkringar Hypotek 10 November 2017

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

For further information, please contact:

Martin Rydin, 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