Länsförsäkringar Hypotek

Annual Report

2016

Länsförsäkringar

The 2016 fiscal year

Significant events

- Net interest income increased 24% to SEK 1,647 M (1,326).
- Loan losses amounted to SEK –4.8 M (–9.8)[1], net, corresponding to a loan loss level of –0.00% (–0.01).
- Operating profit rose 29% to SEK 658.4 M (508.8) and the return on equity amounted to 6.7% (6.0).
- Lending increased 15% to SEK 168.9 billion (147.1).
- The Common Equity Tier 1 capital ratio amounted to 44.1% on 31 December 2016.
- The number of customers rose 7% to 231,000 (216,000).

[1] Includes the dissolution of reserves amounting to SEK 3.1 M (8.0).

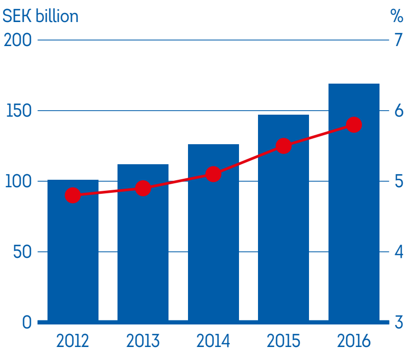
Loans in SEK billion

169 +15%

Number of customers

231,000

Loans and market shares

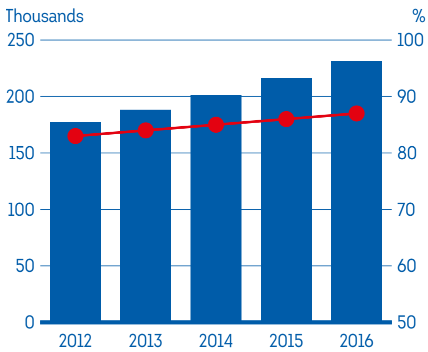


Loans have increased an average of 13% over the past five years. The market position is continuously strengthened.

● Loans, SEK billion

●— Market shares, retail mortgages, %

Customer trend



The number of customers has increased by an average of 7% over the past five years, and the percentage of retail mortgage customers who have Länsförsäkringar as their primary bank is 87%.

● Retail mortgage customers, thousands

●— Percentage of retail mortgage customers who have Länsförsäkringar as their primary bank, %

Key figures

SEK M	2016	2015	2014	2013	2012
Return on equity, %	**6.7**	6.0	5.5	4.8	5.2
Return on total capital, %	**0.37**	0.32	0.29	0.23	0.26
Investment margin, %	**0.92**	0.84	0.71	0.64	0.65
Cost/income ratio before loan losses	**0.13**	0.16	0.19	0.22	0.22
Common Equity Tier 1 capital ratio, %	**44.1**	37.4	21.9	–	–
Total capital ratio, %	**49.7**	42.9	23.8	–	–
Percentage of impaired loans, gross, %	**0.00**	0.00	0.00	0.01	0.00
Reserve ratio in relation to loans, %	**0.02**	0.02	0.03	0.04	0.04
Reserve ratio in relation to loans, incl. withheld remuneration to the regional insurance companies, %	**0.02**	0.03	0.04	–	–
Loan loss level, %	**–0.00[1]**	–0.01[1]	–0.01[1]	0.01	0.00

[1] Includes the dissolution of reserves

Länsförsäkringar Hypotek

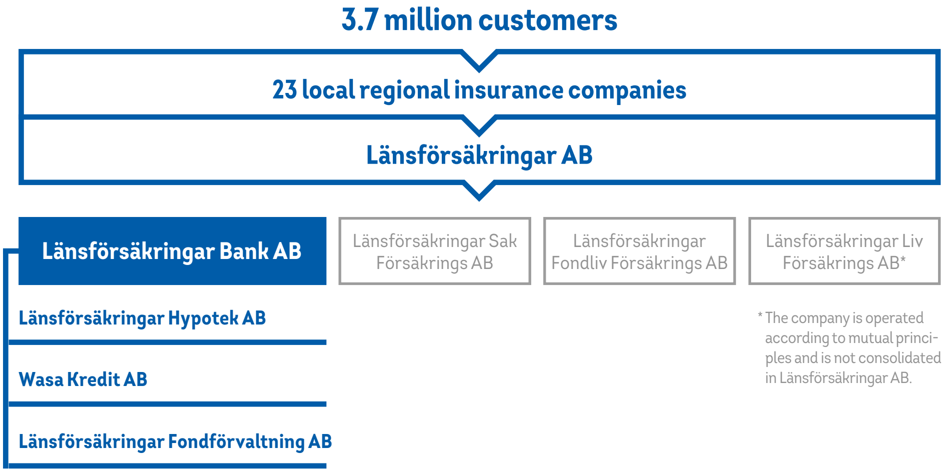
One of Sweden's largest mortgage institutions

Länsförsäkringar Hypotek is one of Sweden's largest mortgage institutions with loans of SEK 169 billion and 231,000 customers. The strategy is to offer attractive mortgages to the Länsförsäkringar Alliance's 3.7 million customers. Close customer relationships are created during personal meetings at 128 regional insurance companies' branches throughout Sweden and via digital services and telephone. Loans are granted solely in Sweden and in SEK, and have very high credit quality. The aim is to have the most satisfied customers, to have continued profitable growth based on low risk, and to increase the share of retail mortgage customers who have both banking and insurance with Länsförsäkringar. According to the 2016 Swedish Quality Index, Länsförsäkringar Bank once again has Sweden's most satisfied retail customers.

Länsförsäkringar in brief

Local companies with customers who are owners and the only principal

Länsförsäkringar comprises 23 local, customer-owned regional insurance companies and the jointly owned Länsförsäkringar AB with subsidiaries. Customers are provided with a complete solution for banking, insurance, pension and real-estate brokerage services through the regional insurance companies. The regional insurance companies are owned by the insurance customers – there are no external shareholders and customers' needs and requirements are always Länsförsäkringar's primary task. Long-term respect for customers' money and their security is fundamental. The Länsförsäkringar Alliance jointly has slightly more than 3.7 million customers and approximately 6,000 employees.



* The company is operated according to mutual principles and is not consolidated in Länsförsäkringar AB.

Contents

Statement by the President Länsförsäkringar Hypotek performed well in 2016 and operating profit increased while market shares continued to improve. Lending is growing at a steady rate and credit quality has remained very high. A favourable customer inflow and high level of customer satisfaction allowed Länsförsäkringar to continue its success in the mortgage market.

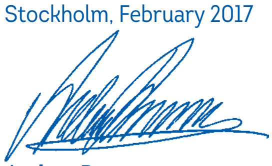
Stable growth in the mortgage market

Growth combined with high credit quality
Länsförsäkringar Hypotek's strong performance continued in 2016. Lending grew by SEK 22 billion, while the loan portfolio retained a high credit quality and very low loan loss level. Länsförsäkringar's strong brand and local presence provide a major competitive advantage in the form of in-depth and broad knowledge of the local market and customer needs. Combined with Länsförsäkringar's attractive digital offering, this leads to high customer satisfaction and excellent conditions for driving Länsförsäkringar Hypotek's stable growth and successively strengthening our market position. Customer inflow remained favourable and the number of customers rose 7% to 231,000 during the year.

Stable financing
Länsförsäkringar Hypotek's liquidity situation remains very strong and the maturity profile is well diversified. Access to financing was highly favourable during the year and our strong capitalisation combined with the high credit quality of our mortgage portfolio was key to our low financing costs. The company's covered bonds once again had the highest credit rating of Aaa from Moody's and AAA/Stable from Standard & Poor's. Länsförsäkringar Hypotek is thus one of three issuers in the Swedish market for covered bonds with the highest rating from both Standard & Poor's and Moody's.

Housing market in need of change
Housing prices increased to new record levels in 2016 while household indebtedness continued to increase. The mortgage repayment requirement that came into effect in June initially resulted in a limited supply of properties in the housing market and indications of a more restrained price trend emerged during the summer months. The historically low interest rates were a contributing factor. However, the main reason for the increase, besides the poorly functioning housing market, was the imbalance in the supply and demand for residential properties, which again reinforces the need to address the underlying problem of insufficient new housing construction. Political action is required to stimulate housing construction, which has been at a low rate for many years and – combined with an increase in population growth – has created a structural shortage of housing, particularly in larger cities. The intensified debate surrounding housing prices resulted in discussions on additional measures, such as the introduction of a debt ratio ceiling and abolishing interest deductions. In this respect, it is important that the possible effects on the function of the housing market are carefully analysed before any measures are introduced.

Stockholm, February 2017



Anders Borgcrantz
President of Länsförsäkringar Hypotek

One of the largest mortgage institutions in Sweden

Strategy, offering and position Länsförsäkringar Hypotek continued to strengthen its position in the mortgage market in 2016. The credit quality of the portfolio is very high and loans are granted with low risk.

Lending volume: SEK 169 billion

+15%

Number of customers: 231,000

+7%

Strategy and goals

Länsförsäkringar Hypotek was founded in 2001 and is now one of Sweden's largest mortgage institutions with a market share of 5.8%. The strategy is to offer mortgages, within the context of banking operations, to the Länsförsäkringar Alliance's large customer base of 3.7 million customers. The 23 customer-owned regional insurance companies are responsible for customer relationships and provide retail mortgages from the Bank Group through Länsförsäkringar Hypotek. Close customer relationships are created during personal meetings at one of the regional insurance companies' branches and via digital services and telephone. The goal is to have the most satisfied customers, and continued stable growth while maintaining favourable profitability. Länsförsäkringar Hypotek has a low risk tolerance. Loans are granted with low risk, providing high credit quality. The local customer and market knowledge of the regional insurance companies, combined with a conservative view of risk, leads to stable growth and a loan portfolio with very low loan losses.

Retail mortgages

The offering primarily comprises mortgages for private individuals. Mortgages up to 75% of the market value are offered by Länsförsäkringar Hypotek and any excess lending is offered by Länsförsäkringar Bank. The offering also includes first-lien mortgages for multi-family housing. Mortgages are an integral part of the banking offering and the vast majority of retail mortgage customers are insurance and bank customers.

Customer ownership

The Länsförsäkringar Alliance comprises 23 local and customer-owned regional insurance companies and the jointly owned Länsförsäkringar AB, which is the Bank Group's Parent Company. This means that principles of customer ownership also apply to the banking and retail mortgage operations.

Customer meetings and local market knowledge

The banking and retail mortgage operations have a local presence through the customer-owned regional insurance companies that manage all customer contact. Business decisions are made locally and the regional insurance companies' local commitment and networks provide broad and in-depth customer and market knowledge. Personal customer meetings are a high priority at Länsförsäkringar and they create trust and long-term relationships. Combined with a wide range of digital services, this enables flexible and efficient management of all mortgages.

Sweden remains strong

Economic environment and market 2016 was an eventful year in the world, dominated by several political events that shaped the economic environment. Sweden continued to experience an economic upturn and housing prices continued to rise during the year.

2016 was an eventful year of political uncertainty, but it also started with economic unease and a sharp decline in the oil price. Fears about the global economy, particularly regarding growth prospects for China, impacted the financial markets in the form of both stock-market downturns and falls in interest rates. Despite initial market concern, global growth for 2016 appears to be only slightly lower than initially expected at the start of the year. This slightly weaker trend was primarily the result of lower growth than anticipated in the US, although this was offset by, for example, China's more positive performance. This allowed the Federal Reserve to cautiously continue to normalise its monetary policy and raise its key interest rate at the end of the year, only the second increase since 2006. Europe continued to recover during the year, partly due to the ECB's highly expansive measures, such as commencing its corporate sector purchase programme. The political situation was also a key focal point of the year. The UK voted to leave the European Union and the Republican candidate Donald Trump won the US presidential election. It is more difficult to predict the long-term implications, even though market reactions following the EU referendum in the UK were short-lived and reactions after the US presidential election limited. Trump's victory at the polls impacted market expectations of growth and inflation in the US for the next few years. Greater fiscal stimulus packages are expected to strengthen growth in an economic climate that is already booming, which thus increases the risk of higher inflation and interest rates.

Global long-term interest rates rose in the autumn from historically low, and in certain cases negative, levels, an upswing that accelerated after the US presidential election. Interest rates for covered bonds fell during the year and investor demand was high. The majority of the world's equities markets reported positive returns for the year and the stock-market trend in the US and emerging markets was particularly favourable measured in SEK.

The Swedish economy continued to perform at a healthy rate and was largely in line with expectations. However, inflation presented a negative surprise, and means that we are now in the unusual situation of having a more expansive monetary policy despite Sweden experiencing an economic boom. Housing prices continued to rise but the rate gradually declined over the course of the year.

Regulatory development

Regulatory changes are expected to continue to have a major impact on banks and some uncertainty exists in several areas regarding the final requirements. The European Commission and Basel Committee continued their work on reviewing current capital adequacy frameworks. At the end of 2016, the European Commission published its proposed reviews of the existing capital-adequacy requirements – both the regulation and the directive. The Basel Committee published a number of consultations during the year, for example, the standardised measurement approach for operational risk, restrictions on the application of internal models for credit risk, a review of Pillar III requirements, the leverage ratio and management of accounting reserves in capital adequacy. The review of capital adequacy rules is expected to result in significant changes for banks.

New EU rules on bank recovery and resolution were introduced in Sweden during the year. A central principle of the rules is that the banks' owners and lenders are to incur any losses in the event of a financial crisis, rather than the tax payer.

The new accounting standard IFRS 9 applies from 1 January 2018 and the bank's process of implementation is proceeding according to plan. The new rules include changes to the recognition of loan losses. A number of operations rules, such as PSD2, will also take effect.

Länsförsäkringar Bank AB is highly prepared and well capitalised for impending changes, even if it is slightly unclear at this stage what the effects will be.

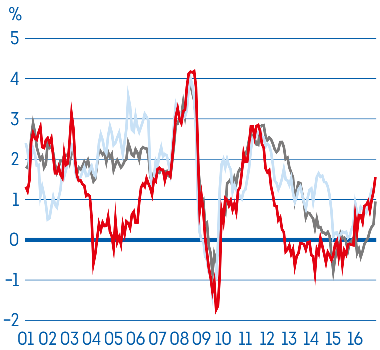
Market facts

GDP growth

Sweden
US
Germany
Eurozone

The Swedish economy performed well during the year.

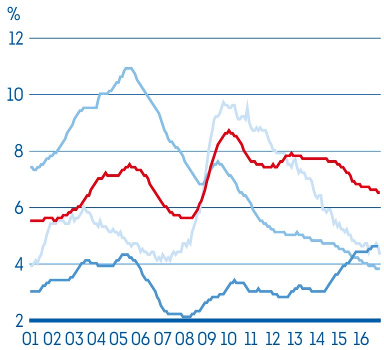
Inflation



Sweden
US
Eurozone

Inflation (CPI) in Sweden remained low and is far below the Riksbank's target of 2%.

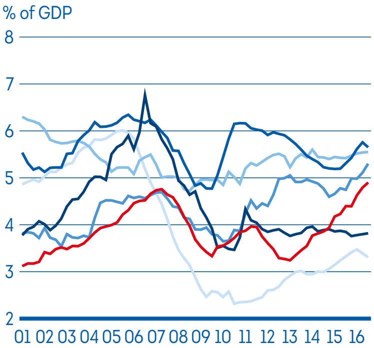
Unemployment



Sweden
Germany
Norway
US

The labour market continued to perform strongly during the year.

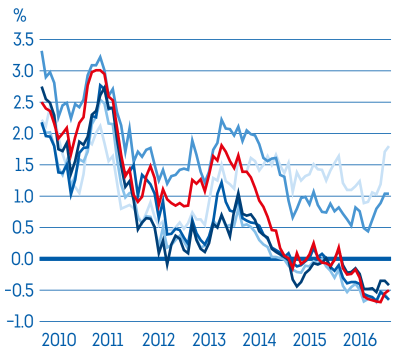
Housing construction



Sweden
Norway
Denmark
Germany
Finland
US

Sweden has a huge shortage of housing that will take many years to overcome, caused by low housing investments for nearly 20 years.

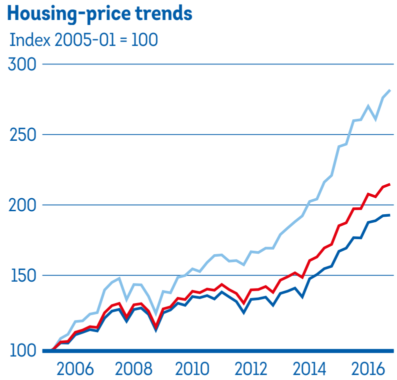
Government bond rates (five-year)



Sweden
Norway
Denmark
Germany
Finland
US

Low inflation contributed to falling Swedish government bond rates.

Housing-price trends



Housing prices
Tenant-owned apartments
Single-family homes

Swedish housing prices continued to rise in 2016, due to high demand combined with a limited supply of residential properties and low interest rates.

High credit quality

Loans and credit quality Loan origination in Länsförsäkringar Hypotek is primarily targeted towards retail mortgages for private individuals. All loans are granted in Sweden and in SEK, based on standardised centrally established credit regulations. The risk appetite is conservative and the loan portfolio maintains very high credit quality.

Credit process

All loans are granted in Sweden, in SEK and have a well-diversified geographic distribution. Loan origination is primarily targeted towards retail mortgages for private individuals. Loans are based on standardised, centrally established credit regulations and most credit decisions are made locally. There are strong incentives to maintain excellent credit quality in the business model between Länsförsäkringar Bank and the regional insurance companies.

The credit regulations, which are based on a low risk appetite, combined with the credit scoring process and local customer and market knowledge, create a loan portfolio that maintains high credit quality. The credit regulations impose strict requirements on customers' repayment capacity and the quality of collateral. In connection with credit scoring, the repayment capacity of borrowers is tested using "left to live on" calculations. These calculations apply a significantly higher interest rate than the actual rate. Both the loan portfolio and value of the collateral are continuously monitored and quality assured.

Retail mortgages

The loan portfolio amounted to SEK 169 billion. Mortgages for private individuals' housing comprises 95% of the mortgage institution's loan portfolio. Single-family homes and vacation homes account for 72% of the collateral and tenant-owned apartments for 23%. The remaining 5% of the loan portfolio pertains to first-lien mortgages for multi-family housing.

Market-value analyses of the collateral in retail mortgages are performed continuously and the values are updated at least once per year.

Cover pool

The cover pool, which forms the basis of issuance of covered bonds, contains SEK 160 billion, corresponding to 94% of the loan portfolio. The collateral comprises only private homes, of which 74% are single-family homes, 24% tenant-owned apartments and 2% vacation homes. The geographic spread throughout Sweden is favourable and the average loan commitment is low at SEK 1.17 M. The weighted average loan-to-value ratio, LTV, was 57% and the nominal, current OC amounted to 38% (38). The collateral in the cover pool is stress tested continuously at a 20% decline in the market value of the assets. A stress test of the cover pool based on a 30% price drop in the market value of the mortgages' collateral resulted in an increase in the weighted average loan-to-value ratio (LTV) to 65% on 31 December 2016. 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.

Standard for greater transparency

To increase transparency, Länsförsäkringar Hypotek publishes information in accordance with "The Covered Bond Label," the new harmonised reporting template from the European Covered Bond Council (ECBC). This is a joint standard for greater transparency in the European covered bond market. Länsförsäkringar Hypotek's website is updated every month with reports on this, as well as further information about the cover pool.

Impairment and impaired loans

Loan losses amounted to SEK –5 M (–10), net, corresponding to a loan loss level of –0.00% (–0.01). Loan losses before dissolution of reserves remained low and amounted to SEK –2 M (–2), net, corresponding to a loan loss level of –0.00% (–0.00). Reserves of SEK 3 M were dissolved during the period according to the settlement model described below. 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

Cover pool

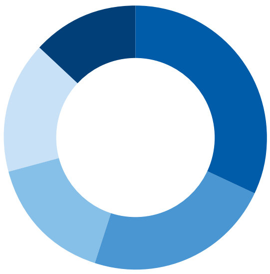
	31 Dec 2016	31 Dec 2015
Total volume, SEK billion	168	146
Swedish mortgages, SEK billion	159	137
Substitute collateral, SEK billion	9	9
Collateral	Private homes	Private homes
Weighted average LTV, %	57	60
OC[1], nominal, current level, %	38	38
Seasoning, months	58	59
Number of loans	321,486	295,057
Number of borrowers	143,686	133,245
Number of properties	143,443	133,274
Average commitment, SEK 000s	1,172	1,032
Average loan, SEK 000s	496	466
Interest rate type, variable, %	67	61
Interest rate type, fixed, %	33	39
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.

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 0 M remained on 31 December 2016. Reserves amounted to SEK 27 M (30), corresponding to a reserve ratio in relation to loans of 0.02% (0.02). In addition, SEK 16 M (13) 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 0.02% (0.03).

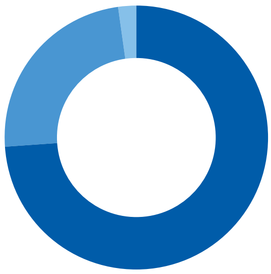
For more information concerning credit risks and credit quality, see note 3 Risks and capital adequacy on page 27. For more information concerning loans, impaired loans and impairment of loan receivables, see Accounting policies on page 22.

Cover pool, geographic allocation



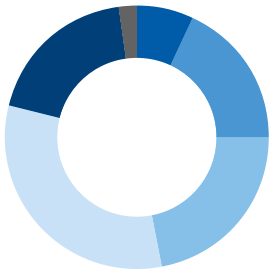
The cover pool is highly diversified throughout Sweden and is not exposed to concentration risk.

Cover pool, collateral distribution



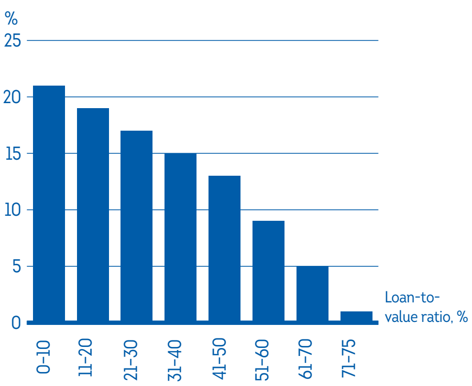
The collateral in the cover pool exclusively comprises private homes, and predominantly single-family homes.

Distribution of commitments in cover pool



Only 2% of the commitments have a loan amount of more than SEK 5 M.

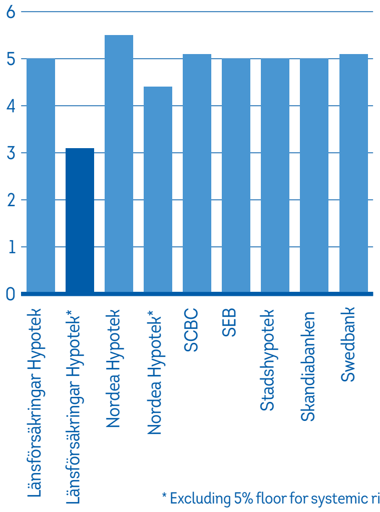
Distribution of LTV ratio



The cover pool's weighted average LTV amounted to 57% on 31 December 2016.

Moody's collateral score

Source: Moody's Global Covered Bonds Monitoring Overview, 10 November 2016



* Excluding 5% floor for systemic risk

Länsförsäkringar Hypotek's collateral in the cover pool has the highest credit quality compared with all Swedish covered-bond issuers, with a collateral score of 3.1% (excluding systemic risk). A lower the collateral score indicates a higher credit quality according to Moody's. Average collateral score among Swedish issuers is 5.1%.

Strong liquidity

Funding and liquidity The mortgage operations' main financing sources comprise funding with Länsförsäkringar Hypotek's covered bonds. These retained the highest credit ratings: Aaa from Moody's and AAA/Stable from Standard & Poor's.

Objectives

The aim of the funding operations is to ensure that the Group has a sufficiently strong liquidity reserve to manage turbulent periods in capital markets, when funding opportunities are limited or prevailing circumstances render funding impossible. The Group's liquidity risk is controlled and limited on the basis of a survival horizon, meaning how long all known cash flows can be met without access to financing in the capital market.

Financing sources

The retail mortgage operations' financing sources mainly comprise funding with Länsförsäkringar Hypotek's covered bonds, which have the highest credit rating, Aaa from Moody's and AAA/Stable from Standard & Poor's. Capital market funding is conducted under a number of funding programmes. The single most important source of financing is the Swedish covered bond market, where Länsförsäkringar Hypotek has a number of outstanding liquid benchmark bonds. At year-end, Länsförsäkringar Hypotek had six outstanding benchmark loans with maturities until 2022.

The Swedish covered bond market is one of Europe's largest and most liquid, which secures excellent access to long-term financing.

Diversification

Since all assets in the balance sheet are in SEK, the mortgage operations have no structural need for financing in foreign currency. However, a certain portion of the capital-market funding is conducted in international markets to diversify and broaden the investor base. Funding takes place regularly through the issuance of Euro Benchmark Covered Bonds, which increases diversification and strengthens the brand in both the Swedish and European capital markets. In addition, diversification takes place through issuances of bonds, primarily in the currencies NOK, CHF and GBP. The international markets were primarily used for long maturities.

Refinancing and liquidity risk management

Länsförsäkringar Hypotek works proactively with its outstanding liabilities by repurchasing bonds with short remaining terms against issuance of long-term liabilities as a means of managing and minimising the liquidity and refinancing risk.

The market risks that arise in the lending and funding operations are managed through derivative instruments.

Funding during the year

During the year, Länsförsäkringar Hypotek continuously had favourable access to funding. A seven-year EUR 500 M covered bond transaction was issued in April, which was the largest transaction in 2016 directed to the foreign investor base. A relatively

Swedish covered benchmark bonds

Loans	Date of maturity	Outstanding, SEK billion	Coupon, %
507	21 June 2017	7.3	4.5
511	20 June 2018	17.1	2.5
512	19 June 2019	15.4	2.5
513	16 September 2020	22.1	3.25
514	15 September 2021	17.1	1.75
515	21 September 2022	12.8	2.25
Total		**91.8**	

Funding programme

Programme	Limit, Nom, SEK billion	Issued in 2016 Nom, SEK billion	Issued in 2015 Nom, SEK billion	Outstanding, 31 Dec 2016, Nom, SEK billion	Outstanding, 31 Dec 2015, Nom, SEK billion	Remaining average term, years 31 Dec 2016	Remaining average term, years 31 Dec 2015
Swedish covered Benchmark	Unlimited	26.3	26.4	91.8	81.5	3.3	3.1
MTCN	SEK 30	0.1	3.5	4.8	5.3	3.6	4.1
EMTCN	EUR 5	4.9	4.7	25.0	20.2	4.8	5.4
Total		**31.3**	**34.6**	**121.6**	**107.0**	**3.6**	**3.6**

large portion of the funding in the Swedish market took place during the first half of 2016. As in previous years, Länsförsäkringar Hypotek was active in the repurchase of own debt. SEK 8 billion was repurchased during the year, mainly benchmark bond 507 due in June 2017.

Liquidity

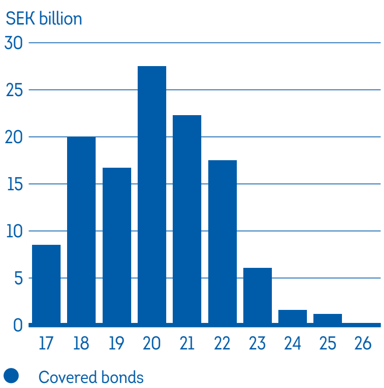
The management of liquidity and financing is characterised by effective long-term planning and a high level of control. A satisfactory liquidity reserve is in place to ensure that sufficient liquidity is always available. The management and investment of the liquidity reserve are conservative.

On 31 December 2016, the liquidity reserve amounted to SEK 9 billion according to the Swedish Bankers' Association's definition, comprising 100% Swedish covered bonds with an AAA/Aaa credit rating.

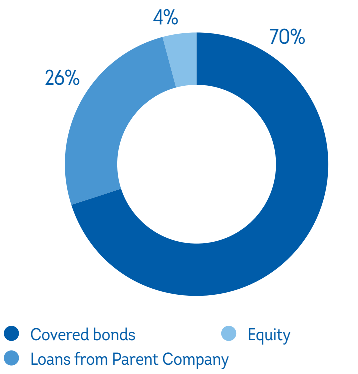
Rating

Länsförsäkringar Hypotek's covered bonds maintained the highest credit rating of Aaa from Moody's, and AAA/Stable from Standard & Poor's. Länsförsäkringar Hypotek is thus one of three issuers in the Swedish market for covered bonds with the highest rating from both Standard & Poor's and Moody's. Länsförsäkringar Bank's long-term credit rating is A/Stable from Standard & Poor's and A1/Stable from Moody's. The short-term credit ratings are A-1 from Standard & Poor's and P-1 from Moody's.

Funding programme by maturity

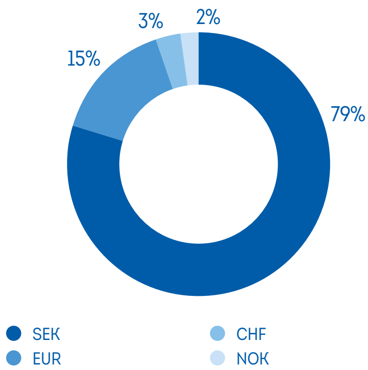


Financing sources



Lending is primarily financed by covered bonds, comprising 70% of financing.

Funding by currency



Funding primarily takes place in SEK, which amounted to 79% of funding by currency at year-end.

Board of Directors' Report

The Board of Directors and the President of Länsförsäkringar Hypotek AB (publ) hereby submit the Annual Report for 2016.

Ownership

Länsförsäkringar Hypotek (publ) is part of the Länsförsäkringar Alliance, which comprises 23 local, independent and customer-owned regional insurance companies that jointly own Länsförsäkringar AB (publ) and its subsidiaries. Länsförsäkringar AB (publ) is responsible for conducting joint business activities, strategic development activities and providing service. The aim is to create possibilities for the regional insurance companies to continue to grow and be successful in their respective markets.

Länsförsäkringar Hypotek AB (publ) (556244-1781) is a subsidiary of Länsförsäkringar Bank AB (publ) (516401-9878), which is the Parent Company of the Bank Group and a subsidiary of Länsförsäkringar AB (publ) (556549-7020). The Bank Group includes Länsförsäkringar Hypotek AB (publ), Länsförsäkringar Fondförvaltning AB (publ) (556364-2783) and Wasa Kredit AB (556311-9204). The abbreviated forms of all of these company names are used in the remainder of the Board of Directors' Report.

The operations of Länsförsäkringar Hypotek are outsourced to Länsförsäkringar Bank. The President and parts of the finance department are employed at Länsförsäkringar Hypotek. Other administration is handled in its entirety by Länsförsäkringar Bank.

Focus of operations

The company conducts mortgage operations involving the origination of loans against collateral in the form of single-family homes, tenant-owned apartments and vacation homes and, to some extent, multi-family housing and industrial and office properties. Lending, which is provided to private individuals and homeowners, is conducted at 128 branches of the regional insurance companies throughout Sweden and via digital services and telephone. Sales and certain administration of banking and mortgage services are carried out in the branches of the regional insurance companies. The regional insurance companies are reimbursed for sales and administration through a reimbursement system based on volumes managed. Another part of the full-service offering is the 160 branches of Länsförsäkringar Fastighetsförmedling throughout Sweden.

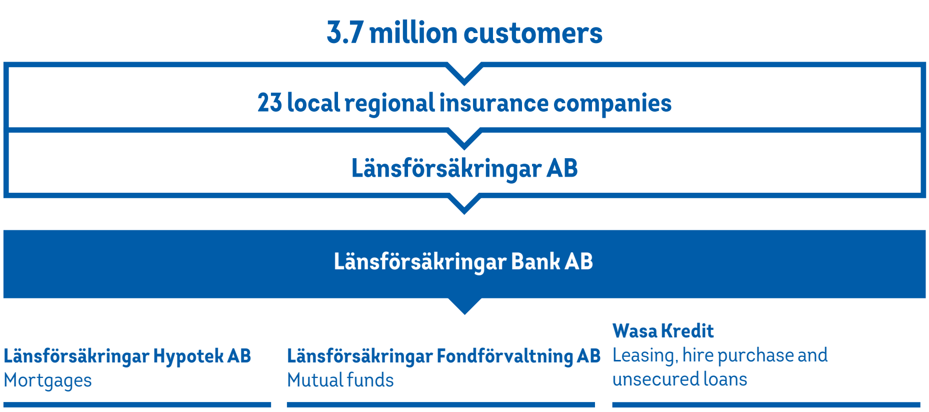
Market commentary

2016 was an eventful year of political uncertainty, but it also started with economic unease and a sharp decline in the oil price. Fears about the global economy, particularly regarding growth prospects for China, impacted the financial markets in the form of both stock-market downturns and falls in interest rates. Despite initial market concern, global growth for 2016 appears to be only slightly lower than initially expected at the start of the year. This slightly weaker trend was primarily the result of lower growth than anticipated in the US, although this was offset by, for example, China's more positive performance. This allowed the Federal Reserve to cautiously continue to normalise its monetary policy and raise its key interest rate at the end of the year, only the second increase since 2006. Europe continued to recover during the year, partly due to the ECB's highly expansive measures, such as commencing its corporate sector purchase programme. The political situation was also a key focal point of the year. The UK voted to leave the European Union and the Republican candidate Donald Trump won the US presidential election. It is more difficult to predict the long-term implications, even though market reactions following the EU referendum in the UK were short-lived and reactions after the US presidential election limited. Trump's victory at the polls impacted market expectations of growth and inflation in the US for the next few years. Greater fiscal stimulus packages are expected to strengthen growth in an economic climate that is already booming, which thus increases the risk of higher inflation and interest rates.

Global long-term interest rates rose in the autumn from historically low, and in certain cases negative, levels, an upswing that accelerated after the US presidential election. Interest rates for covered bonds fell during the year and investor demand was high. The majority of the world's equities markets reported positive returns for the year and the stock-market trend in the US and emerging markets was particularly favourable measured in SEK.

The Swedish economy continued to perform at a healthy rate and was largely in line with expectations. However, inflation presented a negative surprise, and means that we are now in the unusual situation of having a more expansive monetary policy despite Sweden experiencing an economic

Länsförsäkringar Hypotek – part of the Länsförsäkringar Alliance



boom. Housing prices continued to rise but the rate gradually declined over the course of the year.

Growth and customer trend

Loans to the public rose 15%, or SEK 21.8 billion, to SEK 168.9 billion (147.1), with continued very high credit quality. The number of customers rose 7%, or 15,000, to 231,000 (216,000), and 87% (86) of retail mortgage customers have Länsförsäkringar as their primary bank.

Earnings and profitability

Operating profit increased 29% to SEK 658.4 M (508.8), primarily due to higher net interest income. The investment margin strengthened to 0.92% (0.84). Profit before loan losses rose 31% to SEK 653.6 M (499.0) due to higher net interest income. The return on equity amounted to 6.7% (6.0).

Income

Operating income rose 26% to SEK 751.0 M (593.9), due to higher net interest income attributable to increased volumes and lower refinancing costs. Net interest income increased 24% to SEK 1,647 M (1,326). Net gains from financial items amounted to SEK 39.1 M (68.3). Net commission amounted to SEK –935.3 M (–799.8), due to increased remuneration to the regional insurance companies related to higher business volumes and strengthened profitability of the business.

Expenses

Operating expenses amounted to SEK 97.4 M (94.9). The cost/income ratio was 0.13 (0.16) before loan losses and 0.12 (0.14) after loan losses.

Loan losses

Loan losses amounted to SEK –4.8 M (–9.8), net, corresponding to a loan loss level of –0.00% (–0.01). Loan losses before dissolution of reserves remained low at SEK –1.7 M (–1.8), net. Reserves of SEK 3.1 M were dissolved during the period according to the settlement model described below. In the year-earlier period, reserves of SEK 8.0 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 21.0 M, of which SEK 0 M remained on 31 December 2016. Reserves amounted to SEK 27.0 M (30.1), corresponding to a reserve ratio in relation to loans of 0.02% (0.02). In addition, SEK 16.1 M (13.0) 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 0.02% (0.03).

For more information regarding loan losses, reserves and impaired loans, see notes 12 and 16.

Loans

All loans are granted in Sweden and in SEK. Loans to the public increased 15%, or SEK 21.8 billion, to SEK 168.9 billion (147.1). 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 31 December 2016, the market share for retail mortgages was 5.8% (5.5), according to data from Statistics Sweden.

Cover pool

The cover pool, which forms the basis of issuance of covered bonds, contains SEK 159.5 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 commitment is low at SEK 1.17 M (1.03). The weighted average loan-to-value ratio, LTV, was 57% (60) and the nominal, current OC amounted to 38% (38). A stress test of the cover pool based on a 20% price drop in the market value of the mortgages' collateral resulted in a weighted average LTV of 65% (67) on 31 December 2016. 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.

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 126.9 billion (110.4). Issued covered bonds during the year totalled a nominal SEK 31.3 billion (34.6) and repurchases of a nominal SEK 8.4 billion (10.0) were executed. Matured covered bonds amounted to a nominal SEK 8.3 billion (16.3).

Liquidity

On 31 December 2016, the liquidity reserve totalled SEK 9.3 billion (9.5), according to the Swedish Bankers' Association's definition. The liquidity situation remained healthy and the survival horizon was almost 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 adequacy
On 31 December 2016, Common Equity Tier 1 capital and Tier 1 capital were SEK 7,891 M (7,770) and the Common Equity Tier 1 capital ratio amounted to 44.1% (44.2). Own funds totalled SEK 8,892 M (8,771) and the capital adequacy ratio amounted to 49.7% (49.9). Common Equity Tier 1 capital increased SEK 121 M during the period mainly attributable to generated profit. On 31 December 2016, the total Risk Exposure Amount (REA) amounted to SEK 17,894 M (17,582). Lending to households in the form of mortgages continued to increase but REA rose only SEK 293 M for IRB retail exposures 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 3,788 M (3,659). The countercyclical capital buffer (1.5% of REA) totalled SEK 268 M. This capital conservation buffer that is to correspond to 2.5% of REA amounted to SEK 447 M on 31 December 2016.

For more information about the calculation of capital adequacy, see note 3 Risks and capital adequacy on page 27.

Employees
As part of the Bank Group, the mortgage institution is included in the Länsförsäkringar AB Group and HR work is conducted jointly. Dedicated employees, active change management, a positive work environment and competent leadership are important prerequisites for Länsförsäkringar AB in order to achieve results. An employee survey is conducted once per year, with a focus on feeding back the results and a joint improvement process. The results of this year's employee survey revealed a higher index compared with Swedish financial companies.

Environment
The aim of the Länsförsäkringar AB Group's environmental work, which the mortgage institution is also part of, is reduced costs, improved customer service and clear environmental benefits that contribute to sustainable development for customers and society. The environmental work of the retail mortgage operations is directly linked to the joint environmental policy. The mortgage institution can primarily impact the environment in such areas as loan origination, paper-based communication and product management with customers, and by directing customers to digital services.

Risks and uncertainties
The operations are characterised by a low risk profile. Länsförsäkringar Hypotek is exposed to a number of risks, primarily credit risks, refinancing risks and market risks. The macroeconomic situation in Sweden is critical for credit risks since all loans are granted in Sweden. Market risks primarily comprise interest-rate risks. Loan losses remain low and the refinancing of business activities was highly satisfactory during the year.

For information about the risks in the operations, risk and capital management and principles for risk governance, see note 3 Risks and capital adequacy on page 27.

Expectations regarding future development
Länsförsäkringar Hypotek intends to maintain its strategic focus by achieving profitable growth with high credit quality and maintaining a favourable level of capitalisation. Growth in lending will take place by paying close attention to changes in the business environment, the financial situation and the prevailing circumstances in the capital market. Strong liquidity will be maintained. The continued market strategy is to conduct sales and customer marketing activities targeting the regional insurance companies' customers.

Events after year-end
No significant events took place after the close of the year.

Proposed appropriation of profit
The following profit is at the disposal of the Annual General Meeting:

	SEK
Fair value reserve	24,391,880
Retained earnings	7,133,809,786
Net profit for the year	387,267,360
Profit to be appropriated	**7,545,469,025**

The Board proposes that SEK 7,545,469,025 be carried forward.

For more information on the company's recognised earnings, financial position and average number of employees, see the following income statement, balance sheet, cash-flow statement, changes in shareholders' equity and notes on pages 18–45. See page 13 for the five-year summary. All figures in the Annual Report are reported in SEK M unless otherwise specified.

Rating

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

Five-year summary

SEK M	2016	2015	2014	2013	2012
INCOME STATEMENT					
Net interest income	1,646.9	1,325.6	1,001.0	852.3	795.6
Net commission	–935.3	–800.1	–564.4	–346.1	–385.2
Net gains/losses from financial items	39.1	68.3	48.6	–105.4	2.4
Other operating income	0.2	0.1	0.4	0.4	0.1
Total operating income	**751.0**	**593.9**	**485.6**	**401.2**	**412.9**
Staff costs	–14.8	–14.4	–14.6	–14.8	–12.9
Other administration expenses	–82.5	–80.3	–76.5	–74.6	–78.2
Depreciation and impairment of property and equipment	–0.2	–0.2	–0.1	–0.1	–0.1
Total operating expenses	**–97.4**	**–94.9**	**–91.2**	**–89.5**	**–91.2**
Profit before loan losses	**653.6**	**499.0**	**394.4**	**311.7**	**321.7**
Loan losses, net	4.8	9.8	10.7	–6.6	–2.3
Operating profit	**658.4**	**508.8**	**405.1**	**305.1**	**319.4**
Appropriations	–150.0	–127.0	–116.8	–65.0	–
Tax on net profit for the year	–121.1	–73.5	–77.1	–80.6	–62.1
Net profit for the year	**387.3**	**308.3**	**211.2**	**159.5**	**257.3**
BALANCE SHEET					
Assets					
Treasury bills and other eligible bills	–	–	–	1,491.9	1,544.9
Loans to credit institutions	4,614.7	4,395.3	2,488.8	4,710.0	1,696.2
Loans to the public	168,947.9	147,055.5	126,127.9	112,143.4	101,434.4
Bonds and other interest-bearing securities	9,201.4	9,344.8	12,391.9	15,375.9	18,218.7
Derivatives	5,170.2	4,164.9	4,827.5	1,146.2	1,746.4
Other assets	1,293.5	1,662.1	2,407.7	2,341.4	2,678.0
Total assets	**189,227.6**	**166,622.6**	**148,243.8**	**137,208.8**	**127,318.6**
Liabilities and equity					
Due to credit institutions	47,002.4	41,267.7	32,637.1	26,437.8	22,984.2
Debt securities in issue	126,887.9	110,399.8	100,888.0	98,989.5	90,962.4
Derivatives	1,000.9	1,710.3	1,747.1	2,538.0	2,824.3
Subordinated liabilities	1,001.0	1,001.0	501.0	501.0	501.0
Other liabilities	5,705.3	5,536.0	6,550.8	3,511.2	5,155.7
Equity	7,629.9	6,707.8	5,919.8	5,231.3	4,891.0
Total liabilities and equity	**189,227.6**	**166,622.6**	**148,243.8**	**137,208.8**	**127,318.6**
KEY FIGURES					
Return on equity, %	6.7	6.0	5.5	4.8	5.2
Return on total capital, %	0.37	0.32	0.29	0.23	0.26
Investment margin, %	0.92	0.84	0.71	0.64	0.65
Cost/income ratio before loan losses	0.13	0.16	0.19	0.22	0.22
Common Equity Tier 1 capital ratio, %	44.1	37.4	21.9	–	–
Total capital ratio, %	49.7	42.9	23.8	–	–
Percentage of impaired loans, gross, %	0.00	0.00	0.00	0.01	0.00
Reserve ratio in relation to loans, %	0.02	0.02	0.03	0.04	0.04
Reserve ratio in relation to loans, incl. held remuneration to regional insurance companies, %	0.02	0.03	0.04	–	–
Loan loss level, %	–0.00[1]	–0.01[1]	–0.01[1]	0.01	0.00

[1] Includes the dissolution of reserves.

Corporate Governance Report

Introduction

Länsförsäkringar Hypotek AB (Länsförsäkringar Hypotek) is a wholly owned subsidiary of Länsförsäkringar Bank AB (publ), which in turn is a wholly owned subsidiary of Länsförsäkringar AB (publ). Länsförsäkringar AB, with its subsidiaries and owners, jointly comprise the Länsförsäkringar Alliance.

Länsförsäkringar Hypotek is a public limited liability company whose bonds are listed on Nasdaq Stockholm, Oslo Børs, Luxembourg Stock Exchange and SIX Swiss Exchange.

Corporate governance

Länsförsäkringar Hypotek, with its Parent Company Länsförsäkringar Bank, and subsidiaries Länsförsäkringar Fondförvaltning AB (publ) and Wasa Kredit AB, comprise the operative Bank business unit of the Länsförsäkringar AB Group.

The Länsförsäkringar AB Group has a corporate governance system based on the Länsförsäkringar Alliance's strategies, Länsförsäkringar AB's assignment from its owners, Länsförsäkringar AB's long-term direction and on principles for managing the Länsförsäkringar AB Group decided upon by the Board of Länsförsäkringar AB. The risk-based performance management represents the basis of the corporate governance system.

Based on the aforementioned starting points, the corporate governance system consists of the organisation, the internal regulations and internal-control system, while Länsförsäkringar Hypotek guarantees the governance and internal control within the company within the framework of the corporate governance system.

The Board establishes the operational organisation for Länsförsäkringar Hypotek, which should be appropriate and transparent, with a clear distribution of responsibilities and duties between the so-called lines of defence and a clear decision and reporting procedure. An internal-control system is integrated into the operational organisation, including a compliance system and a risk management system. Economies of scale are guaranteed within the framework of the organisation via Group-wide functions and outsourced operations, continuity management and contingency plans, efficient systems for reporting and transferring information, information security, management of conflicts of interest and ensuring that Board members and employees are suited to their tasks.

The internal regulations, which comprise governance documents such as policies, guidelines and instructions, represent an important tool for managing the operations. The organisation and distribution of responsibility are determined by the internal regulations, as are the procedures for governance and internal control. The internal regulations are reviewed and decided upon regularly.

Internal control is part of the governance and management of Länsförsäkringar Hypotek. Internal control aims to ensure that the organisation is efficient and fit for its purpose, that operations are conducted in accordance with decided strategies in order to achieve established targets, that financial statements and reporting are reliable, that information systems are managed and operated efficiently and that there is a strong ability to identity, measure, monitor and manage risks and full regulatory compliance. Risk and capital control and capital planning are a part of the internal control.

The internal-control process encompasses all parts of the organisation, including outsourced activities, and is an integral part of the organisational structure and decision-making processes. Internal control in the company is based on a system comprising three lines of defence, which comprise operations in the first line, functions for compliance and risk control in the second line and Internal Audit in the third line.

The purpose of the risk-management system, which is a part of internal control, is to ensure that Länsförsäkringar Hypotek is continuously able to identify, measure, monitor, manage and report risks. Internal control also includes the compliance system that ensures compliance with laws, regulations and other rules, and guarantees that new and amended regulations are monitored and implemented effectively, that the Board and employees are trained and that risks linked to compliance with external and internal rules can continuously be identified, measured, controlled, managed and reported.

Shareholders and General Meeting

Shareholders exercise their voting rights at the Annual General Meeting, which is the highest decision-making body. A general meeting is normally held once per year, the Annual General Meeting. Länsförsäkringar Bank AB owns 100% of the share capital and voting rights, and votes at the Meeting using the full number of shares owned. Decisions are made at the Annual General Meeting regarding the Annual Report, the election of members of the Board and auditors, fees and other remuneration to Board members and auditors, and other important matters to be addressed in accordance with laws or the Articles of Association.

Nomination process

The President of the Parent Company, Länsförsäkringar Bank AB, in consultation with the CEO of Länsförsäkringar AB, submits proposals regarding the Board of Directors and auditors of Länsförsäkringar Hypotek, and fees to these members and auditors. A suitability assessment of the proposed Board members is conducted, whereby the applicable guidelines for assessing the suitability of Board members of Länsförsäkringar AB's subsidiaries is applied, as well as specific process and procedure descriptions.

The Board is to have a sufficient number of Board members based on the size and degree of complexity of the company, and the nature and scope of the operations. With this as the starting point, an assessment is to be made as to whether the Board has a suitable composition, with respect to the operations, stage of development and other conditions of the company, that ensures that the overall competencies necessary for the company are in place, characterised by diversity in terms of, for example, age, gender and ethnic origin, in accordance with the Länsförsäkringar AB Group's diversity policy applicable at any time.

Board of Directors

The Board of Directors of Länsförsäkringar Hypotek is elected by the Annual General Meeting and, in accordance with the Articles of Association, is to comprise between five and ten Board ordinary members elected by the Annual General Meeting, with no more than three deputies. Board members are elected for a mandate period of two years. The President is not a member of the Board. Länsförsäkringar Hypotek has no time limit for the length of time a member may sit on the Board and no upper age limit for Board members. The Chairman of the Board is appointed by the Annual General Meeting. The President, Executive Vice President and Board Secretary participate in Board meetings except for matters in which there may be a conflict of interest or when it would otherwise be inappropriate for them to attend. Employees reporting on particular issues attend meetings when they make their presentations. The Board currently comprises a total of five members. The Chairman of the Board is the President of Länsförsäkringar Bank AB. A more detailed presentation of the members can be found on page 50.

Board responsibilities

The Board is responsible for the organisation and administration of the company and for handling and making all decisions concerning issues of material significance and of an overall nature relating to the company's operations. The Board appoints, evaluates and dismisses the President, adopts an appropriate executive organisation and the goals and strategies of the operations, and ensures that efficient systems are in place for internal governance and control, as well as risk management. Every year, the Board adopts a formal work plan. The formal work plan includes regulations on the duties and responsibilities of the Board, its Chairman and its members, the delegation of duties within the Board, the lowest number of Board meetings, procedures for reporting on the operations and financial reports, as well as procedures for Board meetings in terms of notices of meetings and presentations of materials, as well as conflicts of interest and disqualification.

The Board is to continuously remain informed about the performance of the company to be able to continuously assess the company's financial situation and position. Through its formal work plan, the Board has established that financial reporting is to take place through regular Board meetings. The Board must also regularly manage and evaluate the company's risk development and risk management. During the year, the Board regularly monitors the earnings, business volumes, financial position and risk trends in relation to the business plan and forecasts. The Board receives regular reports from Compliance, Risk Management and Internal Audit.

The Board continuously monitors current matters with authorities. The Board has established a Remuneration Committee to prepare matters regarding remuneration of the President and other members of corporate management and employees with overall responsibility for any of the company's control functions, and to prepare decisions on measures to monitor application of the remuneration policy. At the statutory Board meeting following the 2016 Annual General Meeting, Rikard Josefson was appointed Chairman, and Christer Malm was appointed a member of the Remuneration Committee.

President and corporate management

Anders Borgcrantz has been the President of Länsförsäkringar Hypotek since 2005. Anders Borgcrantz was born in 1961 and has worked in the banking and finance sector since 1985. The President and CFO of Länsförsäkringar Hypotek as well as the people responsible for issuing covered bonds are employees of Länsförsäkringar Hypotek. Other parts of Länsförsäkringar Hypotek's operations are outsourced to the Länsförsäkringar AB Group under a special outsourcing agreement.

Control functions

Internal Audit

Internal Audit is an independent review function that supports the Board in the evaluation of the corporate governance system, including the organisation's risk management, governance and controls. Based on its reviews, Internal Audit is to evaluate and assure that the operations' overall internal governance and control systems are conducted in an efficient manner and that the overall reporting to the Board provides a true and fair view of the operations, that the operations are conducted in accordance with applicable internal and external regulations, and in compliance with the Board's decisions and intentions. The Board has adopted a separate instruction for the Internal Audit function. Internal Audit reports to the Board of Directors of Länsförsäkringar Hypotek.

Compliance

Compliance is an independent control function responsible for monitoring and controlling that operations are conducted in full regulatory compliance. The task of the function is to monitor and control regulatory compliance in the licensable operations, and identify and report on risks that may arise as a result of non-compliance with regulatory requirements. Compliance is to also provide support and advice to operations, to ensure that operations are informed about new and amended regulations and to take part in the implementation of training. Compliance risks and recommendations of actions are to be reported to the President and the Board of Länsförsäkringar Hypotek.

Risk Management

The task of Risk Management is to provide support to the Board, the President and management, to fulfil its responsibility of ensuring that proper risk management and risk control have been carried out for all operations and to ensure that risks are managed in line with the risk framework established by the Board. Risk Management is to carry out its activities independently from the business activities, with organisational distribution into an independent support section and an independent control section. The Head of Risk Management is also the Risk Manager for Länsförsäkringar Bank, who is responsible for ensuring that the Group's risks are managed in accordance with the established risk framework. Risks and actions taken are reported continuously to the President and the Board of Directors of Länsförsäkringar Hypotek.

Suitability assessment of Board and President

A suitability assessment is conducted in conjunction with the appointment of Board members and the President. An assessment is also conducted annually, and when necessary, to ensure that the individuals in the above-mentioned positions are, at any given time, suitable for their assignments. The suitability assessment is conducted following established guidelines and takes into consideration the person's expertise and experience as well as reputation and integrity.

Board members are assessed on the basis of material received from the person to whom the suitability assessment pertains. Based on Länsförsäkringar Hypotek's operations, stage of development and other circumstances, the assessment also considers relevant training and experience, as well as professional experience in senior positions. In addition to the expertise and experience of individual Board members, the Board is assessed in its entirety to ensure that it possesses the competence required for leading and managing the company. A person considered unsuitable according to an assessment will not be appointed or employed. If an already appointed person is considered no longer suitable for his or her duties according to a suitability assessment, Länsförsäkringar Hypotek is to adopt measures to ensure that the person in question either meets the suitability requirements or is replaced. The assessment is that all Board members and the President fully satisfy the suitability requirements.

Internal control over financial reporting

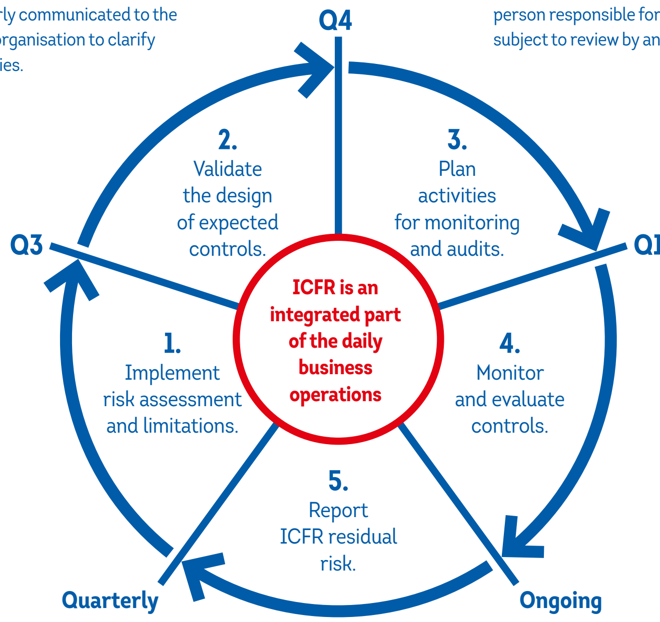
Internal control over financial reporting (ICFR) is a process for evaluating the reliability of financial reporting. Work with this process began in 2013 and the operations work continuously to develop the methodology. The ICFR process is performed in an annual cycle as shown in the diagram below.

2. Validate the design of expected controls

Internal control over financial reporting includes Group-wide controls, as well as process and IT controls. The purpose of the controls is to reduce the risk of misstatement in financial reporting. The control structure is regularly communicated to the relevant individuals in the organisation to clarify the division of responsibilities.

3. Plan activities for monitoring and audits

A plan for the quarterly self-assessment is produced and communicated with the operations. The plan sets out when the assessment will take place, the controls that will be assessed and the person responsible for the assessment. ICFR is subject to review by an internal audit.



1. Perform risk assessments and define limitations/scope

Risk assessments are performed annually at Group and legal unit level to identify the risk of material misstatement in financial reporting. The risk assessment provides the basis for determining the units and processes that are to be covered by the ICFR process. The conclusions from the risk assessment are compiled in an annual scoping report, in which the scope and goal scenario for the coming year are described and presented to the Audit Committee.

4. Monitor and evaluate controls

Monitoring includes, for example, quarterly self-assessment of the controls carried out in the operations. The monitoring process can identify weaknesses in the ICFR process, implement compensating controls and introduce improvement measures. The process also includes evaluating the controls and their effectiveness. The objective is for the Group to reach a monitored level.

5. Report ICFR residual risk

The results of the self-assessment are compiled and analysed to determine the risk of misstatement in financial reporting. These are summarised in a report to the Group's CFO and to the Audit Committee. The report describes the residual risk after the self-assessment, and the compensating controls adopted by the operations to manage risk in financial reporting.

In addition to the process described above, Internal Audit also performs an independent review of selected ICFR risks and controls, in accordance with the plan adopted by the Audit Committee. The results of Internal Audit's review, and recommendations, are reported regularly to the Audit Committee.

Financial statements

Income statement

SEK M	Note	2016	2015
Interest income	5	2,355.6	2,285.7
Interest expense	5	–708.7	–960.1
Net interest income		**1,646.9**	**1,325.6**
Commission income	6	2.2	2.2
Commission expense	7	–937.5	–802.3
Net gains from financial items	8	39.1	68.3
Other operating income		0.2	0.1
Total operating income		**751.0**	**593.9**
Staff costs	9	-14.8	–14.4
Other administration expenses	10, 11	-82.5	–80.3
Total administration expenses		**-97.3**	**-94,7**
Depreciation and impairment of property and equipment		–0.1	–0.2
Total operating expenses		**–97.4**	**–94.9**
Profit before loan losses		**653.6**	**499.0**
Loan losses, net	12	4.8	9.8
Operating profit		**658.4**	**508.8**
Appropriations	27	–150.0	–127.0
Tax	13	–121.1	–73.5
Net profit for the year		**387.3**	**308.3**

Statement of comprehensive income

SEK M	Note	2016	2015
Profit for the period		**387.3**	**308.3**
Other comprehensive income			
Items that may subsequently be reclassified to the income statement			
Cash-flow hedges			
Change in value for the period		1,788.2	608.3
Reclassification to profit and loss		–1,888.9	–570.3
Change in fair value from available-for-sale financial assets			
Change in value for the period		20.2	–58.0
Reclassification realised securities		–3.1	–6.0
Tax attributable to items that are rerouted or can be rerouted as income for the period		18.4	5.7
Total other comprehensive income for the period, net after tax		**–65.2**	**–20.3**
Total comprehensive income for the period		**322.1**	**288.0**

Balance sheet

SEK M	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Loans to credit institutions	14	4,614.7	4,395.3
Loans to the public	15	168,947.9	147,055.5
Bonds and other interest-bearing securities	16	9,201.4	9,344.8
Derivatives	17	5,170.2	4,164.9
Fair value changes of interest-rate risk hedged items in portfolio hedge	18	536.4	694.9
Property and equipment	19	0.5	0.6
Deferred tax assets		–	2.9
Other assets		23.2	18.0
Prepaid expenses and accrued income	20	733.4	945.7
TOTAL ASSETS		**189,227.7**	**166,622.6**
LIABILITIES, PROVISIONS AND EQUITY			
Due to credit institutions	21	47,002.4	41,267.7
Debt securities in issue	22	126,887.9	110,399.8
Derivatives	17	1,000.9	1,710.3
Fair value changes of interest-rate risk hedged items in portfolio hedge	18	3,027.2	2,752.5
Deferred tax liabilities		0.3	
Other liabilities	23	77.9	73.3
Accrued expenses and deferred income	24	2,140.4	2,400.5
Provisions	25	1.0	0.9
Subordinated liabilities	26	1,001.0	1,001.0
Total liabilities and provisions		**181,139.0**	**159,606.0**
Untaxed reserves	27	**458.8**	**308.8**
Equity	28		
Share capital, 70,335 shares		70.3	70.3
Statutory reserve		14.1	14.1
Fair value reserve		24.4	89.6
Retained earnings		7,133.8	6,225.5
Net profit for the year		387.3	308.3
Total equity		**7,629.9**	**6,707.8**
TOTAL LIABILITIES, PROVISIONS AND EQUITY		**189,227.6**	**166,622.6**
Other notes			
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Cash-flow statement, indirect method

SEK M	2016	2015
Cash and cash equivalents, 1 January	**17.0**	**11.8**
Operating activities		
Operating profit before tax	658.4	508.8
Adjustment of non-cash items	-6.1	150.0
Change in assets of operating activities		
Change in loans to credit institutions	-224.8	-1,901.3
Change in loans to the public	-21,895.1	-20,918.9
Change in bonds and other interest-bearing securities	54.4	3,026.8
Change in other assets	-346.9	698.5
Change in liabilities of operating activities		
Change in due to credit institutions	5,734.6	8,630.6
Net changes in debt securities in issue	15,515.4	8,972.9
Change in other liabilities	-95.3	-161.8
Cash flow from operating activities	**-605.5**	**-994.4**
Investing activities		
Purchase of property and equipment	–	-0.4
Cash flow from investing activities	**0.0**	**-0.4**
Financing activities		
Shareholders' contribution received	600.0	500.0
Subordinated debt received	–	500.0
Cash flow from financing activities	**600.0**	**1,000.0**
Net cash flow for the year	**-5.5**	**5.2**
Cash and cash equivalents, 31 December	**11.5**	**17.0**
Non-cash items		
Other unrealised change in securities, net	38.4	-57.0
Change in impairment of loan losses, excluding recoveries	3.1	-8.7
Change in accrued expense/income	-47.8	215.8
Provisions	0.1	-0.1
Other	0.2	–
Total non-cash items	**-6.1**	**150.0**
Cash and cash equivalents comprise:		
Loans to credit institutions, payable on demand	11.5	17.0
Total cash and cash equivalents	**11.5**	**17.0**
Interest received amounts to	2,568.9	2,709.6
Interest paid amounts to	-1,077.5	-1,365.8
Grossinvestments	–	-0.4
Income tax paid amounts to	-114.6	-43.5

Cash and cash equivalents are defined as loans and due to credit institutions, payable on demand. Derivative interest rates were reclassified in the second quarter. For more information, see the note on net interest income.

Statement of changes in shareholders' equity

SEK M	Share capital	Statutory reserve	Reserves: Fair value reserve	Reserves: Hedge reserve	Retained earnings	Net profit for the year	Total
Opening balance, 1 January 2015	**70.3**	**14.1**	**60.0**	**49.9**	**5,514.3**	**211.2**	**5,919.8**
Net profit for the year						308.3	308.3
Other comprehensive income for the year			−49.9	29.6			−20.3
Comprehensive income for the year			*−49.9*	*29.6*		*308.3*	*288.0*
Resolution by Annual General Meeting					211.2	−211.2	–
Conditional shareholders contribution received					500.0[1]		500.0
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**
Net profit for the year						387.3	387.3
Other comprehensive income for the year			13.3	−78.5			−65.2
Comprehensive income for the year			*13.3*	*−78.5*		*387.3*	*322.1*
Resolution by Annual General Meeting					308.3	−308.3	
Conditional shareholders contribution received					600.0[1]		600.0
Closing balance, 31 December 2016	**70.3**	**14.1**	**23.4**	**1.0**	**7,133.8**	**387.3**	**7,629.9**

[1] 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 31 December 2016, the amount of the conditional shareholders' contribution received was SEK 4,460.6 (3,860.6) M.

Notes to the financial statements

(All figures in SEK M unless otherwise stated)

Note 1 Company information

The Annual Report for Länsförsäkringar Hypotek AB (publ) (Corp. Reg. No. 556244-1781) was presented on 31 December 2016. Länsförsäkringar Hypotek AB (publ) is a mortgage institution registered in Sweden, with its registered office in Stockholm. The address of the head office is Tegeluddsvägen 11–13. The company is a wholly owned subsidiary of Länsförsäkringar Bank AB (publ) (Corp. Reg. No. 516401-9878), with its registered office in Stockholm, which prepares the consolidated financial statements for the smallest Group in which Länsförsäkringar Hypotek AB (publ) is included as a subsidiary. Länsförsäkringar Hypotek AB (publ) is part of the Group for which Länsförsäkringar AB (publ) (Corp. Reg. No. 556549-7020), with its registered office in Stockholm, prepares the consolidated financial statements for the largest Group in which the company is included as a sub-subsidiary.

The Annual Report for Länsförsäkringar Hypotek AB (publ) was approved by the Board and President for publication on 21 February 2017. Final approval of the Annual Report will take place at the company's Annual General Meeting on 8 May 2017.

Note 2 Accounting policies

COMPLIANCE WITH STANDARDS AND LEGISLATION

Länsförsäkringar Hypotek prepares its accounts in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), the Swedish Financial Supervisory Authority's regulations and general guidelines regarding annual accounts for credit institutions and securities companies (FFFS 2008:25) and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities.

The company applies legally restricted IFRS pertaining to standards adopted for application with the restrictions stipulated by RFR 2 and FFFS 2008:25. This means that all IFRS and interpretations adopted by the EU are applied, unless otherwise stated, as far as possible within the framework of the Swedish Annual Accounts Act and taking into consideration the connection between accounting and taxation.

CONDITIONS RELATING TO THE PREPARATION OF THE FINANCIAL STATEMENTS

Länsförsäkringar Hypotek's functional currency is Swedish kronor (SEK), which is also the presentation currency. The functional currency is the currency in the primary financial environments in which the company conducts its operations, which means that the financial statements are presented in Swedish kronor. All amounts, unless otherwise stated, are rounded to the nearest million (SEK M).

The reporting is based on historical cost. Financial assets and liabilities are recognised at amortised cost, except for certain financial assets and liabilities that are measured at fair value, see the note on fair value valuation techniques, or when fair value hedge accounting is applied.

The accounting policies stated below have been applied to all periods presented in the financial statements, unless otherwise stated.

JUDGEMENTS AND ESTIMATES

The preparation of accounts in accordance with legally restricted IFRS requires that management make judgements and estimates, and make assumptions that affect the application of the accounting policies and the carrying amounts of the income, expenses, assets, liabilities and contingent liabilities and provisions presented in the accounts. These judgements and estimates are based on historical experiences and the best information available on the balance-sheet date. The actual outcome may deviate from these judgements and estimates.

The estimates and judgements are reviewed regularly. Changes in estimates are recognised in the period in which the change is made if the change only affects that period, or in the period in which the change is made and future periods if the change affects the period in question and future periods.

Significant judgements applied to the company's accounting policies

Corporate management discussed with the Board of Directors the performance, selection and disclosures relating to the company's significant accounting policies and estimates, and the application of these policies and estimates. The critical judgements made in the application and selection of the company's accounting policies are primarily attributable to:

- The selection of categories and valuation techniques for financial instruments.

These are described in the paragraph below.

- The company's remuneration to the regional insurance companies, which the company has opted to recognise as commission expense. The regional insurance companies are remunerated for their work with Länsförsäkringar Hypotek's customer-related matters in each of the regional insurance companies' geographic areas, see the note on Commission expense.

Significant sources of estimation uncertainty

Significant sources of uncertainty in estimates mainly comprise provision requirements for credit losses. Loans identified on an individual basis as impaired, and accordingly for which provisions are to be made, are measured at the present value of future cash flows discounted by the original effective interest rate. Information and data collated under the framework of the Group's Internal Ratings-based Approach model are primarily used as support when making estimates of expected future cash flows.

This information has been adjusted for a number of factors to provide a neutral estimate of expected cash flows. Secondly, other models are used based on historical experience. Any reserve requirements on loans that are not deemed to require individual reserves are identified and valued collectively. Firstly, a method is used which is based on the information collated and processed under the framework of capital adequacy work, and secondly, estimates are based on historical values and experience-based adjustments of these values to the current situation.

Determining that a loss event has occurred for a group of receivables entails higher uncertainty since several different events may have an impact.

For a more detailed description, see the section on Loans under accounting policies.

NEW AND AMENDED ACCOUNTING POLICIES

New regulations in the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559) (ÅRKL), became applicable on 1 January 2016. The effect of the new regulations on the company is that the disclosure of pledged assets and contingent liabilities is not included in the balance sheet, but set out in the notes.

The European Securities and Markets Authority's (ESMA) Guidelines on Alternative Performance Measures came into effect on 3 July 2016. According to these guidelines, the use of non-IFRS financial measures are to be explained in order to allow readers of a financial report to understand the relevance of the measures. The key figures and financial measures used in this Annual Report are explained in the "Definitions" section.

No other new or revised IFRS, interpretations or other regulatory changes applicable from 2016 have had any significant effect on the company's accounts.

New IFRS AND interpretations that have not yet been applied

The new or amended standards and interpretations described below will not take effect until forthcoming fiscal years, and have not been applied in advance when preparing these financial statements.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments will replace IAS 39 Financial Instruments: Recognition and Measurement. The ISAB has finalised IFRS 9, which contains new requirements for the classification and measurement of financial instruments, a forward-looking impairment model and simplified conditions for hedge accounting. The EU has adopted the standard, and it will be applicable from January 2018. The categories of financial assets under IAS 39 will be replaced by three categories: assets measured at amortised cost, fair value through other comprehensive income or fair value through profit and loss. The division into these three categories is based on the company's business model for the various holdings and the cash flow characteristics that the assets give rise to. The fair value option may be applied to debt instruments if doing so eliminates or significantly reduces an "accounting mismatch." Equity instruments are to be measured at fair value through profit and loss, with the option of recognising changes in value for equity instruments not held for trading in other comprehensive income instead. The rules regarding financial liabilities are largely consistent with the IAS 39 rules, except for financial liabilities that are voluntarily measured at fair value according to the fair value option. The change in value for these liabilities is to be divided into changes attributable to own creditworthiness and changes in reference interest rate. The impairment model requires recognition of the 12-month expected credit losses on initial recognition and, in the event of a significant increase in the credit risk, the loss allowance is to correspond to the lifetime expected credit losses. The rules on hedge accounting entail, for example, simplified assessments for the effectiveness of a hedging relationship, and expanded limits for what may be identified as a hedging instrument and a hedged item.

The ongoing IFRS 9 project has been divided into three phases: Classification and Measurement, Hedge Accounting and Expected Credit Losses.

Classification and measurement

Financial assets

Classification and measurement of the company's financial assets under IFRS 9 have been carried out as part of the project. Division into the three measurement categories is based on the company's business model for the various holdings and cash flow characteristics that the assets give rise to. Loans and receivables mainly held to collect contractual cash flows are measured at amortised cost. Loans and receivables whose cash flows are realised by selling the assets are measured at fair value through profit and loss. Loans and receivables whose cash flows are realised both by collecting contractual cash flows and by selling the assets are measured at fair value through other comprehensive income.

Based on the analysis performed as part of the project, the classification of financial assets under IFRS 9 is determined as follows in the table below.

Financial asset	Fair value through profit and loss	Amortised cost	Fair value through other comprehensive income
Cash and balances with central banks		X	
Treasury bills and other eligible bills			X
Loans to credit institutions		X	
Loans to the public		X	
Bonds and other interest-bearing securities			X
Shares and participations			X
Derivatives	X		
Other financial assets		X	

Financial liabilities

For financial liabilities, most of the requirements that applied under IAS 39 will also apply under IFRS 9. The most significant change relates to financial liabilities, which are voluntarily measured at fair value. Since the company has chosen to not apply this option, IFRS 9 is not expected to have any impact on financial liabilities, with the exception of enhanced disclosure requirements.

With the exception of enhanced disclosure requirements, the effect of the classification of financial assets under IFRS 9 is expected to have a minor impact on the company's financial statements.

Hedge accounting

According to the analysis performed, the company intends to apply the exemption entailing that the requirements under IAS 39 will continue to apply for portfolio hedging. For other hedging relationships, which mainly include funding in foreign currency and investments in interest-bearing securities, the rules under IFRS 9 will be applied.

With the exception of enhanced disclosure requirements, the introduction of principles for hedge accounting in IFRS 9 is not expected to have any significant effects on the company's financial statements.

Expected Credit Losses (ECL)

Under IFRS 9, provisions for credit losses must be recognised for loans and receivables measured at amortised cost, or at fair value through other comprehensive income. The provision must be based on expected credit losses and probability-weighted amounts.

The model entails that 12-month expected credit losses are recognised when the instrument is initially recognised (Stage 1). Should a significant increase in the instrument's credit risk subsequently occur, the instrument is moved to Stage 2 where the provision is to correspond to the credit losses expected to be incurred during the remaining lifetime of the instrument.

The definition of a significant increase in credit risk is based on changes in the IRB Approach and the changed probability of default. Expected credit losses are based on internal statistical models that take into account both historic outcome and assumptions regarding future macroeconomic levels. For other loans and receivables measured at amortised cost or at fair value through other comprehensive income, an analysis is conducted to develop the most appropriate model for calculating expected credit losses.

The introduction of the new rules is expected to impact the reserves for loan losses.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers will take effect for fiscal years beginning on or after 1 January 2018 and will then replace all previously issued standards and interpretations on income. IFRS 15 contains a single, five-step model for recognising revenue from contracts with customers that is not encompassed by other standards (for example, IFRS 4 or IFRS 9). The basis of the standard is a contract on the sale of goods or services between two parties. A customer agreement is initially to be identified, which generates an asset for the seller (rights, a promise to receive consideration) and a liability (obligations, a promise to transfer the goods or services). Under the model, income is to be recognised when an obligation to deliver the promised goods or services to the customers is fulfilled. The EU has adopted the standard. 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 company's financial statements, although disclosure requirements will be enhanced. Since the effects of the standard are expected to be limited, comparative information will not be restated in the standard's first year of application.

IFRS 16 Leases

IFRS 16 Leases was issued on 13 January 2016 and is to replace IAS 17 Leases. The new standard will take effect on 1 January 2019 and early adoption is permitted provided that IFRS 15 is also applied. The EU is expected to approve the standard during 2017. For lessees, the new standard means that essentially all leases are to be recognised in the balance sheet. Leases are not to be classified as operating or finance. The standard provides certain recognition exemptions for lessees for assets of low value and for leases with a lease term of 12 months or less. For lessors, the rules under IAS 17 remain basically unchanged, and the classification of either operating or finance leases is to continue according to the current leasing standard. The standard contains more extensive disclosure requirements compared with the current standard. The company is currently carrying out a project to analyse the effects on IFRS 16, although the effect of the rules has not yet been determined.

Other than those described above, no other new or revised IFRS and interpretations that have not yet come into effect are expected to have any significant effect on the financial statements.

DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES

Shareholders' contributions

Shareholders' contributions are recognised in the equity of the recipient and capitalised in shares and participations with the donor.

Group contributions

Group contributions that have been paid and received are recognised directly against retained earnings after deductions for their current tax effect.

Related parties

Related legal entities to Länsförsäkringar Hypotek AB include companies within the Länsförsäkringar Bank Group, the Länsförsäkringar AB Group, companies within the Länsförsäkringar Liv Group, the regional insurance companies, associated companies of the Länsförsäkringar AB Group and other related parties, comprising Länsförsäkringar Mäklarservice AB, Länsförsäkringar Fastighetsförmedling AB and Humlegården Fastigheter AB. These companies are wholly owned within the Länsförsäkringar Alliance. Related key persons are Board members, senior executives and their close family members.

The assessment of whether a close relationship exists or not is based on the financial significance of the relationship and not only ownership. Accordingly, this includes the 23 regional insurance companies, with subsidiaries, and 16 local insurance companies, which together own 100% of Länsförsäkringar AB. The Group has been assigned by the regional insurance companies to conduct operations in areas in which economies of scale constitute a decisive competitive advantage and to provide such service to the regional insurance companies, which, for reasons of efficiency, is to be produced and provided jointly within the Länsförsäkringar AB Group.

Operating segments

The company conducts retail mortgage lending operations in Sweden. In follow-ups and reports submitted to the company's chief operating decision maker, the operations are reviewed as a whole. Consequently, the operations comprise a single operating segment. No one customer accounts for more than 10% or more of the company's income.

Transactions in foreign currency

Transactions in foreign currency are translated to the functional currency at the exchange rate on the date of the transaction. Monetary assets and liabilities in foreign currency are translated to the functional currency at the exchange rate that applies on the balance-sheet date. Non-monetary assets and liabilities are translated to the rate in effect on the date of the transaction.

Exchange-rate differences arising due to the translation of balance-sheet items in foreign currency are recognised in profit and loss as exchange-rate gains or losses.

Income

Income is recognised when

- it can be measured reliably
- it is probable that the economic benefits associated with the transaction will flow to the company,
- the expenses incurred and the expenses remaining to complete the service assignment can be measured reliably

Income is measured at the fair value of the amount that has been, or will be, received.

Interest income and interest expense

Interest income and interest expense for financial instruments calculated in accordance with the effective interest method are recognised under net interest income. The effective interest rate corresponds to the rate used to discount contractual future cash flows to the carrying amount of the financial asset or liability. Interest on derivatives that hedge interest-rate and foreign-currency risk is recognised under net interest income. Interest compensation for early redemption of fixed-rate lending and deposits is recognised under Net gains/losses from financial items.

Commission income and commission expense

Commission income is attributable to various types of services provided to customers. The manner in which the commission income is recognised depends on the purpose for which the fee was charged. Fees are recognised in income either in line with the provision of the services or in conjunction with the performance of a significant activity. Fees charged continuously, such as advising fees, are recognised as income in the period in which the service was provided. Fees charged for significant activities are recognised in income when the activity has been completed.

Commission expense is dependent on the transaction and is recognised in the period in which the services are received.

Commission expense attributable to financial assets or liabilities not measured at fair value through profit and loss comprises commission to the regional insurance companies.

Net gains from financial items

The item Net gains from financial items contains the realised and unrealised changes in value that occurred as a result of financial transactions. Capital gains/losses on the divestment of financial assets and liabilities, including interest compensation received when customers pay loans prematurely, are recognised in this item. This item also includes realised and unrealised changes in the value of derivative instruments that are financial hedging instruments, but for which hedge accounting is not applied, and unrealised changes in the fair value of derivatives to which fair value hedge accounting is applied, and unrealised changes in the fair value of hedged items with regard to hedged risk in the fair value hedge.

The ineffective portion of hedging instruments and exchange-rate changes is also recognised as Net gains from financial items. Net profit/losses on transactions measured at fair value through profit and loss does not include interest or dividends.

Realised profit and loss is calculated as the difference between the purchase consideration received and the value in the balance sheet at the time of the sale.

Any impairment losses on available-for-sale financial assets are also recognised in this item.

Other operating income

Income from assignments is recognised when the financial outcome of performed assignments can be measured reliably and the economic benefits flow to the company. Income is measured at the fair value of the amount that has been, or will be, received.

Amounts received on behalf of another entity are not included in the company's income. The criteria for income recognition are applied individually to each transaction.

Remuneration of employees

Current remuneration

Current remuneration of employees is calculated without discount and recognised as an expense when the related services are received.

Remuneration after termination of employment

Pension plans

The company primarily has defined-contribution pension plans. The company is generally covered by the FTP plan, which does not depend on any payments from employees.

Defined-contribution pension plans

The company pays fixed contributions to a separate legal entity and does not have a legal or informal obligation to pay additional contributions. The company's payments of defined-contribution plans are recognised as expenses during the period in which the employee performed the services to which the contributions refer.

The pension agreement for the insurance industry, the FTP plan, is a multi-employer pension plan. The plan is a defined-benefit plan for employees born in 1971 or earlier and a defined-contribution plan for employees born in 1972 or after. The defined-benefit portion is insured through the Insurance Industry's Pension Fund (FPK). This pension plan entails that a company, as a rule, recognises its proportional share of the defined-benefit pension commitment and of the plan assets and expenses associated with the pension commitment. The accounts should also include information in accordance with the requirements for defined-benefit pension plans.

The FPK is currently unable to provide necessary information, which is why the pension plan above is recognised as a defined-contribution plan.

Nor is any information available on future surpluses or deficits in the plan, and whether these would then affect annual contributions to the plan in future years.

Remuneration for termination of employment

A cost for remuneration in connection with termination of employment of personnel is recognised at the earliest point in time at which the company can no longer withdraw the offer to the employees or when the company recognises expenses for restructuring. Remuneration expected to be paid after 12 months is recognised at its present value.

Impairment

The carrying amounts of the company's assets are assessed on every balance-sheet date to determine whether there are any indications of impairment. These include financial assets tested in accordance with IAS 39 Financial Instruments: Recognition and measurement, and deferred tax assets tested in accordance with IAS 12 Income Taxes. The carrying amounts of the exempted assets above are tested according to the respective standard. IAS 36 is applied to impairment testing for assets that are not tested according to any other standard, although no such assets currently exist in the company.

Loan losses

Loan losses comprise confirmed loan losses, probable loan losses, recoveries of loan losses previously recognised as confirmed and reversals of probable loan losses no longer required. Confirmed loan losses pertain to the entire receivable when there is no realistic possibility of recovery. Probable loan losses pertain to impairment for the year for the loan losses based on a calculated recoverable amount when there is an indication that impairment is required. Recoveries comprise reversed amounts of loan losses that were previously recognised as confirmed. Probable loan losses are reversed when no impairment requirement is deemed to exist. Only the company's share of probable and confirmed loan losses is recognised. The regional insurance companies' share of probable and confirmed loan losses is settled against accrued commission. 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 means of an off-set against accrued commissions.

Tax

Income tax comprises current tax and deferred tax. Income tax is recognised in profit and loss, except when the underlying transaction is recognised in other comprehensive income, whereby the related tax effect is recognised in other comprehensive income, or when the underlying transaction is recognised directly against equity with the related tax effect recognised in equity.

Current tax is tax that is to be paid or received in the current year, with application of the tax rates that are established or decided in practice on the balance-sheet date. This also includes adjustments of current tax attributable to prior periods.

Deferred tax is calculated in accordance with the balance-sheet method, based on temporary differences between carrying amounts and tax bases of assets and liabilities. The following temporary differences are not taken into consideration:

First reporting of assets and liabilities that are not acquisitions of operations and, at the time of the transaction, do not affect recognised or taxable earnings.

The valuation of deferred tax is based on how the carrying amounts of assets and liabilities are expected to be realised or settled. Deferred tax is calculated with application of the tax rates and tax rules established or decided in practice on the balance-sheet date.

Deferred tax assets on deductible temporary differences and tax loss carryforwards are only recognised to the extent that it is likely that it will be possible to utilise these. The value of the deferred tax assets is reduced when it is no longer considered likely that they can be utilised.

Financial assets and liabilities

Financial assets recognised in the balance sheet include loan receivables, interest-bearing securities, derivatives with positive market value and accounts receivable. Financial liabilities include debt securities in issue, derivatives with negative market value and accounts payable. The policies of the company concerning financial risk are described in the note on Risks and capital adequacy.

Recognition and derecognition in the balance sheet

A financial asset or financial liability is recognised in the balance sheet when the company becomes party to this in accordance with the instrument's contractual conditions. A financial asset is derecognised from the balance sheet when the rights in the contract are realised, expire or the company loses control of them. A financial liability is derecognised from the balance sheet when the obligation in the contract is met or extinguished in another manner.

Business transactions in the monetary, bond and equities markets are recognised in the balance sheet on the transaction date, which is the time when the significant risks and rights are transferred between the parties. Lending transactions are recognised on the settlement date. Loan receivables are recognised in the balance sheet when the loan amount is paid to the borrower. Loan commitments are recognised as commitments, see the note on Pledged assets, contingent liabilities and commitments.

Offsetting financial assets and liabilities

A financial asset and a financial liability are offset and recognised as a net amount in the balance sheet only when a legal right exists to offset the amounts and the intention is present to settle the item in a net amount or simultaneously realise the asset and settle the liability.

Recognition of repurchase transactions (repurchase agreements)

In genuine repurchase transactions (a sale of interest-bearing securities with an agreement for repurchase at a predetermined price), the asset continues to be recognised in the balance sheet and payment received is recognised as a liability in the balance sheet under the item Due to credit institutions. Sold securities are recognised as pledged assets. For a reversed repurchase transaction (a purchase of interest-bearing securities with an agreement for resale at a predetermined price), the securities are not recognised in the balance sheet. The payment received is recognised instead in the item Loans to credit institutions.

Measurement

All financial assets and liabilities are measured at fair value through profit and loss on the initial valuation date. Subsequent measurement and recognition of changes in value take place depending on the measurement category to which the financial instrument belongs. The company's financial instruments are divided into the following measurement categories:

- Financial assets measured at fair value through profit and loss
- Held-to-maturity investments
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities measured at fair value through profit and loss
- Other financial liabilities

Methods for determining fair value

The method for determining the fair value of financial instruments follows a hierarchy in which market data is used as far as possible and company-specific information is used as little as possible. For disclosure purposes, fair value is categorised into the following levels, with fair value determined using:
Level 1: quoted prices in an active market
Level 2: calculated value based on observable market data
Level 3: own assumptions and judgements

Financial instruments traded in an active market

For financial instruments traded in an active market, fair value is determined based on the asset's quoted market prices (Level 1). Current bid prices are used for financial assets, and current selling rates without mark-ups for transaction costs and brokerage commission are used for financial liabilities. Any future transaction costs arising in conjunction with divestments are not taken into account.

Financial instruments not traded in an active market

For financial instruments not traded in an active market, the fair value is calculated using various valuation techniques. When valuation techniques are applied, observable inputs are used as far as possible (Level 2). The valuation technique used most is discounted cash flows. Holdings in unquoted shares and participations are measured at equity per share based on the most recent company report (Level 3). For more information, see the note on Fair value valuation techniques.

Classification

Financial instruments are classified and measured in accordance with the description provided below.

Financial assets measured at fair value through profit and loss

Assets held for trading

This category comprises financial assets held for trading and that are measured at fair value with changes in value recognised in profit and loss under Net gains from financial transactions. This category includes shares, fund units and derivatives that are not included in hedge accounting.

Derivatives used in hedge accounting

This category contains derivative instruments used to financially eliminate interest-rate risk and currency risk, that are intended to be held until the final maturity date and that are included in hedge accounting. The principle for recognising unrealised and realised gains or losses depends on the type of hedging model applied. See the section on Hedge accounting.

Held-to-maturity investments

Investments held to maturity are financial assets where there is an intention and the ability to hold to maturity. This category contains financial assets with fixed or determinable payment flows and determined terms. Held-to-maturity investments are measured at amortised cost using the effective interest method.

Loans and receivables

Loans and receivables are financial assets that have fixed or determinable payment flows and that are not quoted in an active market. Loans and receivables are measured at amortised cost calculated using the effective interest method, taking into account deductions for confirmed loan losses and reserves for probable loan losses. Other receivables that are not loan receivables and non-interest-bearing are measured at cost less estimated non-collectable amounts.

Available-for-sale financial assets

Available-for-sale financial assets include either financial assets that have not been classified in any other category or financial assets that the company initially decided to classify in this category. This category includes the company's liquidity portfolio. Available-for-sale financial assets are measured at fair value and gains and losses that arise due to changes in value are recognised in other comprehensive income and accumulated in equity. For sales or impairment of available-for-sale financial assets, the accumulated gain or loss, which was previously recognised in equity, is recognised in profit and loss. Interest on interest-bearing available-for-sale financial assets, and on dividends from shares, is recognised in profit and loss by applying the effective interest method. The category also includes unquoted holdings, the fair value of which cannot be determined reliably and that are measured at cost.

Financial liabilities measured at fair value through profit and loss

Assets held for trading

Financial liabilities classified as fair value through profit and loss are held for trading. These financial liabilities are measured at fair value with changes in value recognised in profit and loss under Net gains from financial transactions.

Derivatives used in hedge accounting

This category contains derivative instruments used to financially eliminate interest-rate risk and currency risk, that are intended to be held until the final maturity date and that are included in hedge accounting. The principle for recognising unrealised and realised gains or losses depends on the type of hedging model applied. See the section on Hedge accounting.

Other financial liabilities

Other financial liabilities include the company's deposits and funding, and due to credit institutions. Other financial liabilities are recognised at amortised cost in accordance with the effective interest method.

Hedge accounting

The company's derivatives, which comprise interest-rate and cross-currency swaps and purchased interest caps, have been acquired in their entirety to hedge the risks of interest and exchange-rate exposure arising during the course of operations. All derivatives are measured at fair value in the statement of financial position. Changes in value are recognised depending on whether the derivative is designated as a hedging instrument and, if this is the case, the type of hedge relationship that the derivative is included in. The Group applies both cash-flow hedges and fair-value hedges. To meet the demands of hedge accounting in accordance with IAS 39, an unequivocal connection with the hedged item is required. In addition, it is required that the hedge effectively protects the hedged item, that hedge documentation is prepared and that the effectiveness can be measured reliably. Hedge accounting can only be applied if the hedge relationship can be expected to be highly effective. In the event that the conditions for hedge accounting are no longer met, the derivative instrument is measured at fair value with the change in value through profit and loss. Hedge relationships are evaluated monthly. Each identified hedge relationship is expected to be effective over the entire lifetime of the relationship. Effectiveness is tested by applying a forward-looking (prospective) assessment and a retrospective evaluation. Ineffectiveness is recognised in profit and loss.

Fair-value hedges

The aim of fair-value hedges is to protect the company from undesirable earnings effects caused by exposure to changes in the interest-rate risk associated with recognised assets or liabilities. When applying fair-value hedges, the hedged item is measured at fair value regarding its hedged risk. The changes in value that arise are recognised in profit and loss and are counterbalanced by the changes in value arising on the derivative (the hedging instrument).

The company applies the fair-value hedge method to specific portfolios of funding, deposits and loans that carry fixed interest rates. The company also applies the fair-value hedge method to assets in the liquidity portfolio that are classified in the category of Available-for-sale financial assets. The change in the value of the derivative is recognised in profit and loss together with the change in the value of the hedged item under Net gains from financial items. Unrealised changes in the value of hedging instruments are also recognised in the item Net gains from financial items. Interest coupons, both unrealised and realised, are recognised as interest income if the hedged item is an asset or portfolio of assets, or as interest expense if the hedged item is a liability or portfolio of liabilities.

Cash-flow hedges

The company applies cash-flow hedges for hedging currency risk in the company's debt securities in issue in foreign currency. Interest and currency interest-rate swaps that are hedging instruments in cash-flow hedging are measured at fair value. The change in value is recognised in other comprehensive income and in the cash-flow hedging reserve in equity to the extent that the change in the value of the swap is effective and corresponds to future cash flows attributable to the hedged item. Ineffectiveness is recognised in profit and loss in the item Net gains from financial items. Gains or losses recognised in the cash-flow hedging reserve under equity in other comprehensive income are reclassified and recognised in profit and loss in the same period as the hedged item affects profit and loss.

Loans

These assets are measured at amortised cost. Amortised cost is determined based on the effective interest rate calculated on the acquisition date. Accounts receivable and loan receivables are recognised in the amount at which they are expected to be received, after deductions for any impairment.

Impaired loans
A loan receivable is considered impaired if the counterparty has a payment that is more than 60 days past due, or if there is reason to expect that the counterparty cannot meet its undertaking. The loan receivable is considered impaired to the extent that its whole amount is not covered by collateral.

Individual impairments
For loans for which an individual impairment requirement has been identified, the recoverable amount is measured at the present value of expected future cash flows discounted by the effective interest rate of the receivable on the most recent interest-adjustment date.

An individual impairment loss is recognised according to either an individual assessment or the statistical model when the counterparty has a payment that is more than 60 days past due or if the counterparty, for other reasons such as bankruptcy, a decline in the value of the collateral or reduced repayment capacity, cannot fully meet its undertaking. Accordingly, the estimate of the impairment requirement for these individually identified loans is based on historical experience about cash flows from other borrowers with similar credit-risk characteristics.

Collective impairment
Impairment requirements are identified and valued collectively for loans that are not deemed to have any individual impairment requirements but for cases in which a measurable decline of expected future cash flows has occurred. Information collected from the framework of the company's statistical model and historical data on loan loss levels is used to support assessments of expected future cash flows and collective impairment requirements.

Takeover of collateral
The company has not taken over any collateral.

Confirmed losses
Confirmed loan losses are those losses whose amount is finally established through acceptance of a composition proposal, through other claim remissions or through bankruptcy and after all of the collateral has been realised and where the assessment is that the possibility of receiving additional payments is very small. The receivable is then derecognised from the balance sheet and recognised as a confirmed loss in profit and loss on this date.

Property and equipment
Equipment
Property and equipment are recognised as assets in the balance sheet when, based on information available, it is likely that the future economic benefits associated with the holding will flow to the company and that the cost of the asset can be measured reliably. Equipment is recognised at cost less accumulated depreciation and any accumulated impairment. Depreciation according to plan takes place following the straight-line method over the asset's expected useful life, commencing when the asset is put into operation. Depreciation and any scrapping and divestments are recognised in profit and loss. Impairment requirements are tested in accordance with IAS 36 Impairment of Assets. Useful lives are retested at the end of every fiscal year.

Useful lives of equipment:

Vehicles	5 years

Provisions
A provision is recognised in the balance sheet when the company has an existing legal or informal obligation as a result of an event that has occurred, and it is probable that an outflow of financial resources will be required to settle the obligation, and a reliable estimate of the amount can be made. A provision differs from other liabilities since there is uncertainty regarding the date of payment and the amount for settling the provision.

A restructuring provision is recognised when an established, detailed and formal restructuring plan exists, and the restructuring process has either commenced or been publicly announced. No provisions are made for future operating expenses. Where the effect of when a payment is made is significant, provisions are calculated by discounting the anticipated future cash flow at an interest rate before tax that reflects current market assessments of the time value of money and, if applicable, the risks related to the liability.

Contingent liabilities
A contingent liability is recognised when there is a possible commitment originating from events that have occurred and whose occurrence is confirmed only by one or several uncertain future events or when there is a commitment that is not recognised as a liability or provision because it is unlikely that an outflow of resources will be required, or cannot be measured with sufficient reliability.

Loan commitments
A loan commitment can be:
- A unilateral commitment by the company to issue a loan with predetermined terms and conditions in which the borrower can choose whether he/she wants to accept the loan or not, or
- A loan agreement in which both the company and the borrower are subject to terms and conditions for a loan that begins at a certain point in the future.

Loan commitments are not recognised in the balance sheet. Issued irrevocable loan commitments are valid for three months and recognised as a commitment under memorandum items. The right to cancel the loan commitment is retained if the customer's credit rating has diminished on the date of payment, which is why no provisions are made for probable loan losses.

Note 3 Risks and capital adequacy
Länsförsäkringar Hypotek is exposed to risks that are managed in accordance with the framework for risk appetite and risk limits set by the Board. Follow-up of the risks defined under this framework comprises a natural part of the ongoing work in the operations and is monitored by the Group's independent risk control function, which is called Risk Management. Accordingly, duality in risk management is achieved and risk awareness is prevalent in all day-to-day business decisions. The risks to which the company is primarily exposed are defined below.

Credit risk	Credit risk pertains to the risk that a counterparty is unable to fulfil its commitments and that any collateral provided does not cover the receivable. Credit risk comprises lending risk, placement risk, counterparty risk and settlement risk.
Market risk	Market risk refers to the risk of loss arising due to changes in the market value of financial assets and liabilities. Market risk includes interest-rate risk, currency risk, equities risk, property risk and rollover risk.
Liquidity risk	Liquidity risk is defined as the risk that a company or several companies jointly is/are unable to fulfil its/their payment commitments due to insufficient cash funds, or is/are only able to fulfil its/their commitments by funding at a significantly higher cost than normal or by divesting assets at a substantial deficit price. Liquidity risk comprises financing risk.
Business risk	Business risk pertains to the risk of lower earnings due to more difficult competitive conditions, the wrong strategy or incorrect decisions. Business risk comprises strategic risk, earnings risk and reputation risk.
Operational risk	Operational risk refers to the risk of losses arising due to inappropriate or faulty internal processes and systems as well as human error or external events, and includes legal and compliance risks.

Risk-management system

The Bank Group's risk management, which includes Länsförsäkringar Hypotek, follows the division of roles and responsibilities according to the three lines of defence:

The first line of defence pertains to all risk-management activities performed in the business operations. The operations that are exposed to risk also own the risk, which means that the daily risk management takes place within the operations. The operations' are also responsible for ensuring that control processes for monitoring are in place, implemented and reported. All employees assume individual responsibility for working towards a well-functioning risk culture by complying with the risk-management system established by the Board.

The second line of defence pertains to the independent Risk Management and Compliance functions, which establish principles and frameworks for risk management and regulatory compliance. Risk Management checks that there is adequate risk awareness and acceptance for managing risk on a daily basis. Risk Management also has a supportive function when the operations implement the processes, systems and tools necessary for maintaining ongoing risk management. The role of compliance is to provide support and control to ensure that the operations comply with regulatory requirements.

The third line of defence pertains to Internal Audit, which comprises the Board's support in quality assurance and evaluation of the organisation's risk management, governance and internal controls, and which carries out independent, regular examinations of management, systems and internal controls.

Combined, this structure ensures that the Board has an objective and clear understanding of the overall risk profile of the operations.

The Board is responsible for ensuring that an efficient risk-management system is in place and that it is customised to the Group's risk appetite and risk limits through the adoption of relevant governance documents. The Board approves all significant elements of the internal models used within the bank and is also responsible for ensuring that regulatory compliance and risks are managed in a satisfactory manner through the Group's Compliance, Risk Management and Internal Audit functions. The Risk and Capital Committee supports the Board in risk and capital issues, and prepares cases ahead of Board decisions that pertain to market and liquidity risk, credit risk, capital and internal capital adequacy assessment.

The President is responsible for ensuring that daily management takes place in accordance with the strategies, guidelines and governance documents established by the Board. The President also ensures that the methods, models, systems and processes that form the internal measurement and control of identified risks work in the manner intended and decided by the Board. The President is to continuously ensure relevant reporting from each unit, including Risk Management, to the Board. The President is the Chairman of the Asset Liability Committee (ALCO), whose main task is to follow up on capital and financial matters, as well as Chairman of the Risk Committee, whose main task is to follow up on all risks, limits and internally assessed capital requirements.

Risk Management is charged with the operational responsibility for the independent risk control and must thus objectively manage and report risks in the banking operations. The independent Risk Manager, or Chief Risk Officer (CRO) is directly subordinate to the President and reports directly to the President, the Risk Committee, Risk and Capital Committee, and the Board. The CRO is also responsible for Risk Management, whose areas of responsibility are defined and documented in the guidelines adopted by the Board.

This ensures that the Group has an effective and robust system for risk management, which allows continuous evaluation and assessment of the risks associated with the business activities. The system is an integrated part of the decision-making processes.

The risk-management system consists of strategies, processes, procedures, internal rules, limits controls and reporting procedures needed to ensure that the Group is able to continuously identify, measure, monitor, govern, manage, report and have control over the risks to which they are, or could become, exposed to. The Bank Group manages and evaluates its exposure to the risks to which its operations are exposed on the basis of:

- Clear and documented descriptions of processes and procedures.
- Clearly defined and documented responsibilities and authorities.
- Risk-measurement methods and system support that are customised to the requirements, complexity and size of the operations.
- Regular incident reporting of the operations according to a documented process.
- Sufficient resources and expertise for attaining the desired level of quality in both the business and control activities.
- Documented and communicated business contingency and continuity plans.
- Clear instructions for each respective risk area and a documented process for approving new or considerably amended products, services, markets, processes and IT systems, as well as major changes to the company's operations and organisation.

Credit risk

Credit risk is defined as the risk of losses arising due to a counterparty not being able to fulfil its commitments to the company and the risk that the counterparty's pledged collateral will not cover the company's receivables, leading to a loss Länsförsäkringar Hypotek calculates credit risks for loans to the public in accordance with the Internal Ratings-based Approach (IRB).

The loan portfolio exclusively comprises loans in Sweden, with low average loan-to-value ratios and a well-diversified geographic distribution. For more information regarding credit risks and credit quality, see Loans and credit quality.

During the year, the bank adapted its systems and procedures to meet the requirements of the Mortgage Credit Directive and mortgage repayment rules.

Credit process

The banking operations impose strict requirements in terms of customer selection, customers' repayment capacity and the quality of collateral.

Länsförsäkringar Hypotek is responsible for ensuring that loan origination is carried out according to uniform procedures based on the Board's adopted guidelines, which forms a foundation for a shared view on loan origination. Länsförsäkringar Hypotek continuously monitors and reviews the quality of the loan portfolio and borrowers' repayment capacity. Combined with system support for risk classification, this leads to balanced and consistent loan origination. The shared credit regulations adopted by the Board form the foundation for all loan origination and apply for all regional insurance companies as well as Länsförsäkringar Bank and its subsidiaries. The size of the loan and level of risk determine the decision level, where the highest instance is the Board and the lowest instance a decision at local level. Mandates for granting credit at the respective decision-making instance are set out in the credit regulations.

The credit regulations also set out minimum requirements for underlying documentation for credit-granting decisions. Compliance with the credit regulations is followed up by the regional insurance companies and by Länsförsäkringar Bank and its subsidiaries. The credit regulations and credit process, combined with local customer and market knowledge, create a loan portfolio that maintains high credit quality.

IRB system

An Internal Ratings-based Approach is used in the area of credit risk, or IRB Approach, to calculate the capital requirement for credit risk. This complies with the requirements set by the CRR and forms the basis of the IRB risk-classification system. The IRB system is a core component of the credit process and consists of methods, models, processes, controls and IT systems to support and further develop the quantification of credit risks. Specifically, the IRB system is used in conjunction with:

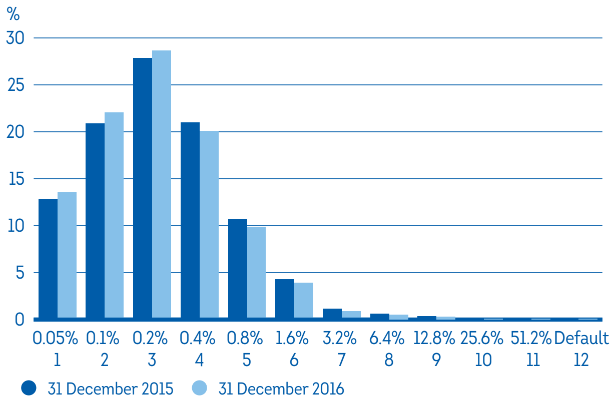
- Credit process for risk assessment and credit-granting decisions
- Calculation of portfolio reserves
- Calculation of risk-adjusted returns
- Monitoring and reporting to management and the Board
- Calculation of capital requirement
- Risk-adjusted pricing

Some of the core concepts in the IRB system are described below. The probability of default (PD) is the probability that a counterparty is unable to meet its undertaking to the bank. A PD with a 12-month horizon is initially calculated for each counterparty and is then adjusted to reflect the average proportion of default over a longer time period. The counterparties are ranked and grouped according to a PD scale comprising 11 risk classes (grades) for non-defaulted counterparties and one risk category for defaulted counterparties. A loss given default (LGD) is the portion of an exposure that is expected to be lost in the event of default.

Exposure at default (EAD) is the exposure amount that the counterparty is expected to have utilised upon default. For off balance-sheet commitments, EAD is calculated by multiplying the counterparty's total granted amount by a conversion factor (CF). These estimates are calculated on the basis of internal information regarding the payment percentage, degree of utilisation and products.

The average loan commitment for each borrower is low. The relationship between the loan portfolio and the underlying assets is expressed as the weighted average loan-to-value (LTV) ratio.

The company's credit exposure according to the risk-classification scale is presented below. The results show a distribution of exposure, with 84% (83) of exposure found in the best grades 1–4. Overall, on 31 December 2016, the distribution of exposure had shifted slightly toward the lower PD grades compared with the year-earlier period, which means a year-on-year improvement in credit quality.



Credit quality

Lending increased to SEK 169 billion (147). Essentially all lending qualifies for inclusion in the covered-bond operations, which are regulated by the Swedish Covered Bonds (Issuance) Act (2003:1223). The term covered bonds refers to bonds with preferential rights in the sections of the issuing institution's assets that are approved by legislation (cover pool). The remaining lending pertains partly to multi-family housing that qualifies for inclusion in the cover pool but that Länsförsäkringar Hypotek has chosen to exclude.

Credit risk exposure	**31 Dec 2016**	**31 Dec 2015**
Credit risk exposure for items recognised in the balance sheet		
Cash and balances with central banks	0	0
Loans to credit institutions	4,615	4,395
Loans to the public	168,948	147,056
Bonds and other interest-bearing securities	9,201	9,345
Derivative instruments	5,170	4,165
Other assets	23	18
Credit risk exposure for memorandum items	733	946
Guarantees		
Loan commitments and other credit commitments	9,545	7,923
Total	**198,235**	**173,848**

The table below shows the credit quality of bonds and other interest-bearing securities.

Covered bonds, SEK M	**31 Dec 2016**	**31 Dec 2015**
AAA/Aaa	9,201	9,345
Total	**9,201**	**9,345**

The table below shows loans to the public. Collateral is provided in the form of mortgage deeds for single-family homes and vacation homes, agricultural lending, multi-family housing and industrial properties.

Loan portfolio by collateral

	31 Dec 2016		**31 Dec 2015**	
Collateral	**SEK M**	**%**	**SEK M**	**%**
Single-family homes and vacation homes	121,126	72	106,869	73
Tenant-owned apartments	39,087	23	31,573	21
Multi-family housing	7,897	5	7,849	6
Industrial properties	712	0	607	0
Other	153	0	188	0
Loans to the public, gross	**168,975**	**100**	**147,086**	**100**
Reserves	**–27**		**–30**	
Total	**168,948**		**147,056**	

Cover pool

On 31 December 2016, the cover pool had a volume of SEK 168 billion (146). The geographic distribution in Sweden is well-diversified and collateral comprises only private homes: single-family homes, tenant-owned apartments and, to a small extent, vacation homes. Credit quality remained high. The weighted average loan-to-value ratio (LTV) was 57% (60) and the average commitment per property was SEK 1,172,042 (1,031,590). The market value of all single-family homes, tenant-owned apartments and vacation homes in the loan portfolio is updated annually.

Cover pool	**31 Dec 2016**	**31 Dec 2015**
Cover pool, SEK billion	168.3	146.3
of which, Swedish mortgages, SEK billion	159.4	137.5
of which, substitute collateral, SEK billion	8.7	8.8
Collateral	Private homes	Private homes
Weighted average LTV, %	57	60
Seasoning, months	58	59
Number of loans	321,486	295,057
Number of properties	143,443	133,274
Average commitment, SEK 000s	1,172	1032
Average loan, SEK 000s	496	466
Interest rate type, variable, %	67	61
Interest rate type, fixed, %	33	39
OC[1], nominal, current level, %	38	38
Impaired loans	None	None

[1] OC is calculated using nominal values and excludes accrued interest rates.

Cover pool, geographic allocation[1]

Region	**31 Dec 2016, %**	**31 Dec 2015, %**
Stockholm	16	15
Gothenburg	8	8
Malmö	3	3
Southern Sweden	10	10
Western Sweden	24	24
Eastern Sweden	23	24
Northern Sweden	16	16
Total	**100**	**100**

[1] Distribution in accordance with Associated Covered Bond Issuers' reporting for National Templates.

Cover pool by LTV

	31 Dec 2016			
LTV interval, %	**SEK M**	**%**	**SEK M**	**%**
0–10	32,911	21	26,309	19
11–20	30,279	19	24,544	18
21–30	27,247	17	22,554	16
31–40	23,764	15	20,391	15
41–50	19,758	12	17,832	13
51–60	14,659	9	14,469	10
61–70	8,677	5	9,217	7
71–75	2,151	1	2,168	2
Total	**159,446**	**100**	**137,484**	**100**

Distribution of commitments in cover pool

	31 Dec 2016		31 Dec 2015	
Commitment interval, SEK 000s	**SEK M**	**%**	**SEK M**	**%**
< 500	10,770	7	10,838	8
500–1,000	28,446	18	27,706	20
1,000–1,500	34,953	22	31,832	23
1,500–2,500	51,562	32	43,115	32
2,500–5,000	30,879	19	22,136	16
> 5,000	2,836	2	1857	1
Total	**159,446**	**100**	**137,484**	**100**

Only 2% of the loans in the cover pool amount to more than SEK 5 M. In total, 47% (51) of the loans in the cover pool do not exceed SEK 1.5 M.

Cover pool by collateral

	31 Dec 2016		31 Dec 2015	
Collateral	**SEK M**	**%**	**SEK M**	**%**
Single-family homes	116,981	74	102,831	75
Tenant-owned apartments	38,929	24	31,410	23
Vacation homes	3,536	2	3,243	2
Total	**159,446**	**100**	**137,484**	**100**

Stress test of the cover pool

During a stress test of the cover pool based on a 20% price drop in the market value in the loan portfolio, the weighted average LTV increased to 65% (67) compared with a current weighted average LTV of 57% (60) on 31 December 2016.

Impaired and non-performing loan receivables

A loan receivable is considered impaired if a payment is more than 60 days past due or if there is reason to expect that the counterparty cannot meet its undertaking. The loan receivable is considered impaired to the extent that its whole amount is not covered by collateral. A non-performing loan receivable is a receivable that is more than nine days and up to 60 days past due.

Impaired loans amounted to SEK 0.0 M (0.0), corresponding to a percentage of impaired loans of 0.00% (0.00) of the loan portfolio. Loan losses amounted to SEK –4.8 M (–9.8), corresponding to a loan loss level of 0.00 (–0.01). Impaired loans and loan losses continued to account for a minor percentage of total loans.

Impaired loans by collateral, SEK M	**31 Dec 2016**	**31 Dec 2015**
Single-family homes and vacation homes	0.0	0.0
Tenant-owned apartments	0.0	0.0
Total	**0.0**	**0.0**

Non-performing loan receivables not included in impaired loans, SEK M	**31 Dec 2016**	**31 Dec 2015**
Receivables overdue by 1–39 days	26.5	30.4
Receivables overdue by 40–59 days	0	0.1
Total	**26.5**	**31.1**

Individual impairments are made for loans in default and for loans where an individual assessment indicates a need for impairment. The main rule is that when a loss is confirmed for a loan/borrower, it is to be fully be met by an individual reserve. The principle for individual impairments is based on an individual assessment decided by the Central Credit Committee, the Head of Work-out at Credit and/or the Credit Manager. For each loan/borrower, individual assessments of any impairment requirements are updated at least once each year and also in the case of any significant change in the size of the commitment and/or the value of the collateral. Valuations based on statements of authorised appraisers form the basis of assessments of reserve requirements and pertain to both properties and other types of collateral.

The 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. On 31 December 2016, the total credit reserve requirement amounted to SEK 43 M, of which Länsförsäkringar Hypotek AB's recognised credit reserve accounted for SEK 27 M and the remainder of SEK 16 M was offset against the regional insurance companies' withheld funds, according to the model described above. The transition to the settlement model means that the company's credit reserves attributable to the regional insurance companies' business on the date of introduction will be gradually reversed by SEK 21 M. SEK 3 M was reversed during the period.

Counterparty risk

Counterparty risk is defined as the risk that Länsförsäkringar Hypotek could suffer losses pertaining to investments in other credit institutions, bank funds or derivative transactions due to counterparties not fulfilling their commitments. Repurchase agreements are included in counterparty risk.

Risk in derivative transactions is managed by the company having a number of swap counterparties, all with high ratings and established ISDA agreements. ISDA agreements allow net accounting of positive and negative derivatives, which reduces the risk to the net position per counterpart. For the covered-bond operations, ISDA agreements are in place, as well as accompanying unilateral CSA agreements. CSA agreements involve commitments concerning delivery and receipt of collateral in the event of changes to the included derivatives' market values. Each counterparty is also assigned a maximum exposure amount.

	Positive values	
Derivatives, fair value, SEK M	**31 Dec 2016**	**31 Dec 2015**
AA–/Aa3	1,232.9	891.8
A+/A1	0	0.0
A/A2	3,674.3	2,439.5
Total	**4,907.2**	**3,331.2**

Market risk

The overall framework for the financial operations is adopted by the Board in the risk policy. The Board also adopts the risk appetite and limits for market risk. The company applies a number of supplementary risk measures to market risk, including Value-At-Risk, sensitivity measures and stress tests. The primary market risks are interest-rate risk and currency risk. All market risks are measured and monitored on a daily basis.

Interest-rate risk

Interest-rate risk arises when assets, liabilities and derivatives do not have matching fixed-interest periods. Firstly, the fixed lending is matched with the corresponding funding and, secondly, interest-rate swaps are used. Interest-rate risk is managed by the bank's Treasury unit in accordance with the instructions issued by the President. On 31 December 2016, an upward parallel shift of 100 base points in the yield curve would have decreased the value of interest-bearing assets and liabilities, including derivatives, by SEK –2.3 M (–22.9).

Impact of interest-rate risk

Group, SEK M	31 Dec 2016
Interest-rate risk	–2.3
Impacts profit	–1.6
Impacts equity	9.5
Impacts own funds	–1.6

Currency risk

Currency risk arises when assets and liabilities are not matched at the currency level. The risk pertains to a negative change in exchange rates.

The company is exposed to this risk in foreign-currency funding in EUR, CHF, NOK and GBP. Currency risk is managed in conjunction with funding by swapping all foreign funding to SEK.

Other market risks

In addition to interest-rate and currency risk, the bank has a currency-basis spread risk and a credit-spread risk. Both of these risks affect only other comprehensive income. The currency-basis spread risk arises in foreign funding when currency is swapped to SEK. Credit-spread risks arise in substitute collateral in the cover pool.

Liquidity risk

Liquidity risk arises in all of the banking operations, primarily on the basis of term differences between assets and liabilities. Länsförsäkringar Hypotek's aim is to minimise and prevent liquidity risks as far as possible. The management of liquidity and financing is assured by effective long-term planning, explicit functional definitions and a high level of control.

The Group has highly diversified funding and a liquidity reserve comprising securities with high liquidity and creditworthiness, which means that the reserve can be rapidly converted into cash and cash equivalents. In addition, there is unutilised scope in Länsförsäkringar Hypotek's cover pool for issuing covered bonds, which combined provide opportunities for managing the risks arising on the basis of the difference between the contractual cash flows of assets and liabilities.

Liquidity and financing strategy

The company's liquidity risk is governed based on the liquidity and financing strategy to comply with the Board's low risk tolerance. The strategy is determined annually and is updated whenever necessary. The liquidity strategy is specified in a financing plan decided by the Board and based on known contracted cash flows and the expected trend in business volumes. The financing plan contains key figures and targets for fulfilment of the objectives. Outcomes of the funding operations are monitored against the financing plan at every ALCO and Board meeting. The actual cost of the liquidity risk that arises in the mortgage institution's operations is reflected in the internal pricing in order to create transparency and correct business governance.

Plans for managing disruptions that affect the Bank Group's liquidity are in place and updated annually. A contingency plan group has been appointed and action plans prepared and adopted by the ALCO.

Liquidity risk management

The objective of liquidity management is that the company, at any given time, is to have sufficient cash and cash equivalents with which to fulfil its commitments under both normal and stressed market conditions. Liquidity risk is managed by the Treasury unit and is quantified using daily liquidity forecasts based on all contracted cash flows and expected business volumes of deposits and lending.

Liquidity risk limits have been established that reflect the company's risk appetite. The central measure in the management of the company's liquidity risk comprises the "survival horizon," meaning the period of time during which the company is able to meet its commitments without requiring access to new financing.

To comprehensively analyse the liquidity risk, the liquidity limit is supplemented with a number of structural and quantitative risk measures adapted to the Group's risk profile, including a minimum requirement for unutilised scope (overcollateralisation) in the cover pool for the issuance of covered bonds for the purpose of managing price drops in the property market. The analysis is prospective and based on measurement methods accepted in the market, including analysis of future cash flows, scenario analyses and key figures stipulated by authorities. Liquidity risk is measured, controlled and reported on a daily basis.

Liquidity reserve

A satisfactory liquidity reserve ensures that sufficient liquidity is always available. The Treasury unit monitors and manages the liquidity reserve on a daily basis and is responsible for the amount of the reserve totalling the volume required to meet the limits set by the Board. The liquidity reserve is invested in securities with very high credit quality, most of which are eligible for transactions with the Riksbank and, where appropriate, with the ECB or the Federal Reserve. In total, this means that the reserve can be quickly converted to cash and cash equivalents without any appreciable losses.

Financing

The general objectives of the funding operations are to ensure that the company has a sufficiently strong liquidity position with which to manage turbulent periods in the capital markets, when access to funding is limited or non-existent. In addition, the funding operations are to contribute to overall profitability by ensuring a competitive funding cost in relation to relevant competitors.

Funding takes place in a manner that creates a healthy maturity profile and avoids maturity concentrations. The refinancing activities are based on diversification in terms of a variety of investors and markets. Funding takes place primarily with covered bonds since the majority of the company's assets comprise Swedish mortgages. Refinancing primarily takes place in the markets for SEK and EUR, but certain funding also takes place in CHF and NOK. The company endeavours to regularly launch issuances in these markets to achieve healthy diversification and maintain investors' interests and credit limits.

In its funding operations, Länsförsäkringar Hypotek is to act predictably and actively in the market and aim at achieving as high liquidity as possible in outstanding debt to build up long-term confidence among investors. Regular meetings are held with both Swedish and international investors to ensure that these investors have a clear overview of the company's operations, low risk profile and high-quality risk management. These proactive efforts ensure that investment limits are in place with investors, and promote a long-term interest in and desire to invest in the company's securities over time.

Fixed-interest periods for assets and liabilities – interest-rate exposure

31 Dec 2016, SEK M	Not more than1 month	More than 1 month but not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 3 years	More than 3 years but not more than 5 years	More than 5 years	Without interest	Total
Assets									
Treasury bills and other eligible bills									
Loans to credit institutions	4,614.7								4,614.7
Loans to the public	53,024.7	53,093.9	5,827.4	9,617.3	35,414.6	10,234.8	1,735.2		168,947.9
Bonds and other interest-bearing securities		302.7	1,836.4	208.3	5,348.4	1,505.6			9,201.4
Other assets								6,463.7	6,463.7
Total assets	**57,639.3**	**53,396.6**	**7,663.8**	**9,825.6**	**40,763.0**	**11,740.10**	**1,735.2**	**6,463.7**	**189,227.6**
Liabilities									
Due to credit institutions	47,002.4								47,002.4
Debt securities in issue	1,991.7	3,538.3	7,393.4	0.0	34,987.4	50,913.0	28,064.0		126,887.9
Other liabilities		0.00						6,706.5	6,706.5
Subordinated liabilities	150.0	851.0							1,001.0
Equity								7,629.8	7,629.9
Total liabilities and equity	**49,144.1**	**4,389.3**	**7,393.4**	**0.0**	**34,987.4**	**50,913.0**	**28,064.0**	**14,336.4**	**189,227.6**
Difference assets and liabilities	**8,495.2**	**49,007.2**	**270.4**	**9,825.6**	**5,775.6**	**-39,172.6**	**-26,328.8**	**-7,872.7**	
Interest-rate derivatives, nominal values, net	-10,506.5	-44,399.0	2,045.0	-11,960.0	-609.0	41,019.8	26,298.7		1,888.9
Net exposure	**-2,011.2**	**4,608.2**	**2,315.4**	**-2,134.4**	**-5,166.6**	**1,847.2**	**-30.1**	**-7,872.7**	

31 Dec 2015, SEK M	Not more than1 month	More than 1 month but not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 3 years	More than 3 years but not more than 5 years	More than 5 years	Without interest	Total
Assets									
Treasury bills and other eligible bills									
Loans to credit institutions	4,395.3								4,395.3
Loans to the public	43,132.4	40,263.9	8,012.8	7,967.9	35,157.2	10,709.5	1,811.9		147,055.5
Bonds and other interest-bearing securities		0.8	1,225.9	1.4	5,085.1	3,031.6			9,344.8
Other assets								5,826.9	5,826.9
Total assets	**47,527.7**	**40,264.7**	**9,238.7**	**7,969.3**	**40,242.3**	**13,741.2**	**1,811.9**	**5,826.9**	**166,622.6**
Liabilities									
Due to credit institutions	41,267.7								41,267.7
Debt securities in issue		8,155.0	676.2	783.2	39,258.0	40,573.2	20,954.2		110,399.8
Other liabilities								7,246.2	7,246.2
Subordinated liabilities					340.0	661.0			1,001.0
Equity								6,707.8	6,707.8
Total liabilities and equity	**41,267.7**	**8,155.0**	**676.2**	**783.2**	**39,598.0**	**41,234.2**	**20,954.2**	**13,954.1**	**166,622.6**
Difference assets and liabilities	**6,260.0**	**32,109.6**	**8,562.5**	**7,186.1**	**644.3**	**-27,493.1**	**-19,142.3**	**-8,127.2**	
Interest-rate derivatives, nominal values, net	-5,764.0	-26,423.7	-4,975.0	-6,625.0	-5,393.9	29,844.5	19,907.3		570.2
Net exposure	**496.0**	**5,685.9**	**3,587.5**	**561.1**	**-4,749.6**	**2,351.5**	**765.0**	**-8,127.2**	

Liquidity exposure, financial instruments – remaining term of contract (undiscounted values)

31 Dec 2016, SEK M	On demand	< 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Without maturity	Total nominal cash flows	Carrying amount	Of which, expected recovery period of > 12 months
Assets									
Treasury bills and other eligible bills									
Loans to credit institutions	4,603.2						4,603.2	4,603.2	0.0
Loans to the public					168,947.9		168,947.9	168,947.9	156,918.8
Bonds and other interest-bearing securities		300.0	2,000.0	6,375.0			8,675.0	9,201.4	6,375.0
Other assets						6,475.1	6,475.1	6,475.1	
Total assets	**4,603.2**	**300.0**	**2,000.0**	**6,375.0**	**168,947.9**	**6,475.1**	**188,701.1**	**189,227.6**	**163,293.8**
Liabilities									
Due to credit institutions		47,002.4					47,002.4	47,002.4	
Debt securities in issue			8,416.0	87,821.7	27,240.9		123,478.6	126,887.9	115,062.6
Other liabilities						14,336.3	14,336.3	14,336.3	
Subordinated liabilities					1,001.0		1,001.0	1,001.0	1,001.0
Total liabilities	**0.0**	**47,002.4**	**8,416.0**	**87,821.7**	**28,241.9**	**14,336.3**	**185,818.3**	**189,227.6**	**116,063.6**
Difference assets and liabilities	**4,603.2**	**-46,702.4**	**-6,416.0**	**-81,446.7**	**140,705.9**	**-7,861.2**	**2,882.8**	**0.0**	
Loans approved but not disbursed							0		
Total difference, excluding derivatives	**4,603.2**	**-46,702.4**	**-6,416.0**	**-81,446.7**	**140,705.9**	**-7,861.2**	**2,882.8**	**0.0**	

31 Dec 2015, SEK M	On demand	< 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Without maturity	Total nominal cash flows	Carrying amount	Of which, expected recovery period of > 12 months
Assets									
Treasury bills and other eligible bills									
Loans to credit institutions		4,395.3					4,395.3	4,395.3	
Loans to the public					147,055.5		147,055.5	147,055.5	135,085.2
Bonds and other interest-bearing securities			1,200.0	7,575.0			8,775.0	9,344.8	7,575.0
Other assets							5,826.9	5,826.9	
Total assets		**4,395.3**	**1,200.0**	**7,575.0**	**147,055.5**		**166,052.7**	**166,622.6**	**142,660.2**
Liabilities									
Due to credit institutions	275.1	40,986.4					41,261.4	41,267.7	
Debt securities in issue		8,145.4	250.0	77,789.6	21,409.3		107,594.0	110,399.8	99,198.88
Other liabilities						6,937.3	6,937.3	6,937.3	
Subordinated liabilities					1,001.0		1,001.0	1,001.0	1,001.0
Total liabilities	**275.1**	**49,131.8**	**250.0**	**77,789.6**	**22,410.3**	**6,937.3**	**156,794.1**	**159,606.0**	**100,199.9**
Difference assets and liabilities	**-275.1**	**-49,131.8**	**-250.0**	**-70,214.6**	**124,645.3**	**-6,937.3**	**9,258.7**	**7,016.6**	
Loans approved but not disbursed									
Total difference, excluding derivatives	**-275.1**	**-49,131.8**	**-250.0**	**-70,214.6**	**124,645.3**	**-6,937.3**	**9,258.7**	**7,016.6**	

Liquidity reporting, derivatives

31 Dec 2016, SEK M	< 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Total nominal cash flows
Derivatives at fair value in profit and loss					
– Currency	0.0	0.0	0.0	0.0	0.0
– Interest	-1.1	0.0	0.0	0.0	-1.1
Derivatives in hedge accounting					
– Currency	118.6	15.0	2,140.0	1,020.6	3,294.3
– Interest	-40.7	632.6	1,555.8	97.5	2,245.3
Total difference, excluding derivatives	**76.8**	**647.6**	**3,695.8**	**1,118.2**	**5,538.5**

31 Dec 2015, SEK M	< 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Total nominal cash flows
Derivatives at fair value in profit and loss					
– Currency	0.0	0.0	0.0	0.0	0.0
– Interest	0.0	0.0	0.0	0.0	0.0
Derivatives in hedge accounting					
– Currency	103.0	117.0	1,172.1	634.5	2,026.6
– Interest	50.8	471.6	1,774.6	121.7	2,418.7
Total difference, excluding derivatives	**153.8**	**588.6**	**2,946.7**	**756.2**	**4,445.3**

Business risk

Business risk primarily comprises earnings risk. Earnings risk is defined as volatility in earnings that creates a risk of lower income due to an unexpected decrease in income as a result of such factors as competition or volume reductions. Earnings risk is associated with all products and portfolios. The company's business has a low level of volatility and thus a low earnings risk.

Operational risk

Operational risk is defined as the risk of losses arising due to inappropriate, faulty internal processes and systems as well as human error or external events, and includes legal and compliance risks. Based on this definition, operational risk encompasses the entire banking operations.

Länsförsäkringar Hypotek is to base its assessments of operational risk on products, services, functions, processes and IT systems. The risk assessment is to be followed up against risk outcome (incident reporting).

Types of risk

Länsförsäkringar Hypotek categorises operational risk into the following risk types:

Process and product risk	Encompasses the operational risk that may arise in the existing business and support processes. Also includes the risk attributable to the product offerings to customers.
Personnel risks	Encompasses risks attributable to personnel. This includes risks regarding staffing levels, skills and conflicts of interest.
Legal risks and compliance risk	Encompasses risks as a result of its legal commitments. This may include risks arising as a result of agreements or the regulatory compliance of the business (compliance risk).
IT risks	Encompasses the risks that may arise in the IT environment, such as the risk of IT failures and IT security risks.
Security risks	Encompasses the risk of the business and its customers being the victim of external crime. This includes fraud or threats. The risk of internal fraud is also included in this risk area.

Risk management process

The risk management process for operational risk comprises the following main stages:

- Self-assessment and monitoring of checks – Self-assessments are one of the tools used to identify operational risks and to plan risk-limiting measures.
- Risk indicators – The aim of use of risk indicators is to create conditions for better insight into the bank's risk profile and the risks that are increasing or reducing at that point in time and over time.
- Follow-up of incidents – Review of incidents that have occurred. Particular emphasis in these reviews is attached to incidents of a more serious nature.
- Risk or scenario analyses – More in-depth analysis of particular operational risk areas based on, for example, rare and serious incidents or changes in the external environment.
- Review of the approval process – Review of the operational risks identified when producing new products, services, processes and IT systems or when implementing organisational changes.

Assessment of identified operational risk is based on a model that is applied throughout the operations. Each identified risk is assessed on the following basis:

- Consequence – how will the operations be affected if the risk occurs?
- Probability – how likely is it that the risk will occur?

These factors are aggregated to determine a risk value for the operational risk. Process owners are responsible for performing the risk analyses, meaning identifying and assessing operational risk within their respective area of responsibility. All employees have a responsibility to report incidents. Process owners are responsible for taking action against intolerable risks in their areas of responsibility.

The risk methods are regularly evaluated with the aim of minimising the risk of these methods themselves giving rise to significant misjudgements of operational risks. This may be implemented, for example, by comparing the results of self-assessments with incidents that have occurred or by relating incident information to recognised cost items.

Incident reporting

Länsförsäkringar Hypotek has an IT system for reporting operational risk events and incidents. This system enables all employees to report any incidents. The system automatically divides the incidents into the categories established by the Swedish Financial Supervisory Authority. Risk Management periodically prepares a summary of the incidents in its reports. Incident management is an important part of the Group's operational risk management. Incident statistics contribute to the assessment and forecast of operational risk, and enables the company to quickly identify critical problems and act upon these. Transactions are also actively monitored to detect money laundering and financing terrorist activities, for example. Other attempts at fraud, for example card fraud, are monitored.

Continuity management

Serious incidents may lead to a crisis. A crisis may arise, for example, due to fire, IT failure or similar serious event. Länsförsäkringar Hypotek works constructively to prevent this type of incident from arising. Business contingency, continuity and recovery plans have been produced in the operations to support employees and managers in a crisis and if a serious event were to occur. Crisis training is conducted periodically to ensure that the plans are suitable.

Capital and capital adequacy

Own funds and capital requirements

SEK M	31 Dec 2016	31 Dec 2015
Equity	7,629.9	6,707.8
78% of untaxed reserves	357.9	240.9
Equity for capital adequacy	**7,987.8**	**6,948.7**
Cash-flow hedges	-1.0	-79.5
IRB Provisions deficit (-)/surplus (+)	-80.9	-80.9
Adjustments for prudent valuation	-15.4	-15.2
Tier 1 capital and Common Equity Tier 1 capital	**7,890.5**	**6,773.1**
Tier 2 instruments	1,001.0	1,001.0
IRB Provisions deficit (-)/surplus (+)	–	6.7
Tier 2 capital	**1,001.0**	**1,007.7**
Total own funds	**8,891.5**	**7,780.8**
Total Risk Exposure Amount	**17,893.6**	**18,119.9**
Total capital requirement	**1,431.5**	**1,449.6**
Capital requirement for credit risk according to Standardised Approach	188.5	236.3
Capital requirement for credit risk according to IRB Approach	1,108.8	1,052.7
Capital requirement for operational risk	59.2	52.0
Capital requirement for credit valuation adjustment	75.0	108.6
Common Equity Tier 1 capital ratio	**44.1%**	**37.4%**
Tier 1 ratio	**44.1%**	**37.4%**
Total capital ratio	**49.7%**	**42.9%**
Special disclosures		
IRB Provisions surplus (+)/deficit (-)	-80.9	-74.2
– IRB Total provisions (+)	43.1	43.1
– IRB Anticipated loss (-)	-124.0	-117.3
Capital requirement according to Basel I floor	**6,992.2**	**6,023.3**
Own funds adjusted according to Basel I floor	8,972.4	7,855.0
Surplus capital according to Basel I floor	**1,980.2**	**1,831.7**

Capital requirement

SEK M	31 Dec 2016 Capital requirement	31 Dec 2016 Risk Exposure Amount	31 Dec 2015 Capital requirement	31 Dec 2015 Risk Exposure Amount
Credit risk according to Standardised Approach				
Exposures to institutions	113.6	1,419.8	159.3	1,991.4
Covered bonds	74.5	931.6	75.9	948.7
Other items	0.4	4.8	1.1	13.4
Total capital requirement and Risk Exposure Amount	**188.5**	**2,356.3**	**236.3**	**2,953.4**
Credit risk according to IRB Approach				
Retail exposures				
Secured by immovable property, small and medium-sized businesses	33.9	423.2	40.9	511.8
Secured by immovable property, other	804.6	10,058.1	731.5	9,143.8
Other retail exposures, small and medium-sized businesses	0.2	2.9	0.6	7.0
Other retail exposures	2.1	26.1	2.2	27.4
Total retail exposures	**840.8**	**10,510.2**	**775.2**	**9,690.0**
Exposures to corporates	268.0	3,349.7	277.5	3,469.1
Total capital requirement and Risk Exposure Amount	**1,108.8**	**13,859.9**	**1,052.7**	**13,159.1**
Operational risk				
Standardised Approach	59.2	740.4	52.0	649.9
Total capital requirement and operational risk	**59.2**	**740.4**	**52.0**	**649.9**
Credit valuation adjustment, Standardised Approach	**75.0**	**937.1**	**108.6**	**1,357.5**

Own funds

Own funds is the total of Tier 1 capital and Tier 2 capital, less items indicated in the capital adequacy rules.

Tier 1 capital may be equated to the institution's Common Equity Tier 1 capital and a limited share of perpetual subordinated debt (Tier 1 instruments). Common Equity Tier 1 capital is defined as eligible capital and comprises equity according to applicable accounting regulations after deductions for certain items as defined in the CRR. Common Equity Tier 1 capital is to be readily available to absorb losses and is the most subordinated receivable in the event of liquidation.

Tier 2 capital comprises perpetual and dated loans with subordinated preferential rights.

Common Equity Tier 1 capital

Equity in Länsförsäkringar Hypotek AB comprises share capital, capital contributed, reserves and net profit for the year. Equity included in the Common Equity Tier 1 capital increased net during the period, primarily due to generated profit. Changes in equity attributable to cash-flow hedges may not be included in own funds, which is why this effect is excluded. Common Equity Tier 1 capital is also adjusted due to the regulatory requirements regarding prudent valuation of items measured at fair value and the IRB deficit. Common Equity Tier 1 capital after applicable deductions amounted to SEK 7,891 M (6,773).

There are no outstanding Additional Tier 1 instruments, which means that the amounts for Common Equity Tier 1 capital and Tier 1 capital were the same on 31 December 2016.

Tier 2 capital

Tier 2 capital must be subordinate to other receivables from the company, except for equity instruments and Additional Tier 1 instruments. Fixed-term subordinated debt that is included may not be covered or guaranteed in any form by an issuing institution.

Tier 2 capital comprises fixed-term subordinated debt of SEK 1,001 M (1,001) that meets the requirements for inclusion in own funds.

Minimum capital requirements and buffers Länsförsäkringar Hypotek	Minimum capital requirement	Capital conservation buffer	Countercyclical buffer	Systemic risk buffer	Total
%					
Common Equity 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%
Own funds	8.0%	2.5%	1.5%	N/A	12.0%
SEK M					
Common Equity Tier 1 capital	805.2	447.4	268.4	N/A	1,521.0
Tier 1 capital	1,073.6	447.4	268.4	N/A	1,789.4
Own funds	1,431.5	447.4	268.4	N/A	2,147.3
Common Equity Tier 1 capital available for use as a buffer					38.1%

Outstanding subordinated debt, 31 December 2016

Borrower	Loan amount	Loan date	Repayment date	Premature redemption (break-off date)
Tier 2 capital				
Länsförsäkringar Hypotek	SEK 500,000,000	26 June 2015	26 June 2025	26 June 2020
Länsförsäkringar Hypotek	SEK 150,000,000	30 Oct 2013	31 Oct 2023	31 Oct 2018
Länsförsäkringar Hypotek	SEK 161,000,000	27 Jun 2014	27 Jun 2024	27 Jun 2019
Länsförsäkringar Hypotek	SEK 40,000,000	18 Apr 2013	18 Apr 2023	18 Apr 2018
Länsförsäkringar Hypotek	SEK 150,000,000	18 Apr 2013	18 Apr 2023	18 Apr 2018

Minimum requirements for capital adequacy
Capital requirements are divided into Pillar I requirements, which are generally minimum requirements for all institutions, and Pillar II requirements that are based on individual assessments performed by each institution. Pillar I requirements for Common Equity Tier 1 capital are expressed as a percentage of the Risk Exposure Amount (REA). The advanced Internal Ratings-based Approach (IRB) for retail exposures is applied in order to calculate REA. The Foundation IRB Approach (F-IRB) is used for exposures to corporates and the Standardised Approach is used for other exposure classes. The Standardised Approach is applied to the calculation of operational risk and credit valuation adjustment risk.

Under the transition rules, a minimum level is also calculated that corresponds to a capital requirement based on 80% of the risk-weighted assets under the former Basel I rules. These transition rules form a "safety catch" for the lowest level of the own funds requirement that was introduced in connection with the transition to Basel II and that applies until the end of 2017.

Risk Exposure Amount
On 31 December 2016, the total Risk Exposure Amount (REA) in Länsförsäkringar Hypotek was SEK 17,894 M (18,120). Continued growth in lending, primarily to households in the form of mortgages, led to an increase in REA. However, growth in REA due to credit risk is limited as a result of the increased credit quality of the portfolio.

Buffer requirement
Alongside the Pillar I capital requirements, there are additional capital requirements in the form of a combined buffer. These capital buffers are regulated in Swedish Capital Buffers Act (2014:966). There are five different buffers, three that cover systemic risk, a capital conservation buffer and a countercyclical capital buffer. Länsförsäkringar Hypotek AB is subject to the requirements for the capital conservation buffer and the countercyclical capital buffer. The capital conservation buffer is to correspond to 2.5% of REA and amounted to SEK 447 M on 31 December 2016.

The Financial Supervisory Authority has set the requirement of the countercyclical capital buffer at 1.5% of REA, which corresponded to SEK 268 M on 31 December 2016. Both buffers are to be covered by Common Equity Tier 1 capital. The Pillar I capital requirement for Länsförsäkringar Hypotek AB amounted to 12.0% (11.5), including the capital conservation buffer and countercyclical buffer.

Internally assessed capital requirement
The internally assessed capital requirement on 31 December 2016 amounted to SEK 1,789 M, which comprises the minimum capital requirement under Pillar I and the capital requirement for risks managed under Pillar II. This amount includes an assessment of the increased capital requirement due to the application of the Financial Supervisory Authority's new assessment method for the probability of default for exposures to corporates. Länsförsäkringar Hypotek AB has applied to apply a model compatible with this method.

Pillar II stipulates a capital requirement for the risk weight floor for Swedish mortgages of 25%, resulting in a capital requirement of SEK 3,788 M. Own funds that meet the capital requirement under the Pillar I and Pillar II requirements, including buffers, amounted to SEK 8,892 M.

New and amended rules
New IFRS and interpretations that have not yet been applied
The new or amended standards and interpretations described below will not take effect until the next fiscal year, and have not impacted the bank's financial statements or capital adequacy.

IFRS 9 Financial Instruments applies from 1 January 2018. IFRS 9 contains new requirements for the classification and measurement of financial instruments, a expected loss impairment model and simplified conditions for hedge accounting.

Provisions for loan losses in the accounts are expected to increase with the transition to IFRS 9 some provisions are to be based on expected rather than occurred loss events as under the current method. The total impact on own funds is expected to be restricted since the institutions can use the reserves calculated under the accounting rules in their own funds to meet expected losses calculated according to the IRB Approach. An increase in accounting reserves is thus expected to be counterbalanced by the IRB deficit in Common Equity Tier 1 capital.

The accounting and recognition of currency basis spreads will be clarified as the new IFRS 9 rules on hedge accounting are introduced. If currency basis spreads in a hedge relationship are recognised in Other comprehensive income, they are to be separated and reported as a separate component in Other comprehensive income. This means that currency basis spreads will impact own funds since they are not included in the included in the prudential filter for cash-flow hedges in Common Equity Tier 1 capital.

IFRS 15 Revenue from Contracts with Customers will apply from 1 January 2018. The new standard contain a single, five-step model for recognising revenue from contracts with customers that is not encompassed by other accounting standards. Länsförsäkringar Hypotek has performed an analysis of the effects of IFRS 15, and implementation of the standard is ongoing. The assessment is that the new model for revenue recognition will not have any significant effect on the bank's financial statements or capital adequacy.

IFRS 16 Leases will apply from 1 January 2019 and will then replace the existing standard IAS 17. For lessees, the new standard means that essentially all leases are to be recognised in the balance sheet. Länsförsäkringar Hypotek currently has a project in progress to analyse the effects of IFRS 16, but the impact on the accounts and capital adequacy has not yet been determined.

För detailed information about forthcoming accounting standards and their effects on the bank's financial statements, refer to note 2 Accounting policies.

Capital adequacy rules
Impending changes to capital adequacy rules
In November 2016, the European Commission published its proposed reviews of the existing capital-adequacy requirements – both the regulation and the directive. The proposed amendments to the regulation include a binding minimum requirement for the leverage ratio, net stable funding ratio and eligible liabilities for global systemically important institutions. New methods are also proposed for calculating market risk, counterparty risk as well as stricter rules on large exposures. The new directive proposal includes a revised Pillar II framework and revisions of calculation methods and materiality assessments of interest-rate risk in the banking book.

The Basel Committee is continuing its work on reviewing current capital adequacy frameworks. Consultations were published in March 2016 a standardised measurement approach for operational risk and constraints on the use of internal model approaches for credit risk. In addition, the Basel Committee published consultations during the year on the review of the Pillar III framework, leverage ratio and future treatment of accounting provisions according to IFRS 9 under the capital adequacy framework. The Basel Committee has not yet finalised the Standardised Approach for credit risk or future capital floor regulations.

Combined, this will entail extensive changes for many banks. Länsförsäkringar Hypotek AB is following regulatory developments and is highly prepared and well capitalised for impending changes, even if it is unclear at this stage what the effects of a capital requirement will be.

Crisis Management Directive
New EU regulations on managing failing institutions, including banks, (resolution) were introduced in Sweden on 1 February 2016. These rules are based on the European Parliament and Council's Crisis Management Directive (2014/59/EU). The key aim is to prevent banks' problems from becoming a burden for the tax payer. The Swedish National Debt Office responsible for applying this new regulatory framework, which replaced much of the previous bank support legislation. The new rules regulate three different phases of managing financial stability: prevention, recovery and resolution. The prevention phase requires that Länsförsäkringar has established a recovery plan in preparation to take action if the bank were to be stressed.

Note 4 Segment reporting

The business of the company represents a single operating segment and reporting to the chief operating decision-maker thus corresponds to the income statement and balance sheet for the year.

Note 5 Net interest income

SEK M	2016	2015
Interest income		
Loans to credit institutions	12.4[1]	29.3
Loans to the public	3,004.3	2,977.0
Interest-bearing securities	144.4[1]	185.6
Derivatives	-805.6[2]	-906.3
Other interest income	0.1	0.1
Total interest income	**2,355.6**	**2,285.7**
Interest expense		
Due to credit institutions	-412.3[1]	-347.8
Interest-bearing securities	-1,853.8[1]	-2,135.3
Subordinated liabilities	-15.9	-15.6
Derivatives	1,621.3[2]	1,581.8
Other interest expense	-48.0	-43.2
Total interest expense	**-708.7**	**-960.1**
Total net interest income	**1,646.9**	**1,325.6**
Interest income on impaired loans	–	0.9
Average interest rate on loans to the public during the period, %	1.9	2.2

[1] Of which negative interest of Loans to credit institutions SEK -4,7 M, Interest-bearing securities SEK -0,8 M, Due to credit institutions SEK 6,6 M and Debt securities in issue SEK 1,8 M

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

Note 6 Commission income

SEK M	2016	2015
Loans	2.2	2.2
Total commission income	**2.2**	**2.2**

Note 7 Commission expense

SEK M	2016	2015
Remuneration to regional insurance companies	-936.0	-801.5
Other commission	-1.6	-0.8
Total commission expense	**-937.5**	**-802.3**

Note 8 Net gains from financial items

SEK M	2016	2015
Interest-bearing assets and liabilities and releted derivatives	1.2	15.5
Other financial assets ande liabilities	0.2	0.2
Interest compensation	37.8	52.6
Total net gains/losses from financial items	**39.1**	**68.3**
Profit/loss by measurement catagory		
Derivatives intended for risk management, non-hedge accounting	-0.1	0.1
Loans and receivables	37.8	52.6
Available-for-sale financial assets, realised	3.2	2.9
Other financial liabilities	-51.9	-52.3
Hedge accounting at fair value		
– Change in value of hedged item	-667.5	442.5
– Change in value of hedging instrument	711.0	-376.0
Exchange-rate-effect	6.8	-1.5
Total	**39.1**	**68.3**

Note 9 Employees, staff costs and remuneration of senior executives

Average number of employees, Sweden	2016	2015
Men	5	5
Women	1	1
Total number of employees	**6**	**6**

Salaries and other remuneration, as well as social security expenses, other employees	2016	2015
Salaries and remuneration	-3.5	-3.5
of which, variable remuneration	–	–
Social security expenses	-2.3	-2.3
of which, pension costs	-1.0	-1.0
Total	**-5.8**	**-5.8**

Board of Directors and other senior executives, 4 (4)	2016	2015
Salaries and remuneration	-5.1	-4.9
of which, fixed salary to the President and Executive Vice President	-4.8	-4.7
of which, variable remuneration to the President and Executive Vice President	–	–
Social security expenses	-3.7	-3.6
of which, pension costs	-1.7	-1.6
Total	**-8.8**	**-8.5**

Total salaries, other remuneration and social security expenses	2016	2015
Salaries and remuneration	-8.6	-8.5
of which, variable remuneration	–	–
Social security expenses	-6.0	-5.9
of which, pension costs	-2.6	-2.5
Total	**-14.6**	**-14.4**

Remuneration of the Board

Directors' fees are payable to the Chairman and members of the Board in accordance with a decision of the Annual General Meeting. No fee is payable to employee representatives.

Remuneration of senior executives

Remuneration of the President and other senior executives comprises basic salary and other benefits. Pension benefits and other benefits paid to the President and other senior executives are included as part of total remuneration. Senior executives are the individuals who, together with the President, comprise corporate management.

Note 9 Employees, staff costs and remuneration of senior executives, cont.

Remuneration of and other benefits for senior executives

SEK M	Basic salary	Variable remuneration	Other benefits	Pension costs	Total	Pension costs as a percentage of pensionable salary, % Defined-contribution
2016						
Anders Borgcrantz, President	2.9	–	–	1.1	4.0	35
Martin Rydin, Executive Vice President	2.0	–	–	0.6	2.6	31
Christer Malm, Board member	0.1	–	–	–	0.1	–
Christian Bille, Board member	0.1	–	–	–	0.1	–
Total	**5.1**	**–**	**–**	**1.7**	**6.8**	
2015						
Anders Borgcrantz, President	2.8	–	–	1.0	3.8	35
Martin Rydin, Executive Vice President	1.9	–	–	0.6	2.5	29
Christer Malm, Board member	0.1	–	–	–	0.1	–
Christian Bille, Board member	0.1	–	–	–	0.1	–
Total	**4.9**	**–**	**–**	**1.6**	**6.5**	

Pension costs pertain to the impact on net profit for the year.

Pensions

The retirement age for the President is 65. The pension is a defined-contribution plan and the pension premium is to amount to 35% of the monthly salary. The retirement age for the Executive Vice President and other senior executives is 65 years. The terms comply with pension agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (FTF) and the Swedish Confederation of Professional Associations (SACO). Furthermore, an additional pension premium corresponding to a half price base amount per year is paid every year.

Severance pay

A mutual period of notice of six months applies to the President. If termination of employment is issued by the company, severance pay corresponding to 18 months' salary will be paid, in addition to the period of notice. The Executive Vice President has a period of notice of six months if employment is terminated at his request, and if termination of employment is issued by the company, the period of notice is twelve months

Preparation and decision-making process applied in relation to the issue of remuneration of senior executives

A Remuneration Policy for the Länsförsäkringar AB Group regulates the preparation and decision-making process for remuneration of senior executives. The Remuneration Committee prepares important remuneration decisions and decisions on measures for following up the application of the Remuneration Policy. The Board decides on remuneration of and other terms of employment for senior executives and employees with overall responsibility for any of the company's control functions.

Composition of Remuneration Committee

The composition and duties of the Remuneration Committee are regulated in the Board's formal work plan. The Remuneration Committee comprises the Chairman and one Board member.

Policies for remuneration of senior executives

Senior executives in the Länsförsäkringar AB Group are to have market-based employment terms and conditions. Total remuneration is to be in line with the industry standard. The structure and level of remuneration should correspond to the company's values, meaning that it should be reasonable, moderate and well-balanced, and also contribute to good ethics and organisational culture, characterised by openness and transparency.

Fixed remuneration

Fixed remuneration is paid according to the general policy above.

Pensions

Pensions should comply with the terms of the pension agreements between the Swedish Insurance Employers Association (FAO), the Swedish Union of Insurance Employees (FTF) and the Swedish Confederation of Professional Associations (SACO).

Other benefits

In addition to the above benefits, a company car is offered in accordance with applicable conditions, individual health care insurance and other benefits offered to all employees.

Number of women among senior executives, %	31 Dec 2016	31 Dec 2015
Board members	0	0
Other senior executives	0	0

Loans to senior executives

	Länsförsäkringar Hypotek		Länsförsäkringar AB Group	
SEK M	2016	2015	2016	2015
Board members	**–**	**1.5**	**–**	**44.3**
of which, loans from Länsförsäkringar Bank	–	1.0	–	9.1
of which, loans from Länsförsäkringar Hypotek	–	0.5	–	35.2
of which, loans from Wasa Kredit	–	–	–	–
President and Executive Vice Presidents	**–**	**–**	**–**	**12.6**
of which, loans from Länsförsäkringar Bank	–	–	–	2.5
of which, loans from Länsförsäkringar Hypotek	–	–	–	10.1
of which, loans from Wasa Kredit	–	–	–	–
Senior executives	**–**	**–**	**–**	**61.5**
of which, loans from Länsförsäkringar Bank	–	–	–	10.9
of which, loans from Länsförsäkringar Hypotek	–	–	–	50.3
of which, loans from Wasa Kredit	–	–	–	0.3

Loans granted comprise personnel loans and other loans. Personnel loans carry loan terms comparable to what applies to other employees in the Group. The interest rate for employees is the repo rate less 0.5 percentage points, but can never be lower than 0.5 percentage points. The interest benefit is calculated in accordance with the Swedish National Tax Board's rules and is included in other benefits as above. The terms and conditions of other loans are market-based.

The Group has not pledged assets, other collateral or assumed any liability undertaking for the benefit of any senior executive.

Remuneration Policy

In accordance with the regulations and general advice of the Swedish Financial Supervisory Authority (FFFS 2011:1) regarding remuneration policies in credit institutions, investment firms and fund management companies with license for discretionary portfolio management, the Board is to adopt a Remuneration Policy. It is intended that a statement of remuneration in the company be published on the company's website when the Annual Report is published.

Note 10 Other administration expenses

SEK M	2016	2015
Costs for premises	–	0.0
IT costs	-1.3	-0.8
Management costs	-2.7	-3.4
Other administration expenses	-78.4	-76.1
Total administration expenses	**-82.4**	**-80.3**

The item Other administration expenses largely comprises administration services purchased from the Parent Company.

Note 11 Remuneration of auditors

SEK M	2016	2015
Audit fees		
KPMG		
– Audit assignment	-0.4	-0.4
– Audit activities other than audit assignment	-1.0	-1.0
– Tax advice	-0.5	–
Deloitte		
– Other assignments	–	-0.4

Audit assignment pertains to a review of the Annual Report and accounting, as well as the Board's and President's administration. Audit activities other than audit assignment pertain to various types of quality-assurance services, such as reviews of the administration, Articles of Association, regulations or agreements that result in reports or certificates. Other assignments pertain to activities that are not included in the above mentioned items, for example, legal consultations alongside audit activities and that are not attributable to tax consultancy services.

Note 12 Loan losses and impaired loans

SEK M	2016	2015
Specific reserve for individually assessed loan receivables		
Write-off of confirmed loan losses during the year	-0.7	-1.4
Reversed earlier provisions of loan losses recognised as confirmed losses	0.4	1.2
Provisions for loan losses during the year	-5.0	-4.4
Payment received for prior confirmed loan losses	2.4	2.6
Reversed provisions of loan losses no longer required	6.5	9.0
Net expense for the year for individually assessed loan receivables	**3.7**	**7.0**
Collectively assessed homogenous groups of loan receivables of limited value and similar credit risk		
Provision/reversal of impairment of loan losses	1.1	2.8
Net expense for the year for collectively assessed homogenous loan receivables	**1.1**	**2.8**
Net expense for the year for fulfilment of guarantees	–	–
Net income/expense of loan losses for the year	**4.8**	**9.8**

The settlement model, which was introduced on January 1, 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. On December 31, 2016, the total credit reserve requirement amounted to SEK 43 M, of which Länsförsäkringar Hypotek AB:s credit reserve amounted to SEK 27 M and the remainder amounting to SEK 16 M was offset against the regional insurance companies held funds, according to the model described above.

The transition to the model means that the Länsförsäkringar Hypotek AB:s credit reserves on the date of introduction was gradually reversed by SEK 21 M, The final reversal took place in the fourth quarter of 2016 and a total of SEK 3,1 (8,0) was reversed in 2016.

Note 12 Loan losses and impaired loans, cont.

	31 Dec 2016				31 Dec 2015			
Impaired loans, SEK M	**Gross**	**Individual reserve**	**Collective reserve**	**Net**	**Gross**	**Individual reserve**	**Collective reserve**	**Net**
Corporate sector	–	–	–	–	–	–	–	–
Retail sector	–	-2.7	-24.3	-27.0	–	-4.7	-25.4	-30.1
Total	–	**-2.7**	**-24.3**	**-27.0**	–	**-4.7**	**-25.4**	**-30.1**

	31 Dec 2016			31 Dec 2015		
Reconciliation of impairment of loan losses SEK M	**Individual reserve**	**Collective reserve**	**Total**	**Individual reserve**	**Collective reserve**	**Total**
Opening balance	**-4.7**	**-25.4**	**-30.1**	**-10.5**	**-28.2**	**-38.7**
Reversed earlier provisions for loan losses recognised in the annual accounts as confirmed losses	0.4	1.1	1.5	1.2	2.8	4.0
Reversed provisions of loan losses no longer required	6.5	–	6.5	9.0	–	9.0
Provisions for loan losses during the year	-5.0	–	-5.0	-4.4	–	-4.4
Closing balance	**-2.8**	**-24.3**	**-27.0**	**-4.7**	**-25.4**	**-30.1**

Note 13 Tax

SEK M	2016	2015
Current tax		
Current tax expense	-115.0	-86.9
Adjustment of tax expense pertaining to prior years	-6.1	13.4
Total current tax	**-121.1**	**-73.5**
Total recognised tax expense	**-121.1**	**-73.5**
Reconciliation of effective tax rate		
Profit before tax	508.4	381.7
Tax at applicable tax rate	-111.8	-84.0
Tax on non-deductible income	0.0	0.0
Tax on non-deductible costs	-3.1	-2.9
Tax attributable to prior years	-6.1	13.4
Total tax on net profit for the year	**-121.1**	**-73.5**
Applicable tax rate	22.0%	22.0%
Effective tax rate	23.8%	19.2%
Tax items recognised in other comprehensive income		
Tax on cash-flow hedge	22.2	-8.4
Tax on financial assets available for sale	-3.8	14.1

	2016			2015		
SEK M	Before tax	Tax	After tax	Before tax	Tax	After tax
Tax attributable to other comprehensive income						
Cash-flow hedge	-100.7	22.2	78.5	38.0	-8.4	29.6
Available-for-sale financial assets	17.1	-3.8	13.3	-64.0	14.1	-49.9

Note 14 Loans to credit institutions

SEK M	31 Dec 2016	31 Dec 2015
Loans to credit institutions	4,614.7	4,395.3
Total loans to credit institutions	**4,614.7**	**4,395.3**
Payable on demand	4,614.7	4,290.6
Remaining term of not more than 3 months	-	104.7

Loans to credit institutions includes investments of SEK 4,603.2 M (4,273.6) in the Parent Company. Genuine repurchase transaction amount to SEK - M (104.7).

Note 15 Loans to the public

Loan receivables are geographically attributable in their entirety to Sweden.

SEK M	31 Dec 2016	31 Dec 2015
Loans to the public before reserves		
Corporate sector	7,136.2	7,167.1
Retail sector	161,838.6	139,918.5
Total	**168,974.9**	**147,085.6**
Reserves	**-27.0**	**-30.1**
Loans to the public	**168,947.9**	**147,055.5**
Remaining term of not more than 3 months	106,118.5	83,396.2
Remaining term of more than 3 months but not more than 1 year	15,444.7	15,980.7
Remaining term of more than 1 year but not more than 5 years	45,649.4	45,866.7
Remaining term of more than 5 years	1,735.2	1,811.9
Total	**168,947.9**	**147,055.5**

Remaining term is defined as the remaining fixed-interest period if the loan has periodically restricted conditions. For more information regarding reserves, see note Loan losses and impaired loans.

Note 16 Bonds and other interest-bearing securities

Issued by organisations other than public bodies

SEK M	31 Dec 2016	31 Dec 2015
Carrying amount		
Swedish mortgage institutions	9,201.4	9,344.8
Total bonds and other interest-bearing securities	**9,201.4**	**9,344.8**
Fair value	9,201.4	9,344.8
Amortised cost	9,001.7	9,117.1
Nominal value	8,675.0	8,775.0
Market status		
Securities listed	9,201.4	9,344.8
Remaining term of not more than 1 year	2,347.4	1,224.6
Remaining term of more than 1 year	6,854.0	8,120.2

Note 17 Derivatives

	31 Dec 2016		31 Dec 2015	
SEK M	Nominal value	Fair value	Nominal value	Fair value
Derivatives with positive values				
Derivatives in hedge accounting				
Interest	81,952.0	2,229.7	65,771.0	2,203.2
Currency	22,967.8	2,940.5	13,606.6	1,961.7
Other derivatives				
Interest	-	-	-	-
Total derivatives with positive values	**104,919.8**	**5,170.2**	**79,377.6**	**4,164.9**
Remaining term of not more than 1 year	6,010.0	69.7	8,246.0	53.8
Remaining term of more than 1 year	98,909.8	5,100.5	71,131.6	4,111.1
Derivatives with negative values				
Derivatives in hedge accounting				
Interest	63,225.0	820.7	72,125.0	1,139.7
Currency	3,213.2	180.1	7,699.4	570.6
Other derivatives				
Currency	2,000.0	0.1	-	-
Total derivatives with negative values	**68,438.2**	**1,000.9**	**79,824.4**	**1,710.3**
Remaining term of not more than 1 year	9,155,.0	54.2	16,280.0	189.4
Remaining term of more than 1 year	59,283.2	946.7	63,544.4	1,520.9

Note 18 Fair value changes of interest-rate risk hedged items in portfolio hedge

SEK M	31 Dec 2016	31 Dec 2015
Assets		
Carrying amount at beginning of year	694.9	980.7
Changes during the year pertaining to lending	-158.4	-285.8
Carrying amount at year-end	**536.4**	**694.9**
Liabilities		
Carrying amount at beginning of year	2,752.5	3,634.3
Changes during the year pertaining to funding	274.8	-881.8
Carrying amount at year-end	**3,027.2**	**2,752.5**

Note 19 Property and equipment

SEK M	31 Dec 2016	31 Dec 2015
Equipment		
Opening cost	0.8	0.7
Purchases	–	0.4
Sales / disposals	–	-0.3
Closing cost	**0.8**	**0.8**
Opening depreciation	-0.2	-0.2
Sales / disposals	–	0.2
Depreciation for the year	-0.2	-0.2
Closing accumulated depreciation	**-0.4**	**-0.2**
Total property and equipment	**0.5**	**0.6**

Note 20 Prepaid expenses and accrued income

SEK M	31 Dec 2016	31 Dec 2015
Accrued interest income	731.6	944.9
Prepaid expenses	1.8	0.8
Total prepaid expenses and accrued income	**733.4**	**945.7**

Note 21 Due to credit institutions

SEK M	31 Dec 2016	31 Dec 2015
Swedish credit institutions	47,002.4	41,267.7
Total liabilities due to credit institutions	**47,002.4**	**41,267.7**
Payable on demand	–	190.0
Remaining term of not more than 3 months	15.7	104.7
Remaining term of more than 3 months but not more than 1 year	46,986.7	40,973.0
Remaining term of more than 1 year but not more than 5 years	–	–
Remaining term of more than 5 years	–	–
Credit granted in Länsförsäkringar Bank amounts to	SEK 75.5 billion	SEK 60.0 billion

Liabilities to credit institutions include funding of SEK 46,986.7 M (40,973.0) from the Parent Company. Genuine repurchase transactions amounted to SEK 15.7 M (104.7), of which SEK 0 M (0) with Group companies.

Note 22 Debt securities in issue

SEK M	31 Dec 2016	31 Dec 2015
Bond loans	126,887.9	110,399.8
Total debt securities in issue	**126,887.9**	**110,399.8**
Remaining term of not more than 1 year	8,478.8	8,403.3
Remaining term of more than 1 year	118,409.1	101,996.5

All securities are covered bonds.

Note 23 Other liabilities

SEK M	31 Dec 2016	31 Dec 2015
Accounts payable	6.7	6.8
Tax liabilities	53.9	42.0
Other liabilities	17.3	24.5
Total other liabilities	**77.9**	**73.3**

Note 24 Accrued expenses and deferred income

SEK M	31 Dec 2016	31 Dec 2015
Accrued interest expense	1,326.8	1,695.6
Accrued remuneration of regional insurance companies	739.3	628.0
Other accrued expenses	74.3	76.9
Total accrued expenses and deferred income	**2,140.4**	**2,400.5**

Note 25 Provisions

SEK M	31 Dec 2016	31 Dec 2015
Other provisions	1.0	0.9
Total	**1.0**	**0.9**

Defined-contribution pension plans

Defined-contribution pension plans are plans according to which the company pays fixed contributions to a separate legal entity and does not have a legal or informal obligation to pay additional contributions. The Group's payments to defined-contribution plans are recognised as expenses during the period in which the employee performed the services to which the contributions refer. Primarily, contributions to the Insurance Industry's Pension Fund (FPK) are recognised here. This plan encompasses all employees except for a few employees who have individual solutions. The pension agreement for the insurance industry, the FTP plan, through insurance with the Insurance Industry's Pension Fund (FPK), is a multi-employer defined-benefit pension plan. According to IAS 19 Employee Benefits, this pension plan entails that, as a rule, a company is to recognise its proportional share of the defined-benefit pension commitment and the plan assets and expenses associated with the pension commitment. Disclosure is also to be presented in the accounts according to the requirements for defined-benefit pension plans. FPK is unable to provide the necessary information on this, which is why the pension plans above are recognised as a defined-contribution plan in accordance with item 34 of IAS 19. Nor is any information available on future surpluses and deficits in the plan or whether these surpluses and deficits would then affect the contributions for the plan in future years. The Group's expected fees in 2017 for the FTP plan amount to SEK 1.2 M.

	2016	2015
Expenses for defined-contribution plans	1.5	1.5

Note 26 Subordinated liabilities

SEK M	31 Dec 2016	31 Dec 2015
Subordinated debt	1,001.0	1,001.0
Total subordinated liabilities	**1,001.0**	**1,001.0**

	31 Dec 2016	31 Dec 2015	
Specification of subordinated debt from Länsförsäkringar Bank AB (publ)	**Carrying amount**	**Carrying amount**	**Coupon rate of interest**
Subordinated debt 2013/2023 LF Bank	190.0	190.0	variable 3 months
Subordinated debt 2013/2023 LF Bank	150.0	150.0	variable 3 months
Subordinated debt 2014/2024 LF Bank	161.0	161.0	variable 3 months
Subordinated debt 2015/2025 LF Bank	500.0	500.0	variable 3 months
Total	**1,001.0**	**1,001.0**	

Subordinated debt is subordinate to the mortgage company's other liabilities, which means that it carries entitlement to payment only after the other creditors have received payment.

Note 27 Untaxed reserves

SEK M	31 Dec 2016	31 Dec 2015
Tax allocation reserve	458.8	308.8
Total	**458.8**	**308.8**

See also appropriations in the income statement.

Note 28 Equity

SEK M	31 Dec 2016	31 Dec 2015
Restricted equity		
Share capital (70,335 shares, quotient value SEK 100 per share)	70.3	70.3
Statutory reserve	14.1	14.1
Total restricted equity	**84.4**	**84.4**
Non-restricted equity		
Fair value reserve	24.4	10.1
Hedge reserve	1.0	79.5
Retained earnings	7,133.8	6,225.5
Net profit for the year	387.3	308.3
Total non-restricted equity	**7,546.5**	**6,623.4**
Total equity	**7,629.9**	**6,707.8**

Proposed appropriation of profit
The following profit is at the disposal of the Annual General Meeting:

SEK	31 Dec 2016	31 Dec 2015
Other reservs	24,391,880	89,651,490
Retained earnings	7,133,809,786	6,225,540,801
Net profit for the year	387,267,360	308,268,985
Profit to be appropriated	7,545,469,025	6,623,461,276

The Board proposes that the following be carried forward SEK 7,545,469,025 (6,623,461,276).

Note 29 Pledged assets, contingent liabilities and commitments

SEK M	31 Dec 2016	31 Dec 2015
For own liabilities, pledged assets		
Collateral paid due to repurchase agreement	15.7	104.7
Loan receivables, covered bonds	159,446.3	137,484.4
Loan receivables, substitute collateral	8,675.0	8,775.0
Total for own liabilities, pledged assets	**168,137.0**	**146,364.1**
Other pledged assets	**None**	**None**
Other commitments		
Loans approved but not disbursed	9,545.0	7,923.4

Loans to the public were provided as collateral for issuance of covered bonds and mortgage bonds. In the event of the company's insolvency, bond holders have preferential rights to the assets that are registered as cover pool in accordance with the Swedish Covered Bonds (Issuance) Act (2003:1223). Other pledged securities will be transferred to the pledgee in the event of bankruptcy.

Note 30 Classification of financial assets and liabilities

31 Dec 2016 SEK M	Financial assets at fair value in profit and loss: Held for trading	Financial assets at fair value in profit and loss: Derivates used in hedge accounting	Loans and receivables	Available-for-sale financial assets	Total	Fair value
Assets						
Loans to credit institutions			4,614.7		4,614.7	4,614.7
Loans to the public			168,947.9		168,947.9	169,562.9
Bonds and other interest-bearing securities				9,201.4	9,201.4	9,201.4
Derivatives		5,170.2			5,170.2	5,170.2
Total assets		**5,170.2**	**173,562.5**	**9,201.4**	**187,934.2**	**188,549.2**

SEK M	Financial liabilities at fair value in profit and loss: Held for trading	Financial liabilities at fair value in profit and loss: Derivatives used in hedge accounting	Other financial liabilities	Total	Fair value
Liabilities					
Due to credit institutions			47,002.4	47,002.4	47,002.4
Debt securities in issue			126,887.9	126,887.9	131,774.9
Derivatives	0.1	1,000.8		1,000.9	1,000.9
Accounts payable			6.7	6.7	6.7
Subordinated liabilities			1,001.0	1,001.0	1,023.3
Total liabilities	**0.1**	**1,000.8**	**174,897.9**	**175,898.9**	**180,808.2**

Note 30 Classification of financial assets and liabilities, cont.

31 Dec 2015 SEK M	Financial assets at fair value in profit and loss Held for trading	 Derivates used in hedge accounting	Loans and receivables	Available-for-sale financial assets	Total	Fair value
Assets						
Loans to credit institutions			4,395.3		4,395.3	4,395.3
Loans to the public			147,055.5		147,055.5	147,711.2
Bonds and other interest-bearing securities				9,344.8	9,344.8	9,344.8
Derivatives		4,164.9			4,164.9	4,164.9
Total assets		**4,164.9**	**151,450.8**	**9,344.8**	**164,960.5**	**165,616.2**

SEK M	Financial liabilities at fair value in profit and loss Held for trading	 Derivatives used in hedge accounting	Other financial liabilities	Total	Fair value
Liabilities					
Due to credit institutions			41,267.7	41,267.7	41,267.7
Debt securities in issue			110,399.8	110,399.8	114,581.1
Derivatives		1,710.3		1,710.3	1,710.3
Accounts payable			6.8	6.8	6.8
Subordinated liabilities			1,001.0	1,001.0	1001.6
Total liabilities		**1,710.3**	**152,675.3**	**154,385.6**	**158,567.5**

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.".

Note 31 Fair value valuation techniques

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 Dec 2016 SEK M	Level 1	Level 2	Level 3	Total
Assets				
Bonds and other interest-bearing securities	9,201.4			9,201.4
Derivatives		5,170.2		5,170.2
Liabilities				
Derivatives		1,000.9		1,000.9

31 Dec 2015 SEK M	Level 1	Level 2	Level 3	Total
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

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 31 Fair value valuation techniques, cont.

Financial instruments measured at amortised cost in the balance sheet

31 Dec 2016	Level 1	Level 2	Level 3	Total
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 Dec 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Loans to the public		147,711.2		147,711.2
Liabilities				
Debt securities in issue		114,581.1		114,581.1
Subordinated liabilities		1,001.6		1,001.6

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 32 Information about offsetting

The table below contains financial assets and liabilities covered by a legally binding framework netting agreement or a similar agreement but that is not offset in the balance sheet. The Bank Group has ISDA and CSA agreements with all derivative counterparties and corresponding netting agreements for repurchase agreements, which means that all exposures are covered by both types of agreements. The framework netting agreement entails that parties are to settle their exposures net (meaning that receivables are offset against liabilities) in the event of a serious credit incident.

	Financial assets and liabilities that are offset or subject to netting agreements					
				Related amounts not offset in the balance sheet		
SEK M 31 Dec 2016	**Gross amount**	**Offset in balance sheet**	**Net amount in balance sheet**	**Netting framework agreement**	**Collateral Received (–) / Pledged (+)**	**Net amount**
Assets						
Derivatives	5,170.2	–	5,170.2	–686.9	–	4,483.3
Reversed repurchase agreements	–	–	–	–	–	–
Liabilities						
Derivatives	–1,000.9	–	–1,000.9	686.9	–	–314.0
Repurchase agreements	15.7	–	15.7	–	–15.7	0.0
Total	**4,185.0**	**–**	**4,185.0**	**–**	**–15.7**	**4,169.3**

	Financial assets and liabilities that are offset or subject to netting agreements					
				Related amounts not offset in the balance sheet		
SEK M 31 Dec 2015	**Gross amount**	**Offset in balance sheet**	**Net amount in balance sheet**	**Netting framework agreement**	**Collateral Received (–) / Pledged (+)**	**Net amount**
Assets						
Derivatives	4,164.9	–	4,164.9	–1,123.2	–174.8	2,866.9
Reversed repurchase agreements	104.7	–	104.7	–	–104.7	–
Liabilities						
Derivatives	–1,710.3	–	–1,710.3	1,123.2	–	–587.0
Repurchase agreements	–104.7	–	–104.7	–	104.7	–
Total	**2,454.6**	**–**	**2,454.6**	**–**	**–174.8**	**2,279.9**

Note 33 Disclosures on related parties, pricing and agreements

Related parties

Related legal entities include the Länsförsäkringar AB Group's and the Länsförsäkringar Liv Group's companies, associated companies, the 23 regional insurance companies with subsidiaries and other related parties. Other related parties comprise: Länsförsäkringar Mäklarservice , Länsförsäkringar, Fastighetsförmedling AB, PE-Holding AB (publ), Humlegården Holding I AB, Humlegården Holding II AB, Humlegården Holding III AB and Humlegården Fastigheter AB.

Related key persons are Board members, senior executives and close family members to these individuals.

Agreements

Significant agreements for the company are primarily assignment agreements with the 23 regional insurance companies and assignment agreements with Länsförsäkringar AB regarding development, service, financial services and IT. The company has agreements with the other companies in the Bank Group for Group-wide services.

Pricing

The price level of the goods and services that Länsförsäkringar Hypotek AB purchases and sells within the Länsförsäkringar Alliance is determined by Länsförsäkringar AB's corporate management once a year in conjunction with the adoption of the business plan.

Transactions

	Receivables		Liabilities		Income		Expenses	
SEK M	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	2016	2015	2016	2015
Länsförsäkringar Bank AB (Parent Company)	8,251.2	7,049.5	48,161.9	42,356.4	357.7	947.9	626.4	556.8
Other companies in the Bank Group	1.2	0.8	–	–	–	–	0.0	0.0
Other companies in the Länsförsäkringar AB Group	–	–	0.0	0.0	–	–	1.4	0.9
Regional insurance companies	–	–	739.3	628.0	–	–	936.0	801.5

For information regarding remuneration of related key persons such as members of the Board of Directors and senior executives, see note Employess, staff costs and remuneration of senior executives. In all other respects, no transactions took place between these individuals and their family members apart from normal customer transactions.

Note 34 Events after balance-sheet date

No significant events took place after the balance-sheet date.

Statement from the Board

The Board of Directors and President affirm that this Annual Report was prepared in accordance with generally accepted accounting policies in Sweden and that the accounts were prepared in accordance with legally restricted IFRSs, meaning in accordance with the international accounting standards referred to in Regulation (EC) No 1606/2002 of the European Parliament and the Council issued on July 19, 2002 on the application of international accounting standards, with the limitations stipulated by the Swedish Annual Accounts Act and regulations. The Annual Report gives a true and fair view of the company's position and earnings. The Board of Directors' Report provides a true and fair overview of the company's operations, financial position and earnings, and describes the significant risks and uncertainties to which the company is exposed.

Stockholm, 22 February 2017

Rikard Josefson *Chairman*	Gert Andersson *Board member*	Christian Bille *Board member*
Bengt Clemedtson *Board member*	Christer Malm *Board member*	Anders Borgcrantz *President*

My audit report was submitted on 22 February 2017

Dan Beitner
Authorised Public Accountant

Auditor's report

To the general meeting of the shareholders of Länsförsäkringar Hypotek AB (publ), corp. id 556244-1781

Report on the annual accounts

Opinions

I have audited the annual accounts of Länsförsäkringar Hypotek AB (publ) for the year 2016. The annual accounts of the company are included on pages 10–46 in this document.

In my opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies, and present fairly, in all material respects, the financial position of Länsförsäkringar Hypotek AB (publ) as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts, and the corporate governance statement is in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

I therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet.

Basis for Opinions

I conducted my audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. My responsibilities under those standards are further described in the Auditor's Responsibilities section. I am independent of Länsförsäkringar Hypotek AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled my ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in my professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of my audit of, and in forming my opinion thereon, the annual accounts as a whole, but I do not provide a separate opinion on these matters.

Loan origination and provisions for loan losses

See disclosure in note 3 regarding impaired loans and non-performing loan receivables on page 3 and in note 12 on page 39 regarding loan losses and impaired loans, and accounting policies in note 2 on pages 22, 25, 26 and 27 in the annual accounts for detailed disclosures and a description of the matter.

Description of key audit matter	Response in the audit
Länsförsäkringar Hypotek's lending primarily comprises mortgages to private individuals. Loans are granted locally in Sweden, via the local regional insurance companies, based on standardised, centrally established credit regulations at the Länsförsäkringar Bank Group, in which Länsförsäkringar Hypotek is included. Länsförsäkringar Hypotek's loans to the public amounted to SEK 168,948 M on 31 December 2016, corresponding to 89% of Länsförsäkringar Hypotek's total assets. Länsförsäkringar Hypotek's reserves for loan losses in the loan portfolio amounted to SEK 43 M.	We have tested Länsförsäkringar Hypotek's key controls in the lending process, including credit decisions, credit examinations, rating classifications and identification and confirmation of the loans for which reserves have been made.
The reserves for loan losses in Länsförsäkringar Hypotek's loan portfolio correspond to corporate management's best estimate of potentially occurring losses in the loan portfolio as per the balance-sheet date. For loans for which an individual impairment requirement has been identified, the recoverable amount is valued at the present value of expected future cash flows discounted by the effective interest rate of the receivable according to the latest interest-adjustment date. Impairment requirements are identified and valued collectively for loans that are not deemed to have any individual impairment requirements but for cases in which a measurable decline of expected future cash flows has occurred.	Controls tested included both manual controls and automatic controls in the application system. We also tested general IT controls including authorisation management for the relevant systems.
For the company, we believe that a provision for individual loan losses encompasses the greatest uncertainty in corporate management's assessments, since these are based on a high number of internal and external observations. The assessments made by the company are linked to expected future cash flows and thus the uncertainty in terms of time and outcome related to these cash flows.	We challenged corporate management's assessment of the recoverable amount of future cash flows for reverses made on an individual basis.
	For loans valued using collective reserve models, we challenged the assumptions in the models that use historical actual outcomes. We also conducted random checks of inputs in the models and the accuracy of the calculations.
	We have assessed the circumstances presented in the disclosures in the annual accounts and whether the information is sufficiently extensive as a description of corporate management's assessments.

Measurement of financial instruments

See disclosure in notes 8, 16, 17, 18, 22, 30 and 31 and accounting policies in note 2 on pages 22, 25 and 26 in the annual account for detailed disclosures and a description of the matter.

Description of key audit matter	Response in the audit
Länsförsäkringar Hypotek has financial instruments measured at fair value in the balance sheet. Some of these financial instruments do not have current market prices, which means that the fair value is determined using valuation techniques based on market data. These financial instruments are classed as Level 2 in the IFRS valuation hierarchy and correspond to assets of a value of SEK 5,170 and liabilities of SEK 1,001 M.	We tested key controls in the valuation process, including confirmation and approval of assumptions and methods used in model-based calculations, controls of data quality and change management for internal valuation techniques. Controls tested included both manual controls and automatic controls in the application system. We also tested general IT controls including authorisation management for the relevant systems.
Accordingly, Level 2 instruments correspond to 2.7% of Länsförsäkringar Hypotek's total assets and 0.6% of Länsförsäkringar Hypotek's liabilities.	With the assistance of our internal valuation specialists, we challenged the methods and assumptions used in measuring unquoted/illiquid financial instruments.
Most of Länsförsäkringar Hypotek's derivatives contracts, including interest-rate and cross-currency swaps, comprise Level 2 financial instruments. Level 2 derivatives contracts are measured using valuation techniques based on market interest rates and other market prices.	We assessed the methods of the valuation techniques against industry practice and valuation guidelines.
Länsförsäkringar Hypotek has financial instruments, the fair-value measurement of which is determined based on valuation techniques where the value is influenced by inputs that cannot be verified by external market data and that are classed as Level 3.	We have verified the values of the financial instruments by comparing the assumptions applied by Länsförsäkringar Hypotek for the entire portfolio with suitable benchmark values and pricing sources, and have investigated significant deviations in one of the monthly accounts during the year. The result of this examination was also randomly tested in the annual accounts.
The valuation of Level 2 financial instruments includes assessments by corporate management, since these instruments are measured using models. In light of this, these financial instruments have been deemed to be a particularly significant audit matter.	We have assessed the circumstances presented in the disclosures in the annual accounts and whether the information is sufficiently extensive as a description of corporate management's assessments.

Other Information than the annual accounts

This document also contains other information than the annual accounts and is found on pages [x-y]. The other information comprises also of [report X (but does not include the annual accounts and my auditor's report thereon)] which I obtained prior to the date of this auditor's report, and the Y report, which is expected to be made available to me after that date. [The Board of Directors and the Managing Director] are responsible for this other information.

My opinion on the annual accounts does not cover this other information and I do not express any form of assurance conclusion regarding this other information.

In connection with my audit of the annual accounts, my responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts. In this procedure I also take into account my knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If I, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and that they give a fair presentation in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts The Board of Directors and the Managing Director are responsible for the assessment of the company's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility

My objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to my audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts. I also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify my opinion about the annual accounts. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

I must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. I must also inform of significant audit findings during my audit, including any significant deficiencies in internal control that I identified.

I must also provide the Board of Directors with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, I determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. I describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinions

In addition to my audit of the annual accounts, I have also audited the administration of the Board of Directors and the Managing Director of Länsförsäkringar Hypotek AB (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

I recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

I conducted the audit in accordance with generally accepted auditing standards in Sweden. My responsibilities under those standards are further described in the Auditor's Responsibilities section. I am independent of Länsförsäkringar Hypotek AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled my ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's type of operations, size and risks place on the size of the company's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

My objective concerning the audit of the administration, and thereby my opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

My objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby my opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

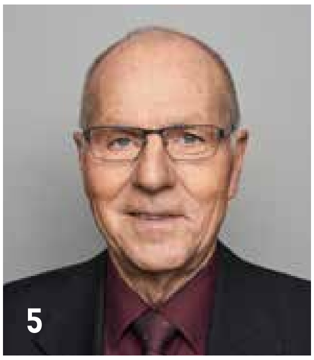
Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, I exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on my professional judgment with starting point in risk and materiality. This means that I focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. I examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to my opinion concerning discharge from liability. As a basis for my opinion on the Board of Directors' proposed appropriations of the company's profit or loss I examined whether the proposal is in accordance with the Companies Act.

Stockholm 22 February 2017

Dan Beitner
Authorized Public Accountant

Board of Directors



1 Rikard Josefson

Chairman. Born 1965. President of Länsförsäkringar Bank **Education:** Bachelor of Arts. **Other Board appointments:** Chairman of Wasa Kredit and Länsförsäkringar Hypotek. Board member of Länsförsäkringar Fondförvaltning, Länsförsäkringar Fastighetsförmedling, Swedish Bankers' Association, FCG Fonder AB, Livslust Foundation and CSN Oversight Council. **Previous experience:** President of SEB Finans, Regional Director East SEB, Deputy Head of Retail Sweden SEB, Senior Vice President and Head of Retail Banking Business Area Latvijs Unibanka in Latvia, Head of Global Transaction Services SEB Merchant Banking.

2 Christian Bille

Born 1962. President of Länsförsäkringar Halland Elected 2010. **Education:** Master of Science in Business and Economics. **Other Board appointments:** Board member of Länsförsäkringar Halland and Länsförsäkringar Bank. **Previous experience:** President of Sparbanken Syd, Operating Manager Swedbank.

3 Bengt Clemedtson

Born 1964. Head of Business Länsförsäkringar Bank. Elected 2009. **Education:** Master of Science in Business and Economics. **Other Board appointments:** Board Chairman of AB Superb Produkt. **Previous experience:** President of Skandiabanken Bolån AB.

4 Gert Andersson

Born 1959. Head of Product & Process at Länsförsäkringar Bank. Elected 2014. **Education:** Master of Science in Business and Economics. **Other Board appointments:** Board member of Finansiell IDTeknik BID AB and Eventosaurus Holding AB, founder and Board member of Gert A consulting AB. **Previous experience:** Head of Sales Area Direct, Head of Sales and Marketing at Wasa Kredit and 25 years of experience in various senior positions at SEB.

5 Christer Malm

Born 1943. Elected 2005. **Education:** No academic education. **Other Board appointments:** Chairman of Gaia Leadership. **Previous experience:** Executive Vice President of Posten, President of Postgirot, President of SBAB and CEO HSB Sverige.

Auditor: Dan Beitner. Auditor. Authorised Public Accountant, KPMG AB.

Executive management

1 Anders Borgcrantz

Born 1961. President. Employed since 2003. **Education:** Master of Science in Business and Economics. **Previous experience:** Executive Vice President FöreningsSparbanken, President of SPINTAB, Regional Manager at FöreningsSparbanken.

2 Martin Rydin

Born 1968. Executive Vice President and CFO. Employed since 2012. **Education:** Master of Laws. **Previous experience:** Head of Long Term Funding Swedbank.

Definitions

Percentage of impaired loans
Impaired loans in relation to the total carrying amount of loans to the public and loans to credit institutions.

Return on total capital
Operating profit in relation to average total assets.

Own funds
Comprises the sum of Tier 1 and Tier 2 capital and the difference between expected losses and reserves established for probable loan losses.

Capital adequacy ratio
Closing own funds as a percentage of the risk-weighted amount at year-end.

Capital ratio
Own funds in relation to capital requirements.

Cost/income ratio
Total expenses in relation to total income. The cost/income ratio is calculated before and after loan losses.

Loan losses, net
Confirmed loan losses and reserves for loan losses less recoveries of receivables and net expense for the year for loan losses for guarantees and other contingent liabilities.

Loan losses in relation to loans
Net loan losses in relation to the total carrying amount of loans to the public and loans to credit institutions.

Common Equity Tier 1 capital
Total Tier 1 capital excluding Additional Tier 1 instruments.

Common Equity Tier 1 capital ratio
Core Tier 1 capital in relation to the risk-weighted amount.

Impaired loans
A loan receivable is considered impaired if a payment is more than 60 days past due or if there is reason to expect that the counterparty cannot meet its undertaking. The loan receivable is considered impaired to the extent that its whole amount is not covered by collateral.

Investment margin
Net interest income in relation to average total assets.

Tier 1 capital
Tier 1 capital is part of the own funds and comprises equity and Additional Tier 1 instruments. Deductions are made for such items as deferred tax assets, goodwill and other intangible assets, investments in financial companies and the difference between expected losses and reserves established for probable loan losses.

Tier 1 ratio
Tier 1 capital at year-end in relation to the closing risk-weighted amount.

Reserve ratio in relation to loans
Reserves for impaired loans in relation to the total of loans to the public and loans to credit institutions.

Impaired loans reserve ratio excluding collective impairments
Individual reserves for loan receivables in relation to impaired loans gross.

Risk Exposure Amount
The Risk Exposure Amount is calculated by multiplying an institution's capital requirement for all assets in the balance sheet, off balance sheet items, operational risk and credit valuation adjustment risk by 12.5.

Risk-weighted amount
Total assets in the balance sheet and off-balance sheet commitments valued in accordance with the Capital Adequacy and Large Exposures Act. Volumes are weighted taking into account assessed risk so that they are included in the risk-weighted amount by 0%, 20%, 50% or 100%.

Return on equity
Operating profit less standard tax in relation to average equity, adjusted for items in equity recognised in other comprehensive income and for Additional Tier 1 Capital loans.

Fixed-interest term
The agreed period during which the interest rate on an asset or liability is fixed.

Tier 2 capital
Primarily comprises fixed-term subordinated debt.

Total impaired loans reserve ratio
Total reserves for loan receivables in relation to impaired loans gross.

Financial calendar 2017

First quarter:
Interim report January-March: 5 May 2017

Second quarter:
Interim report April-June: 10 August 2017

Third quarter:
Interim report July-September: 10 November 2017

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