



Landshypotek Bank

# Landshypotek Bank AB Year-end report 2015

January – December 2015 (Compared with 2014)

## Liza Nyberg, CEO of Landshypotek Bank, comments on 2015

We have grown our operations during the year through our lending and deposits, thereby enabling more people to develop their farms. We posted strong results, which enable our continued development into a broader bank for entrepreneurs in the agriculture and forestry, and people living on farms and savers. The potential of a bank with a clear public role is evident from our achievement in building up household saving deposits of more than SEK 10 billion in just a few years.

### January – December 2015

compared with January – December 2014

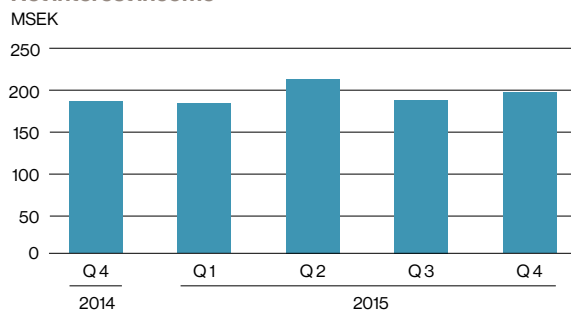
- Operating profit amounted to MSEK 330.6 (384.9).
- The underlying operating profit, profit excluding financial transactions, totalled MSEK 322.8 (238.8).
- Net interest income rose MSEK 101.3 to MSEK 778.7 (677.4).
- Costs increased in line with the bank's development and were MSEK 387.2 (346.5).
- Net loan losses declined to MSEK 45.9 (79.6).
- Lending amounted to SEK 64.5 billion (61.7), up 4.5 percent (1.5) compared with year-end.
- Deposits amounted to SEK 10.3 billion (5.8), up SEK 4.5 billion.
- The total capital ratio amounted to 26.1 percent not taking the transitional rules linked to Basel I into account.

### October – December 2015

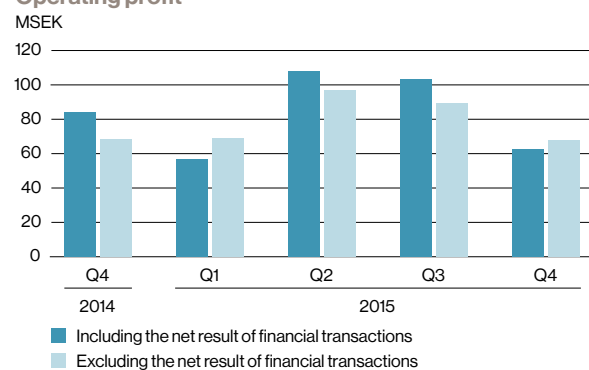
compared with July – September 2015

- Operating profit amounted to MSEK 62.7 (103.2).
- The underlying operating profit, excluding the net result of financial transactions, was MSEK 67.8 (89.2).
- Net interest income amounted to MSEK 196.2 (187.1).
- Costs totalled MSEK 117.7 (76.9)
- Net loan losses were MSEK 7.3 (15.3).
- Lending amounted to SEK 64.5 billion (64.0).
- Deposits amounted to SEK 10.3 billion (8.7).

#### Net interest income



#### Operating profit



# For a richer life in the countryside

Landshypotek Bank's assignment is to provide competitive financing and offer financial services to Sweden's farmers and foresters. In addition, Landshypotek Bank has introduced savings accounts that offer competitive interest rates for the general public in Sweden. In 2015, the bank continued its development:

- Market presence was strengthened through measures including the addition of more staff with customer contact and through establishing new offices or expanding operations.
- This year's regional meetings, the members' meetings for Landshypotek Ekonomisk Förening, attracted about 1,600 people.
- MSEK 164 of 2014's profit was distributed to the bank's loan customers (members of the cooperative society) in May. The members are highly committed to the bank's development. Investment opportunities in 2015, with distribution in spring 2016, raised a further MSEK 119 in investments from members.
- The bank was involved in the government's efforts to support the country's dairy farmers. However, together with other banks, Landshypotek Bank turned down the government credit guarantees and, as a result, the government instead earmarked funds to be paid directly to dairy farmers.
- Several marketing activities captured attention during the year. The Your farm – Your opportunity competition involved farming entrepreneurs across the country. Altogether, it demonstrated the entrepreneurial breadth and energy that exists in the countryside.
- Ever increasing demands are being placed on farmers and foresters as entrepreneurs. Landshypotek Bank is participating in the newly established Swedish Centre for Agricultural Business Management at the Swedish University of Agricultural Sciences in Alnarp, which aims to contribute to profitability, development and sustainable growth for companies in agriculture and forestry.
- The digital services have evolved in a number of ways over the year. The bank's online services have been vastly improved, and several services and products that will reach customers in 2016 were developed during the year.
- Efforts to improve the credit quality of the loan portfolio have been intensified. Substantial focus is dedicated to early identification of customers and work with customers at risk of finding themselves in payment difficulties. The risk and credit organisation has been altered and strengthened.
- Landshypotek Bank has been very successful in its financing activities and demand for the bank's bonds has been favourable. During the year, the Bank issued covered bonds to a value of approximately SEK 10.4 billion. In addition, senior bonds were issued to a value of approximately SEK 1.5 billion.
- In December, the bank passed a milestone when households' savings deposits reached SEK 10 billion.

## Landshypotek Bank is close to its customers

Landshypotek Bank has organised its customer operations into eight districts and has 19 sales offices throughout Sweden to promote active and close dialogue with customers. In addition, a central organisation is in place that includes a customer service function for dialogue with customers. The district organisation has access to a network of elected representatives who carry out property valuations. The company's local presence and expertise in farming and forestry are prerequisites and success factors for operations. Functions for risk, compliance, legal affairs, accounting, finance, loan and savings administration, HR, marketing and development, IT, communication and credit are located at the head office. Landshypotek Bank has approximately 160 employees.

## Landshypotek Bank is owned by its members

All borrowers from Landshypotek Bank become members of Landshypotek Ekonomisk Förening (Landshypotek Cooperative Society). Accordingly, Landshypotek Bank is owned by some 42,000 members. All business operations are conducted in Landshypotek Bank and the cooperative society is responsible for member relations and overriding control of the bank through the owner directive. Landshypotek Ekonomisk Förening has organised its member operations into ten regions. The Board of each region comprises up to eight elected representatives who represent the members and act as ambassadors for Landshypotek Bank. These elected representatives perform valuations on behalf of the bank. Any surpluses in Landshypotek Bank are reinvested in operations and distributed to loan customers.

## Growing interest in the bank with a difference

There is substantial market interest in the bank with a difference and its high level of societal commitment. In 2015, we grew through our lending and our saving deposits.

This growth means that we have made it possible for more people to invest in their businesses or their homes in the countryside. Altogether, this has boosted growth in the countryside. We are also one of the banks that is most rapidly capturing shares of the growth in the savings market. Our ambition is to make a difference – growing lending is a way to achieve this.

We have also made a difference for the country's dairy farmers during the year. We have maintained a close dialogue with our hard-pressed milk producers over the year and by utilising sound credit granting principles, we have provided everything from new loans to temporary measures or organised disposal.

We turned down the government's credit guarantees to the dairy industry, since they risked becoming a hindrance rather than a help. Instead of the guarantees, the government managed to produce SEK 152 million in direct support for the farmers.

We also make a difference by showcasing the energy and entrepreneurship that exists in the countryside. The Your farm – Your opportunity marketing initiative focused on the opportunities our core customers create for themselves and for Sweden.

Our close links to the industry increase our understanding of our market. We have a strong loan portfolio and our loan losses, which are clearly linked to a few individual customers, are declining compared with previous years. We have continued to develop our customer dialogue and our follow-up, thereby identifying entrepreneurs with cash-flow problems at increasingly early stages. It is positive to note that these efforts are making a difference.

Over the past three years, we have distributed SEK 441 million of our earnings directly to our loan customers. We are now transferring half of the profits for 2015 as Group contributions to our owner, Landshypotek Ekonomisk Förening, for its operations and for distributing to its members.

We also aim to make a difference by following our customers' development. Farmers and forest owners are diversifying their operations. Large is becoming larger in the ongoing structural reorganisation, while others are specialising within one segment or niche. Some people chose to live on a farm, earn their living from employment and operate the business in their spare time. Landshypotek Bank is here for all of these people.

We are in the midst of transition from being a building society primarily dedicated to professional farmers to becoming a broader bank addressing more target groups in the countryside and in agriculture and forestry. Our strong performance enables our future development, and the aim is to grow by attracting more customers and increasing volumes. We are increasing our strength to meet customer expectations and regulatory requirements. Growth will continue to require a robust capital base.

A deliberate investment lies behind the increase in costs and, during the year, this led to enhanced digital services, marketing activities and an increase in personnel. We want to grow. This means that our costs for the development of services and skills will be defrayed over a larger customer base. We are also setting an aggressive budget for 2016.

There is great potential at Landshypotek Bank – the bank with a difference in the Swedish banking market.



Liza Nyberg  
CEO Landshypotek Bank

# Our operating environment

Landshypotek Bank and its customers are impacted by financial market trends, as well as business conditions in the farming and forestry sectors. The central banks have continued to target inflation and consumer interest rates remain at historic lows. In agricultural production, the year was marked by onerous conditions for dairy farmers. However, in certain areas, such as livestock production, conditions in Sweden differ positively compared with the rest of Europe.

## Financial market trends

It has been a turbulent year marked by central bank stimuli targeting inflation. At the start of the year, Sweden's central bank, the Riksbank, lowered the repo interest rate to negative 0.25 percent and announced a government bond-buying programme. The European Central Bank (ECB) expanded its monthly purchases of government bonds to EUR 60 billion in the second quarter. In the US, the labour market picked up speed and the number of job gains increased, though again without wage growth and inflation. During the year, we also noted the first interest-rate increase in nine years by the US Federal Reserve.

The Swedish economy posted healthy growth and a positive labour market trend. Households have a positive outlook, and consumption and the service sector have grown. However, conditions remained stagnant for Swedish industry and inflation was negligible.

Accordingly, the Riksbank lowered the interest rate further to negative 0.35 percent, while increasing its support purchases. These purchases were later increased in the fourth quarter. A total of SEK 200 billion in government bond purchases were announced.

The ECB, which had promised "to take the necessary

actions" to increase growth and inflation, disappointed the market in the last quarter by not doing more. Interest rates fell, the SEK strengthened and pressure to do more increased on the Riksbank. At the end of the year, the Riksbank announced that it was ready to sell SEK to lower the currency's value.

From previously being the growth engine for the global economy, China lost momentum, which led to declines in commodity prices and weaker stock exchange trends in the third quarter. The decline in commodity prices picked up speed at the end of the year and the oil price in particular fell to new lows. The stock exchanges fell and, when summing up the year, we note a return on shares of close to zero.

The end of 2015 was also marked by new regulations and fees for bank trading departments, which resulted in an increase in the interest-rate differential between government and mortgage bonds.

At the same time as Sweden posted high growth, an increasingly strong labour market, substantial increases in house prices and high real wage growth, inflation continued to refuse to accelerate. The Riksbank is turning over every stone in its search for measures to increase

## Summary Landshypotek Bank

	2015 Q 4	2014 Q 4	2015 Q 3	2015 Full year	2014 Full year
Net interest income, MSEK	196.2	189.4	184.4	778.7	677.4
Operating profit, MSEK	62.7	84.1	103.2	330.6	384.9
Profit after tax, MSEK	47.9	66.8	80.7	257.1	301.4
Loans to the public, MSEK	64,501	61,743	64,015	64,501	61,743
Increase in lending, %	0.8 %	-0.1 %	0.7 %	4.5 %	1.5 %
Interest margin, %	1.2 %	1.2 %	1.2 %	1.2 %	1.1 %
Deposits from the public	10,310	5,829	8,777	10,310	5,829
Increase in deposits, %	17.5 %	20.8 %	8.8 %	76.9 %	171.5 %
C/I ratio	0.61	0.55	0.42	0.51	0.52
Loan loss level, %	0.05	0.08 %	0.10 %	0.07 %	0.13 %
Capital adequacy, %	26.1 %	24.5 %	23.1 %	26.1 %	24.5 %
Rating, long-term					
Standard & Poor's, Covered bonds	AAA	AAA	AAA	AAA	AAA
Standard & Poor's	A-	A-	A-	A-	A-
Fitch	A	A+	A	A	A+
Average number of employees	161	150	157	156	144

inflation and further boost growth. In Europe, the ECB continued its struggle to accelerate growth and inflation, however, the economic trend remains weak and inflationary pressure low

Reduced borrowing costs allowed Landshypotek Bank to lower its lending interest rates on several occasions during the year. However, the increased interest-rate differential between government and mortgage bonds brought about minor interest rate increases in the autumn.

Falling commodity prices and difficult conditions in the EU mean that both the market and households expect low inflation to continue for the immediate future, which means that prospects remain favourable for Swedish interest rates to stay low.

## Trends in farming and forestry

A third of Sweden's population lives in the countryside and a large proportion of these own and operate businesses on agricultural and forest properties. These key Swedish industries are subject to international competition, the international market and global politics.

Examples include the continuing trade dispute between the EU and Russia and the weaker economic trend in China, resulting in weak demand for raw materials among other effects. The conflict in Syria and tensions in the Middle East have also impacted the markets for oil and solid-wood products. In parallel, low prices and a substantial supply of oil contribute to lower costs for fuel, fertilizer and other input goods such as plastic and plant protection.

Continued low interest rates mean the international finance market is one of the strongest factors driving property prices. The market value of properties has remained stable and in some cases climbed during the year. The exception being properties with substantial values tied up in farm buildings.

While the international impact is significant, at the same time, the trend in some sectors demonstrates that increased consumer interest and a rise in domestic demand can have a major effect. The demand for beef and poultry also results in increased interest in investment. The positive economic trend also strengthens farmers and foresters' entrepreneurial opportunities.

Here is a status update for a few of the major sectors when summarising 2015:

- Milk production was in focus during the year. Low global market prices have reduced profitability for conventional production to historic lows. Concurrently, this poor profitability has increased interest in alternative market segments. Organic milk is mainly designated for the domestic market and demand is rising. Interest in farm dairies has also increased. While the number of dairy farmers in Sweden is on the decline, production volumes are largely unchanged.

- In forestry, the year has been denoted by stable prices for timber and pulp wood. While property prices followed a cautiously positive trend in southern and central Sweden, prices were stable or declined gently in northern Sweden. From an industry perspective, Swedish exports of pulp benefit from the relatively weak SEK. Solid-wood products are subject to price pressure in the international market. This is largely due to increased production from Europe's sawmills and demand not recovering in key markets in the Middle East and North Africa. In parallel, competition from Russian timber has increased in pace with the decline in the RUB.

- In Sweden, pig farmers have had a relatively favourable year, particularly compared with their European colleagues. This was due to continued strong demand for Swedish pork. However, in the latter part of 2015, imports rose due to the large price differential primarily between Swedish and European pork. Compared with other countries, Swedish pork has a high production quality and a high degree of food safety.

- Beef producers' profitability has trended favourably during the year, which was also demonstrated through increased interest in investment. The upturn was largely due to healthy demand for Swedish beef and relatively high prices for livestock and meat.

- Poultry consumption is rising with an attendant rise in Swedish production even if imports largely meet the increase in consumption. Poultry producers have a positive outlook and several large investments in new production capacity have been made during the year.

- The diversification of Swedish agriculture is extensive. For example, many agricultural businesses run civil engineering contracting operations. Many are also involved in the supply of other services and equipment. These activities greatly contribute to turnover and profitability. Positive economic conditions together with investments in infrastructure and construction have resulted in a positive trend for this area of agricultural operations in 2015.

## Contact details

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## Financial calendar

Annual Report 2015	9 March 2016
Interim report January–March 2016	26 April 2016

*All reports are published in Swedish and English and are available for download from [www.landshypotek.se](http://www.landshypotek.se) under Investor relations.*

# Landshypotek Bank AB

Landshypotek Bank AB (publ) (Corp. Reg. No.: 556500-2762)

Year-end report for the 1 January – 31 December 2015 period.

Landshypotek Bank AB (Landshypotek) is owned by Landshypotek Ekonomisk Förening, in which all of the Bank's loan customers are members. The Bank's assignment is to provide competitive financing to Sweden's farmers and foresters. With loans outstanding of SEK 64.5 billion, Landshypotek Bank accounts for 26.5 per cent of total lending to farmers and foresters in Sweden. Lending is characterised by adequate property collateral. Landshypotek Bank has about 160 employees at 19 offices throughout Sweden.

## Operating profit 2015

Consolidated operating profit for the full-year 2015 amounted to MSEK 330.6 (384.9), down MSEK 54.3 year-on-year. The decline in profit was attributable to the net result of financial transactions, which was down MSEK 138.4 and a year-on-year increase in costs of MSEK 40.6. The decline was offset by an increase in net interest income of MSEK 101.4 and a decrease in loan losses of MSEK 33.7. Excluding the net result of financial transactions, operating profit amounted to MSEK 322.8 (238.8), up MSEK 84.0 year-on-year.

### Net interest income

Net interest income for the full-year 2015 was MSEK 778.7. This was a year-on-year increase of 15.0 percent (MSEK 677.4). The amount of net interest income is determined by the volume of loans outstanding, the margin between the interest rates on borrowing and lending and the return obtained on equity.

The increase in net interest income was primarily due to higher lending and lower borrowing costs, and a higher percentage of interest compensation received. From 2015, terminated hedging relationships have been reclassified so that income and costs for these terminated

hedging relationships offset each other in net interest income. Refer to Note 1.

### Other operating income

Other operating income was negative at MSEK 15.0 (pos: 133.7) for the full-year 2015. Compared with the full-year 2014, this was a decline of MSEK 148.7. Other operating income includes fees of MSEK 35.3 for the stabilisation fund and deposit insurance, the profit of MSEK 7.8 from the net result of financial transactions, net commission income (excluding the stabilisation fund and deposit insurance) of MSEK 10.0 and income from property of MSEK 1.0.

The year-on-year decrease in operating income was due to a decline of MSEK 138.4 in the net result of financial transactions to MSEK 7.8 (146.2). The profit of MSEK 7.8 comprised an unrealised loss of MSEK 36.2 and a realised gain of MSEK 43.9. The net result of financial transactions included realised results from the purchase and sale of financial instruments, as well as the result from the buyback of bonds. In addition, this item includes the result from the revaluation of financial instruments. To gain an understanding of the total effect of market valuations, the remeasurements recognised directly in equity via other comprehensive income must also be taken into account. Remeasurements in equity amounted to negative MSEK 16.7 (neg: 2.8) in 2015.

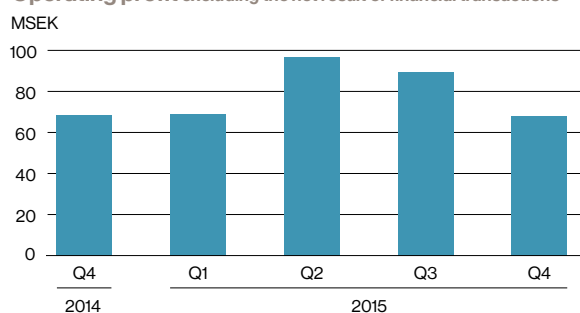
### Costs

Costs in 2015 amounted to MSEK 387.2 (346.5). The increase in costs of MSEK 40.6 was as planned and was primarily linked to developments to strengthen the bank's competitiveness.

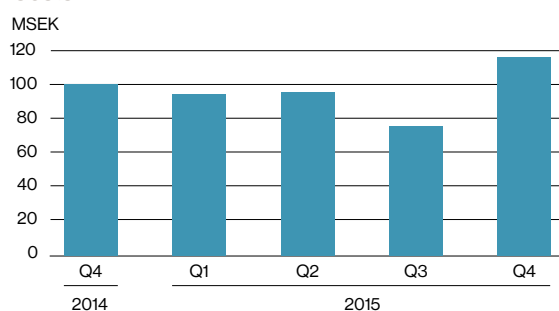
### Loan losses and doubtful credits

Net loan losses in 2015 totalled MSEK 45.9 (79.6). Confirmed losses totalled MSEK 50.3 (56.3). Provisions for

### Operating profit *excluding the net result of financial transactions*



### Costs



## Operating profit

	Jan-Dec 2015	Jan-Dec 2014
Net interest income, MSEK	778.7	677.4
Other operating income, MSEK	-15.0	133.7
Of which net result of financial transactions	7.8	146.2
Costs, MSEK	-387.2	-346.5
C/I ratio adjusted for net result of financial transactions	0.51	0.52
Net recognised loan losses, MSEK	-45.9	-79.6
Loan loss level, %	0.07 %	0.13 %
Operating profit, MSEK	330.6	384.9
Operating profit excluding the net result of financial transactions	322.8	238.8

probable loan losses amounted to MSEK 82.2 (104.5). Reversals of previous provisions for confirmed losses during the year totalled MSEK 49.1 (56.5). Recoveries of previously confirmed losses and reversals of previous provisions for probable loan losses that are no longer required, amounted to MSEK 37.5 (24.7).

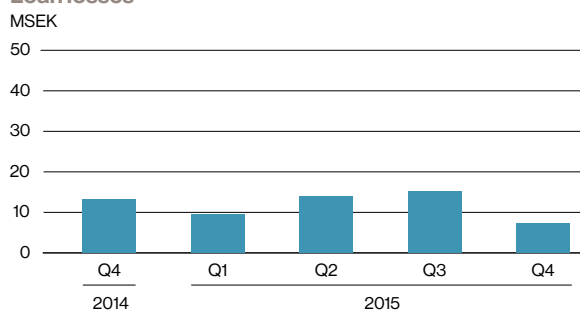
At 31 December 2015, net doubtful credits after provisions amounted to MSEK 345.0, corresponding to 0.53 percent of loans outstanding. At 31 December 2014, doubtful credits amounted to MSEK 274.9, corresponding to 0.45 percent of loans outstanding.

Confirmed loan losses were lower year-on-year, and the provision for probable loan losses declined. Landshypotek Bank has further developed internal efforts to identify and monitor companies in the credit portfolio with poor profitability and low liquidity, thereby allowing suitable measures to be deployed. The provision for probable loan losses is attributable to a limited number of individual commitments.

## Comparison with the third quarter of 2015

Compared with the third quarter, operating profit for the fourth quarter was MSEK 62.7, down MSEK 40.5. Excluding the net result of financial transactions, operating profit for the fourth quarter was MSEK 67.8, down MSEK 21.4 compared with the third quarter. The decline was attributable to higher costs. Items that offset the decline were net interest income, which increased, and loan losses, which decreased.

### Loan losses



## Landshypotek's business volume trend

Lending increased SEK 2.8 billion for the full-year 2015. The increase corresponded to lending growth of 4.5 percent, compared with 1.5 percent in the corresponding year-earlier period.

Demand for credit in the market from farmers and foresters has now stabilised following a flagging trend in 2014. The annualised growth for 2015 was about 6 percent.

## Funding

### Borrowing

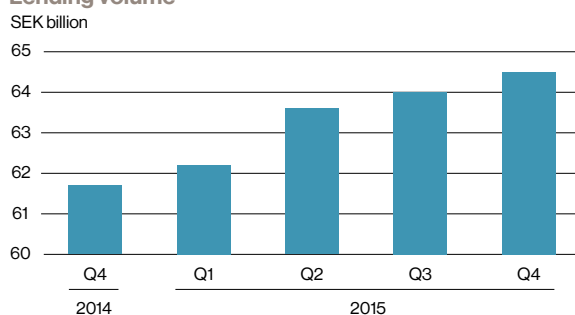
Landshypotek Bank's ambition is to borrow funds on the best possible terms given a low risk profile. The following also applies:

- borrowing is well diversified as regards programmes, currencies and investors
- borrowing has a tenor that corresponds well to the tenor of assets
- substantial concentrations of borrowings maturing during a short duration are avoided.

Landshypotek Bank operates with considerable flexibility and actively raises funds via national and international bond markets, as well as striving to always respond to investors' concerns regarding tenors and interest-rate structures.

Investor relations are of major importance as part of ensuring that investors' levels of awareness and interest are maintained in Landshypotek Bank. During the year,

### Lending volume



the Bank issued covered bonds to a value of approximately SEK 10.4 billion and senior bonds to a value of SEK 1.5 billion. During the same period, bonds have matured and been repurchased to a value of approximately SEK 14.7 billion, of which SEK 11.9 billion pertained to covered bonds.

In general, the financial market for Nordic banks functioned smoothly in 2015. Landshypotek Bank was very successful in its funding activities and demand for Landshypotek Bank's bonds was favourable.

### Deposits

Deposits amounted to MSEK 10,310 (5,829) at 31 December 2015.

### Liquidity

Landshypotek Bank has a substantial liquidity portfolio of interest-bearing securities. This was valued at SEK 13.4 billion at 31 December 2015. The portfolio primarily comprises Swedish covered bonds with the highest credit rating and, to some extent, bonds issued by Swedish municipalities. Securities can be sold or borrowed against, as required, to manage the financing of maturing debt. At 31 December, the liquidity portfolio was 1.6 (1.9) times larger than refinancing requirements for the next six months.

## Rating

Landshypotek Bank has credit ratings from two different rating agencies, Standard & Poor's and Fitch. In the third quarter, Fitch changed Landshypotek Bank's rating to A with stable outlook. The motivation was that the quality of Landshypotek Bank's loan portfolio was approaching the quality of those of other banks and, accordingly, Fitch lowered its previously extremely strong credit-quality rating.

## Rating

	Long	Short
S&P covered bonds	AAA	
S&P	A-	A-2, K1
Fitch	A	F1

## Programme

MSEK	Issued 31 Dec 2015	Limit	Issued 31 Dec 2014
Swedish commercial paper	2,270	10,000	3,274
MTN programme	43,431	60,000	44,950
EMTN programme	12,713	32,739	14,947
RCB**	3,407		3,302
Subordinated loans	500		700

\*MEUR 3,500. \*\*Registered Covered Bonds.

Standard & Poor's confirmed the AAA rating for covered bonds in 2014.

## Risk management

The risks on which Landshypotek Bank actively focuses its efforts are classified in the risk categories of credit risk, liquidity risk, market risk and operational risk. On an overall level, the Board of Directors establishes how Landshypotek Bank's risks are to be measured, reported and limited.

Credit risk is defined as the risk that Landshypotek Bank does not receive payment as agreed in combination with the risk that the value of the collateral is not adequate and thus will not cover the outstanding claim. The risk encompasses all Landshypotek Bank's retail receivables and can also arise as a consequence of the management of liquidity, interest and currency risk. Landshypotek Bank's methods for credit approval and credit monitoring as well as requirements for granting credit, including collateral requirements, limit credit risk in the portfolio.

Landshypotek Bank's operations are naturally exposed to liquidity risk. As part of managing this exposure, among other measures, Landshypotek Bank maintains a substantial liquidity reserve and strives to achieve diversified funding.

Landshypotek Bank is exposed to market risk in the form of interest-rate, currency, basis-spread and credit-spread risk. Limits have been set for all of these risks. Interest-rate and currency risk are mainly managed through swap agreements and are therefore low. Basis-spread risk arises from entering into interest-rate and currency swap agreements and is moderated through limiting funding in foreign currency. Credit-spread risk arises in Landshypotek Bank's liquidity portfolio and is limited through requirements for high credit ratings for securities in the liquidity portfolio. Landshypotek Bank monitors the market and liquidity risks, for which limits apply, on a daily basis.

Operational risk is defined as the risk of losses as a result of inappropriate or failed internal processes, human error, faulty systems and external events including legal



risks. Landshypotek Bank reduces operational risks through measures including risk analysis, continuity management, the New Product Approval Process (NPAP) and incident follow-up.

## Capital adequacy

The total capital ratio under the Basel III rules<sup>1)</sup> amounted to 26.08 percent. Own funds amounted to MSEK 4,934 and the own funds requirement was MSEK 1,514. Changes in regulations together with the ongoing restructuring of the farming and forestry sectors are expected to lead to changed capital requirements under Basel III. In addition to the Pillar I capital requirement of 8 percent, the capital conservation buffer requirement is 2.5 percent of the total risk-weighted amount and, from 13 September 2015, the countercyclical capital buffer requirement is 1.0 percent of the total risk-weighted amount<sup>2)</sup>. The capital conservation buffer and the countercyclical buffer must be covered by Common Equity Tier 1 capital (CET1 capital). The Bank's remaining CET1 capital to cover the buffer requirements, corresponds to 17.4 percent of the total risk-weighted exposure amount at 31 December 2015. If an institution has insufficient capital to cover the buffer requirements, it must submit a plan to the Swedish Financial Supervisory Authority disclosing how it will meet the buffer requirements within a reasonable period of time. In addition, the institution will be subject to restrictions in the form of bans proscribing actions, such as, the payment of dividends and certain types of variable remuneration<sup>3)</sup>. However, the buffer requirements differ from other regulatory capital requirements, since not meeting them is allowed on a temporary basis. Accordingly, the buffer requirements are not included under the capital requirement recognised under the Basel III rules (tables on pages 10-11).

The total capital ratio under the transitional rules linked to the Basel I requirement amounted to 9.7 percent. Profits from 2015 were not included in own funds in the last quarter.

Since profits were included from the end of the year, the capital ratio has improved under both the Basel III and Basel I rules in comparison with the last quarter. Other factors that improved the capital ratio under the Basel III rules include the application of netting for positive and negative derivative exposures with the same counterparty, and a decline in the proportion of non-performing loans.

<sup>1)</sup> In this text, Basel I and Basel III refer to the Swedish implementation of the Basel regulations.

<sup>2)</sup> The countercyclical buffer is planned to be raised to 1.5 percent from 27 June 2016.

<sup>3)</sup> Provided that the institute does not meet the requirements for the maximum distributable amount.

## Internally assessed capital requirement

Landshypotek Bank bases its capital requirement assessment on three different methods and then applies the value from the method that generates the highest capital requirement. One of the three methods is based on the target of having capitalisation corresponding to a "very strong" rating in S&P's risk-adjusted capital model for Landshypotek Bank AB. This is for reasons including being able to maintain a rating of AAA for the bank's covered bonds. Another method used is the own funds requirement based on the transitional rule related to the Basel I rule, including a capital planning buffer to keep above the capital requirement in a highly stressed scenario. The third method is based on the Basel III rules that, in addition to the Pillar I capital requirements, include a total combined buffer requirement, Pillar II capital including a risk weight floor and a capital planning buffer for a normal economic slowdown cycle.

We work continuously on developing our assessments and methods. The bank's capital requirement is governed by the transitional rule linked to the Basel I regulatory framework. For 2015, under the existing method, this capital requirement, for both the consolidated situation and for Landshypotek Bank AB, amounted to SEK 4.6 billion. At 31 December, own funds, under the transitional rule related to Basel I, amounted to SEK 5.13 billion for the consolidated situation and to SEK 5.02 billion for Landshypotek Bank AB. No capital adequacy assessment has yet been performed in 2016.

## Group structure

Borrowers of Landshypotek Bank are also members of Landshypotek Ekonomisk Förening. Landshypotek Ekonomisk Förening owns 100 percent of the shares in Landshypotek Bank.

During the year, more than 90 percent of business activities were conducted in Landshypotek Bank. Other companies in the sub-group are Landshypotek Jordbrukskredit, which is 100-percent owned by Landshypotek Bank.

The operations in Landshypotek Jordbrukskredit were transferred to Landshypotek Bank in October 2015. Landshypotek Jordbrukskredit is in the process of being wound up.

## Events after the end of the period

No significant events occurred after the end of the reporting period.

## Own funds requirement by risk, approach and exposure class

TSEK	Consolidated situation <sup>1</sup> 31 Dec. 2015			
	Exposure value <sup>2</sup>	Own funds requirements <sup>4</sup>	Risk weighted exposure amounts <sup>3</sup>	Average risk weight <sup>5</sup>
<b>Credit risk – Internal Ratings Based approach</b>	<b>62,385,011</b>	<b>921,718</b>	<b>11,521,473</b>	
Retail – Secured by real estate	62,266,067	912,202	11,402,529	18 %
Other non credit-obligation assets	118,944	9,516	118,944	100 %
<b>Credit risk – Standardised approach</b>	<b>18,792,822</b>	<b>374,808</b>	<b>4,685,103</b>	<b>25 %</b>
Central governments or central banks	24,883	-	-	0 %
Regional governments or local authorities	5,115,182	-	-	0 %
Institutions	1,792,728	47,372	592,156	33 %
Corporates	281,079	21,817	272,714	97 %
Retail	121,592	5,804	72,548	60 %
Secured by mortgages on immovable property	3,143,428	229,674	2,870,925	91 %
Exposures in default	43,446	3,977	49,713	114 %
Covered bonds	8,270,485	66,164	827,048	10 %
<b>Operational risk – Basic Indicator approach<sup>6</sup></b>		<b>105,625</b>	<b>1,320,311</b>	
<b>Credit valuation adjustment risk – Standardised approach</b>	<b>1,494,479</b>	<b>111,650</b>	<b>1,395,630</b>	<b>93 %</b>
<b>Total</b>	<b>82,672,312</b>	<b>1,513,801</b>	<b>18,922,518</b>	<b>-</b>

<sup>1</sup> The consolidated situation includes Landshypotek Ekonomisk Förening and the Landshypotek Bank AB Group.

<sup>2</sup> After application of the appropriate conversion factors to, where possible, also capture unutilised limits. For the IRB approach, conversion factors are based on internal historic data while standardised conversion factors as stated in the Capital Requirements Directive are applied for the standardised approach.

<sup>3</sup> After application of the appropriate risk weights. Risk weights for the IRB approach are based on internal risk classification and internal historic data while standardised values as stated in the Capital Requirements Directive are applied for the standardised approach.

<sup>4</sup> Calculated by multiplying the risk-weighted exposure amount by 8 percent. No buffer requirements are included.

<sup>5</sup> Calculated by dividing the risk-weighted exposure amount by the exposure value for the respective risk/exposure class.

<sup>6</sup> No exposure values exist for operational risk and, accordingly, there is no recognition of exposure values or average risk weight.

## Capital adequacy analysis

TSEK	Consolidated situation <sup>1</sup> 31 Dec. 2015
<b>Own funds, Basel 3</b>	<b>4,934,226</b>
Tier 1 capital	4,434,254
Common equity tier 1 (CET1) capital	4,434,254
Capital instruments eligible as CET1 Capital	1,489,178
Retained earnings	3,221,844
Accumulated other comprehensive income	-42,650
Adjustments to CET1 due to prudential filters	15,936
(-) Other intangible assets	-20,654
(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-4,756
(-) IRB shortfall of credit risk adjustments to expected losses	-198,454
(-) Defined benefit pension fund assets	-26,191
Tier 2 capital	499,972
Capital instruments and subordinated loans eligible as T2 Capital	499,972
<b>Own funds requirements, Basel 3</b>	<b>1,513,801</b>
<b>Risk weighted exposure amounts, Basel 3</b>	<b>18,922,518</b>
CET1 capital ratio (%)	23.43
Tier 1 capital ratio (%)	23.43
Total capital ratio (%)	26.08
Institution specific CET1-requirement including buffer requirements (%)	8.00
of which: capital conservation buffer requirement (%)	2.50
of which: countercyclical capital buffer requirement (%)	1.00
CET1 capital available to meet buffers (as a share of risk exposure amounts, %) <sup>2</sup>	17.43
Capital quotient	3.26
<b>Capital adequacy according to transitional rules Basel 1</b>	
Own funds	5,132,679
Own funds requirement	4,220,222
Total capital ratio (%) <sup>3</sup>	9.73
Capital quotient	1.22

<sup>1</sup> The consolidated situation includes Landshypotek ekonomisk förening and the Landshypotek Bank AB Group.

<sup>2</sup> Calculated as "CET1 capital less the amount of this capital used to meet CET1 capital requirements after reduction for any other CET1 capital used to cover the tier 1 capital requirement and total own funds requirements" divided by the risk-weighted exposure amount, Basel III.

<sup>3</sup> Corresponds to the term capital adequacy ratio, which has been used in previous financial statements.

The CEO hereby certifies that the consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and provide a fair representation of the Group's position and performance. The year-end report has been prepared in accordance with generally accepted accounting principles and provides a fair representation of the Parent Company's position and performance. This year-end report provides a fair view of operations in the Parent Company and the Group and describes the significant risks and uncertainties facing the Parent Company and the companies included in the Group.

Stockholm 29 January 2015

Liza Nyberg  
CEO

*This year-end report has been subject to review by the company's auditors, see page 23.*

## Accounting policies

This Report encompasses the Group comprising Landshypotek Bank AB and the subsidiary Landshypotek Jordbrukskredit AB. In addition, Landshypotek Bank AB is reported separately. Amounts in parentheses refer to the corresponding period in the preceding year.

This year-end report has been prepared in accordance with IAS 34 Interim Financial Reporting. From 2015, terminated hedging relationships have been reclassified so that income and costs for these terminated hedging relationships offset each other in net interest income. Comparative figures for 2014 have been restated. Cost directly attributable to Landshypotek Bank's funding have been reclassified from "general administrative expenses" to "interest expense." Accounting policies, calculation methods and risk management are unchanged compared to those applied in the most recent Annual Report (see [www.landshypotek.se](http://www.landshypotek.se), Financial info).

# Income statement

Landshypotek Bank AB Group, SEK Thousand	Note	2015 Q4	2014 Q4	2015 Q3	2015 Full year	2014 Full year
Interest income		367,217	471,724	367,892	1,560,908	2,027,831
Interest expense		-171,002	-286,872	-180,790	-782,168	-1,350,444
<b>Net interest income</b>	Note 1	<b>196,215</b>	<b>184,852</b>	<b>187,102</b>	<b>778,740</b>	<b>677,387</b>
Commission income		2,288	4,667	2,420	9,987	14,082
Commission expense		-7,208	-6,979	-8,313	-35,335	-27,997
Net result of financial transactions		-5,142	15,470	13,933	7,787	146,151
Other operating income		1,445	90	210	2,535	1,474
<b>Total operating income</b>		<b>187,598</b>	<b>198,100</b>	<b>195,352</b>	<b>763,714</b>	<b>811,097</b>
General administrative expenses		-100,845	-90,525	-68,454	-339,668	-306,193
Depreciation, amortisation and impairment of tangible and intangible non-current assets		-4,942	-4,440	-4,921	-19,678	-16,491
Other operating expenses		-11,866	-5,976	-3,519	-27,831	-23,854
<b>Total expenses before loan losses</b>		<b>-117,653</b>	<b>-100,941</b>	<b>-76,894</b>	<b>-387,177</b>	<b>-346,538</b>
<b>Profit before loan losses</b>		<b>69,945</b>	<b>97,160</b>	<b>118,458</b>	<b>376,537</b>	<b>464,559</b>
Loan losses, net	Note 2	-7,269	-13,096	-15,293	-45,921	-79,612
<b>Operating profit</b>		<b>62,676</b>	<b>84,064</b>	<b>103,165</b>	<b>330,615</b>	<b>384,947</b>
Income tax for the period		-14,807	-17,258	-22,510	-73,544	-83,535
<b>Net profit for the period</b>		<b>47,869</b>	<b>66,806</b>	<b>80,654</b>	<b>257 071</b>	<b>301,413</b>

# Statement of comprehensive income

Landshypotek Bank AB Group, SEK Thousand	2015 Q4	2014 Q4	2015 Q3	2015 Full year	2014 Full year
<b>Net profit for the period</b>	<b>47,869</b>	<b>66,806</b>	<b>80,654</b>	<b>257,071</b>	<b>301,413</b>
<b>Other comprehensive income</b>					
<i>Items to be reclassified to profit or loss</i>					
Cash-flow hedges	9,390	7,396	5,848	29,425	-9,167
Available-for-sale financial assets	-661	-12,356	-15,688	-46,078	6,346
Tax on items to be reclassified	-1,920	1,091	2,165	3,664	621
<i>Total, items to be reclassified</i>	<i>6,809</i>	<i>-3,868</i>	<i>-7,675</i>	<i>-12,990</i>	<i>-2,200</i>
<i>Items that are not reclassified</i>					
Actuarial differences for defined-benefit pensions	15,779	5,520	6,787	40,989	-10,124
Tax on items that are not reclassified	-3,471	-1,214	-1,493	-9,018	2,227
<i>Total, items that are not reclassified</i>	<i>12,308</i>	<i>4,306</i>	<i>5,294</i>	<i>31,971</i>	<i>-7,897</i>
<b>Total other comprehensive income</b>	<b>19,116</b>	<b>438</b>	<b>-2,381</b>	<b>18,981</b>	<b>-10,098</b>
<b>Comprehensive income for the period</b>	<b>66,985</b>	<b>67,244</b>	<b>78,273</b>	<b>276 052</b>	<b>291,315</b>

# Income statement

Landshypotek Bank AB Parent Company, SEK Thousand	Note	2015 Q4	2014 Q4	2015 Q3	2015 Full year	2014 Full year
Interest income		367,217	467,093	361,415	1,548,087	2,009,104
Interest expense		-170,945	-286,809	-180,733	-781,949	-1,350,175
<b>Net interest income</b>	Note 1	<b>196,272</b>	<b>180,284</b>	<b>180,682</b>	<b>766,138</b>	<b>658,929</b>
Commission income		2,254	4,617	2,317	9,672	13,223
Commission expense		-7,208	-6,979	-8,313	-35,335	-27,997
Net result of financial transactions		-5,142	15,470	13,933	7,787	146,151
Other operating income		1,445	90	210	2,535	1,466
<b>Total operating income</b>		<b>187,621</b>	<b>193,482</b>	<b>188,829</b>	<b>750,797</b>	<b>791,772</b>
General administrative expenses		-100,615	-89,658	-68,116	-340,295	-308,341
Depreciation, amortisation and impairment of tangible and intangible non-current assets		-7,209	-4,440	-4,921	-21,945	-16,491
Other operating expenses		-11,866	-5,972	-3,519	-27,828	-23,845
<b>Total expenses before loan losses</b>		<b>-119,690</b>	<b>-100,070</b>	<b>-76,556</b>	<b>-390,068</b>	<b>-348,677</b>
<b>Profit before loan losses</b>		<b>67,932</b>	<b>93,412</b>	<b>112,272</b>	<b>360,729</b>	<b>443,095</b>
Loan losses, net	Note 2	-7,268	-12,741	-13,508	-41,952	-66,278
<b>Operating profit</b>		<b>60,664</b>	<b>80,671</b>	<b>98,765</b>	<b>318,777</b>	<b>376,817</b>
Income tax for the period		-14,196	-16,515	-21,716	-70,945	-81,750
<b>Net profit for the period</b>		<b>46,468</b>	<b>64,156</b>	<b>77,049</b>	<b>247,832</b>	<b>295,067</b>

# Statement of comprehensive income

Landshypotek Bank AB Parent Company, SEK Thousand	2015 Q4	2014 Q4	2015 Q3	2015 Full year	2014 Full year
<b>Net profit for the period</b>	<b>46,468</b>	<b>64,156</b>	<b>77,049</b>	<b>247,832</b>	<b>295,067</b>
<b>Other comprehensive income</b>					
<i>Items to be reclassified to profit or loss</i>					
Cash-flow hedges	9,390	7,396	5,848	29,425	-9,167
Available-for-sale financial assets	-661	-12,356	-15,688	-46,078	6,346
Income tax related to other comprehensive income	-1,920	1,091	2,165	3,664	621
<i>Total, items to be reclassified</i>	<i>6,809</i>	<i>-3,868</i>	<i>-7,675</i>	<i>-12,990</i>	<i>-2,201</i>
<b>Total other comprehensive income</b>	<b>6,809</b>	<b>-3,868</b>	<b>-7,675</b>	<b>-12,990</b>	<b>-2,201</b>
<b>Comprehensive income for the period</b>	<b>53,276</b>	<b>60,288</b>	<b>69,373</b>	<b>234,843</b>	<b>292,866</b>

# Balance Sheet

Landshypotek Bank AB SEK thousand	Group			Parent Company		
	2015 31 Dec	2015 30 Sep	2014 31 Dec	2015 31 Dec	2015 30 Sep	2014 31 Dec
<b>ASSETS</b>						
Cash and balances with central banks	237	0	242,001	237	0	242,001
Loans to credit institutions	396,214	450,147	478,332	392,262	627,523	571,557
Loans to the public Note 3	64,501,262	64,015,230	61,742,595	64,501,262	63,588,444	61,432,397
Value changes of interest-rate-risk hedged items in macro hedges	87,842	117,904	115,422	87,842	117,904	115,422
Bonds and other interest-bearing securities	13,251,589	13,744,317	16,798,258	13,251,589	13,744,317	16,798,258
Derivatives	1,874,871	2,132,096	2,047,922	1,874,871	2,132,096	2,047,922
Shares in Group companies				278,487	280,753	280,753
Intangible non-current assets	20,654	24,620	36,517	20,654	24,620	36,517
Tangible assets						
Furniture, fixtures and equipment	10,621	9,982	10,596	10,621	9,982	10,596
Buildings and land	20,168	24,886	21,288	20,168	24,886	21,288
Other assets	35,324	19,099	19,169	4,951	6,134	18,942
Current tax assets	22,137	4,438	2,960	20,670		
Deferred tax assets		3,810	13,911	4,756	6,806	11,177
Prepaid expenses and accrued income	498,081	705,047	576,901	498,080	699,724	572,334
<b>TOTAL ASSETS</b> Note 4, 5, 6	<b>80,719,000</b>	<b>81,251,577</b>	<b>82,105,872</b>	<b>80,966,450</b>	<b>81,263,187</b>	<b>82,159,164</b>
<b>LIABILITIES, PROVISIONS AND EQUITY</b>						
Liabilities to credit institutions	393,227	1,726,503	447,322	393,262	1,746,503	495,983
Borrowing from the public	10,309,718	8,777,328	5,828,821	10,309,718	8,777,328	5,828,821
Debt securities in issue, etc.	63,012,651	63,673,878	68,593,547	63,012,651	63,673,878	68,593,547
Derivatives	1,059,244	1,018,746	1,192,720	1,059,244	1,018,746	1,192,720
Other liabilities	297,361	57,487	306,383	569,657	57,058	305,564
Deferred tax liabilities	2,555			0		
Accrued expenses and deferred income	586,824	878,574	693,045	586,824	878,572	693,046
Provisions			14,094	1,361	2,020	2,020
Subordinated liabilities	499,972	499,975	699,921	499,972	499,975	699,921
<b>Total liabilities</b>	<b>76,161,552</b>	<b>76,632,491</b>	<b>77,775,854</b>	<b>76,432,689</b>	<b>76,654,079</b>	<b>77,811,622</b>
<b>Equity</b>	<b>4,557,448</b>	<b>4,619,085</b>	<b>4,330,018</b>	<b>4,533,761</b>	<b>4,609,108</b>	<b>4,347,542</b>
<b>TOTAL LIABILITIES, PROVISIONS AND EQUITY</b> Note 4, 5, 6	<b>80,719,000</b>	<b>81,251,577</b>	<b>82,105,872</b>	<b>80,966,450</b>	<b>81,263,187</b>	<b>82,159,164</b>

# Cash-flow statement

Landshypotek Bank AB SEK thousand	Group		Parent Company	
	2015 Full year	2014 Full year	2015 Full year	2014 Full year
<b>Opening cash and cash equivalents</b>	<b>720,333</b>	<b>693,766</b>	<b>813,558</b>	<b>732,853</b>
Cash flow from operating activities	-224,462	147,546	-321,639	201,684
Cash flow from investing activities	-2,720	-21,229	-2,720	-21,229
Cash flow from financing activities	-96,700	-99,750	-96,700	-99,750
<b>Cash flow for the period</b>	<b>-323,882</b>	<b>26,567</b>	<b>-421,059</b>	<b>80,705</b>
<b>Closing cash and cash equivalents</b>	<b>396,451</b>	<b>720,333</b>	<b>392,499</b>	<b>813,558</b>

# Statement of Changes in Equity

Landshypotek Bank AB Group SEK Thousand	Share capital	Other contributed capital	Hedging reserve	Fair value reserve	Actuarial differences	Retained earnings	Total
<b>Equity 31 December 2013</b>	<b>2,117,000</b>	<b>1,026,254</b>	<b>-31,737</b>	<b>4,278</b>	<b>-10,161</b>	<b>1,014,894</b>	<b>4,120,529</b>
Comprehensive income for the period			-7,151	4,950	-7,897	301,413	291,315
<b>Total change before transactions with owners</b>	-	-	<b>-7,151</b>	<b>4,950</b>	<b>-7,897</b>	<b>301,413</b>	<b>291,315</b>
New share issue	56,000						56,000
Group contribution paid						-176,700	-176,700
Tax on group contribution paid						38,874	38,874
<b>Equity 31 December 2014</b>	<b>2,173,000</b>	<b>1,026,254</b>	<b>-38,888</b>	<b>9,228</b>	<b>-18,057</b>	<b>1,178,481</b>	<b>4,330,018</b>
<b>Equity 31 December 2014</b>	<b>2,173,000</b>	<b>1,026,254</b>	<b>-38,888</b>	<b>9,228</b>	<b>-18,057</b>	<b>1,178,481</b>	<b>4,330,018</b>
Comprehensive income for the period			22,952	-35,942	31,971	257,071	276,052
<b>Total change before transactions with owners</b>	-	-	<b>22,952</b>	<b>-35,942</b>	<b>31,971</b>	<b>257,071</b>	<b>276,052</b>
New share issue	80,000						80,000
Group contribution paid						-164,900	-164,900
Tax on group contribution paid						36,278	36,278
<b>Equity 31 December 2015</b>	<b>2,253,000</b>	<b>1,026,254</b>	<b>-15,936</b>	<b>-26,714</b>	<b>13,914</b>	<b>1,306,930</b>	<b>4,557,448</b>

Landshypotek Bank AB Parent Company SEK Thousand	Share capital	Other contributed capital	Hedging reserve	Fair value reserve		Retained earnings	Total
<b>Equity 31 December 2013</b>	<b>2,117,000</b>	<b>1,016,694</b>	<b>-31,737</b>	<b>4,278</b>		<b>1,030,268</b>	<b>4,136,502</b>
Comprehensive income for the period			-7,151	4,950		295,067	292,866
<b>Total change before transactions with owners</b>	-	-	<b>-7,151</b>	<b>4,950</b>		<b>295,067</b>	<b>292,866</b>
New share issue	56,000						56,000
Group contribution paid						-176,700	-176,700
Tax on group contribution paid						38,874	38,874
<b>Equity 31 December 2014</b>	<b>2,173,000</b>	<b>1,016,694</b>	<b>-38,888</b>	<b>9,228</b>		<b>1,187,510</b>	<b>4,347,542</b>
<b>Equity 31 December 2014</b>	<b>2,173,000</b>	<b>1,016,694</b>	<b>-38,888</b>	<b>9,228</b>		<b>1,187,510</b>	<b>4,347,542</b>
Comprehensive income for the period			22,952	-35,942		247,832	234,843
<b>Total change before transactions with owners</b>	-	-	<b>22,952</b>	<b>-35,942</b>		<b>247,832</b>	<b>234,843</b>
New share issue	80,000						80,000
Group contribution paid						-164,900	-164,900
Tax on group contribution paid						36,278	36,278
<b>Equity 31 December 2015</b>	<b>2,253,000</b>	<b>1,016,694</b>	<b>-15,936</b>	<b>-26,714</b>		<b>1,306,718</b>	<b>4,533,761</b>

# Notes

## Note 1 Net interest income

Landshypotek Bank AB Group, SEK thousand	2015 Q4	2014 Q4	2015 Q3	2015 Full year	2014 Full year
<b>Interest income</b>					
Interest income on loans to credit institutions	0	93	-641	-707	6,811
Interest income on loans to the public	338,061	415,613	337,476	1,413,906	1,770,615
Less interest losses	-1,022	-129	-161	-1,601	-951
Interest income on interest-bearing securities	30,097	55,916	31,215	149,221	251,120
of which interest income on financial assets at fair value through profit or loss	30,723	42,962	31,328	138,361	179,940
of which interest income on available-for-sale financial assets	-624	12,954	-113	10,860	71,180
Other interest income	81	231	3	89	236
<b>Total</b>	<b>367,217</b>	<b>471,724</b>	<b>367,892</b>	<b>1,560,908</b>	<b>2,027,831</b>
<i>All interest income is attributable to the Swedish market.</i>					
<b>Interest expense</b>					
Interest expense for liabilities to Group companies	0	-1	0	0	-163
Interest expense for liabilities to credit institutions – other	894	-151	1,675	4,060	-5,891
Interest expense for borrowing/deposits from the public	-20,896	-20,826	-19,039	-80,266	-71,253
Interest expense for debt securities in issue	-203,259	-280,548	-205,504	-881,429	-1,309,846
of which interest expense for other financial liabilities in fair value hedges adjusted for the fair value of hedged risk	-141,080	-137,029	-178,352	-617,491	-529,599
of which interest expense on interest-bearing securities at amortised cost	-91,771	-172,265	-56,743	-381,341	-863,077
of which periodization of the market value created from terminated hedging relationships *	29,592	28,747	29,592	117,405	82,830
Interest expense for subordinated liabilities	-4,866	-8,007	-4,959	-24,389	-33,505
Interest expense for derivative instruments	60,443	23,657	50,542	209,608	76,639
of which interest expense on derivatives at fair value through profit or loss	-30,550	-112,211	-82,123	-138,047	-172,699
of which interest expense on derivatives identified as hedging instruments	119,740	164,614	161,412	461,705	332,169
of which reclassification of terminated hedging relationships **	-28,747	-28,747	-28,747	-114,050	-82,830
Other interest expense	-3,318	-996	-3,505	-9,752	-6,426
<b>Total</b>	<b>-171,002</b>	<b>-286,872</b>	<b>-180,790</b>	<b>-782,168</b>	<b>-1,350,444</b>
<b>Total net interest income</b>	<b>196,215</b>	<b>184,852</b>	<b>187,102</b>	<b>778,740</b>	<b>677,387</b>

\* The item pertains to the periodization of market value created in the underlying hedged risk attributable to terminated fair-value hedging relationships in 2013 and 2014.

\*\* Reclassification from the net result of financial transactions to net interest income, interest expense for derivatives, of corresponding items for derivatives in the above terminated hedging relationships.

Interest expense for 2014, recalculated in line with the reclassification applied from 1 January 2015.

Costs that were directly attributable to the management of assets and liabilities were reclassified to interest expense in 2015.



continued Note 1 Net interest income

Landshypotek Bank AB Parent Company, SEK thousand	2015 Q4	2014 Q4	2015 Q3	2015 Full year	2014 Full year
<b>Interest income</b>					
Interest income on loans to credit institutions	0	94	-641	-707	6,800
Interest income on loans to Group companies	0	49	0	0	325
Interest income on loans to the public	338,078	410,948	330,990	1,401,091	1,751,590
<i>Less interest losses</i>	-1,015	-125	-151	-1,582	-946
Interest income on interest-bearing securities	30,097	55,916	31,215	149,221	251,120
<i>of which interest income on financial assets at fair value through profit or loss</i>	30,723	42,962	31,328	138,361	179,940
<i>of which interest income on available-for-sale financial assets</i>	-624	12,954	-113	10,860	71,180
Other interest income	57	211	2	64	215
<b>Total</b>	<b>367,217</b>	<b>467,093</b>	<b>361,415</b>	<b>1,548,087</b>	<b>2,009,104</b>
<i>All interest income is attributable to the Swedish market.</i>					
<b>Interest expense</b>					
Interest expense for liabilities to Group companies	0	-11	0	-9	-188
Interest expense for liabilities to credit institutions – other	895	-151	1,675	4,061	-5,891
Interest expense for borrowing/deposits from the public	-20,896	-20,826	-19,039	-80,266	-71,253
Interest expense for debt securities in issue	-203,259	-280,548	-205,504	-881,429	-1,309,846
<i>of which interest expense for other financial liabilities in fair value hedges adjusted for the fair value of hedged risk</i>	-141,080	-137,029	-178,352	-617,491	-529,599
<i>of which interest expense on interest-bearing securities at amortised cost</i>	-91,771	-172,265	-56,743	-381,341	-863,077
<i>of which periodization of the market value created from terminated hedging relationships *</i>	29,592	28,747	29,592	117,405	82,830
Interest expense for subordinated liabilities	-4,866	-8,007	-4,959	-24,389	-33,505
Interest expense for derivative instruments	60,443	23,657	50,542	209,608	76,639
<i>of which interest expense on derivatives at fair value through profit or loss</i>	-30,550	-112,211	-82,123	-138,047	-172,699
<i>of which interest expense on derivatives identified as hedging instruments</i>	119,740	164,614	161,412	461,705	332,169
<i>of which reclassification of terminated hedging relationships **</i>	-28,747	-28,747	-28,747	-114,050	-82,830
Other interest expense	-3,263	-923	-3,448	-9,525	-6,132
<b>Total</b>	<b>-170,945</b>	<b>-286,809</b>	<b>-180,733</b>	<b>-781,949</b>	<b>-1,350,175</b>
<b>Total net interest income</b>	<b>196,272</b>	<b>180,284</b>	<b>180,682</b>	<b>766,138</b>	<b>658,929</b>

\* The item pertains to the periodization of market value created in the underlying hedged risk attributable to terminated fair-value hedging relationships in 2013 and 2014.

\*\* Reclassification from the net result of financial transactions to net interest income, interest expense for derivatives, of corresponding items for derivatives in the above terminated hedging relationships.

Interest expense for 2014, recalculated in line with the reclassification applied from 1 January 2015.

Costs that were directly attributable to the management of assets and liabilities were reclassified to interest expense in 2015.

## Note 2 Loan losses net

Landshypotek Bank AB Group, SEK thousand	2015 Q4	2014 Q4	2015 Q3	2015 Full year	2014 Full year
Write-off for the period for confirmed losses	-34,522	-31,306	-1,435	-50,261	-56,266
Reversal of prior provisions for probable loan losses, recognised as confirmed losses during the year	33,269	34,192	2,040	49,091	56,487
Provision for probable loan losses	-19,893	-22,595	-20,132	-82,226	-104,547
Recovery of previously confirmed losses	2,415	389	2,413	6,225	1,004
Reversal of prior provisions no longer necessary for probable loan losses	11,462	6,224	1,821	31,250	23,710
<b>Total loan losses</b>	<b>-7,269</b>	<b>-13,096</b>	<b>-15,293</b>	<b>-45,921</b>	<b>-79,612</b>

All loan losses are attributable to loans to the public.  
Properties taken over in foreclosure to protect claims, MSEK 13.7 (9).

Landshypotek Bank AB Parent Company, SEK thousand	2015 Q4	2014 Q4	2015 Q3	2015 Full year	2014 Full year
Write-off for the period for confirmed losses	-34,520	-29,512	-1,436	-48,232	-49,624
Reversal of prior provisions for probable loan losses, recognised as confirmed losses during the year	33,269	32,384	2,040	47,629	50,809
Provision for probable loan losses	-19,893	-19,833	-17,972	-77,091	-85,070
Recovery of previously confirmed losses	2,415	387	2,413	6,224	950
Reversal of prior provisions no longer necessary for probable loan losses	11,461	3,832	1,447	29,518	16,656
<b>Total loan losses</b>	<b>-7,268</b>	<b>-12,741</b>	<b>-13,508</b>	<b>-41,952</b>	<b>-66,278</b>

All loan losses are attributable to loans to the public.  
Properties taken over in foreclosure to protect claims, MSEK 13.7 (9).

## Note 3 Loans to the public

Landshypotek Bank AB SEK thousand	Group			Parent Company		
	2015 31 Dec	2015 30 Sep	2014 31 Dec	2015 31 Dec	2015 30 Sep	2014 31 Dec
Loan receivables	64,574,511	64,112,020	61,824,733	64,574,511	63,658,184	61,489,426
Less specific provisions for individually valued loan receivables	-73,249	-96,790	-82,138	-73,249	-69,740	-57,029
<b>Net loan receivables</b>	<b>64,501,262</b>	<b>64,015,230</b>	<b>61,742,595</b>	<b>64,501,262</b>	<b>63,588,444</b>	<b>61,432,397</b>
<b>Disclosures on overdue loan receivables without provisions<sup>1)</sup></b>						
Loan receivables overdue 5 - 90 days	102,304		34,748	102,304		34,748
Loan receivables overdue more than 90 days	260,209	683,347	754,985	260,209	674,487	748,039
<b>Total overdue unimpaired loan receivables<sup>2)</sup></b>	<b>362,513</b>	<b>683,347</b>	<b>789,732</b>	<b>362,513</b>	<b>674,487</b>	<b>782,786</b>
<b>Disclosures on doubtful credits</b>						
Doubtful credits that are not overdue	151,902	94,032	136,605	151,902	87,802	125,980
Overdue doubtful credits	266,378	308,574	220,443	266,378	288,101	206,451
<b>Total doubtful credits, gross</b>	<b>418,281</b>	<b>402,606</b>	<b>357,048</b>	<b>418,281</b>	<b>375,903</b>	<b>332,431</b>
Less capital provisions made	-73,249	-96,790	-82,138	-73,249	-69,740	-57,029
<b>Total doubtful credits, net</b>	<b>345,032</b>	<b>305,816</b>	<b>274,910</b>	<b>345,032</b>	<b>306,163</b>	<b>275,402</b>

In October 2015, all loans and receivables of Landshypotek Jordbrukskredit AB (556263-8808) were transferred to Landshypotek Bank AB (556500-2762). Accordingly, there was no difference between the Parent Company and the Group at 31 December 2015.

Collateral exists in the form of real property for all lending.

## Note 4 Fair-value hierarchy for financial instruments

Landshypotek Bank AB Group, SEK thousand	31 Dec 2015				31 Dec 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value through profit or loss.</b>								
Bonds and other interest-bearing securities	7,712,032			7,712,032	10,044,034			10,044,034
Interest-rate swaps		-				13,729		13,729
Cross-currency interest-rate swaps		323,038		323,038		234,447		234,447
<b>Derivatives identified as hedging instruments</b>								
Interest-rate swaps		1,004,653		1,004,653		1,303,118		1,303,118
Cross-currency interest-rate swaps		547,181		547,181		496,628		496,628
<b>Available-for-sale financial assets</b>								
Bonds and other interest-bearing securities	5,539,557			5,539,557	6,604,474	149,750		6,754,224
<b>Total assets measured at fair value</b>	<b>13,251,589</b>	<b>1,874,872</b>	<b>-</b>	<b>15,126,461</b>	<b>16,648,508</b>	<b>2,197,672</b>	<b>-</b>	<b>18,846,180</b>
<b>Financial liabilities at fair value through profit or loss</b>								
Interest-rate swaps		370,141		370,141		638,277		638,277
Cross-currency interest-rate swaps		42,355		42,355		252,106		252,106
<b>Derivatives identified as hedging instruments</b>								
Interest-rate swaps		198,792		198,792		196,037		196,037
Cross-currency interest-rate swaps		447,956		447,956		106,300		106,300
<b>Total liabilities measured at fair value</b>	<b>-</b>	<b>1,059,244</b>	<b>-</b>	<b>1,059,244</b>	<b>-</b>	<b>1,192,720</b>	<b>-</b>	<b>1,192,720</b>

Fair value is recognised excluding accrued interest. Accrued interest is recognised under prepaid expenses and accrued income, and accrued expenses and deferred income.

No transfers were made between the levels. Level 1 only comprises listed mortgage bonds and bonds issued by municipalities and county councils. Level 2 comprises derivative instruments and financial liabilities for which there are well-established measuring models based on observable market data.

### Level 1

The fair value of financial instruments traded on an active market is based on the bid price of quoted market prices.

### Level 2

The fair values of financial instruments and derivative instruments not traded on an active market are calculated using the valuation technique of discounting future cash flows. Quoted market rates for the tenor in question are used for discounting. In all cases, listed swap curves are utilised as the basis for measurement. Listed credit spreads relative to the interest-rate swap curve are utilised for measuring the value of bond assets. The interest-rate and cross-currency basis swap curves are used for measurement of interest-rate and cross-currency interest-rate swaps, respectively. Debt securities in issue are measured on the interest-rate swap curve with the addition of market-based credit spreads. Accrued interest is not included in the calculation of fair value.

### Level 3

Input for assets/liabilities that are not based on observable market data.

*continued* Note 4 Fair-value hierarchy for financial instruments

Landshypotek Bank AB Parent Company, SEK thousand	31 Dec 2015				31 Dec 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value through profit or loss</b>								
Bonds and other interest-bearing securities	7,712,032			7,712,032	10,044,034			10,044,034
Interest-rate swaps		-				13,729		13,729
Cross-currency interest-rate swaps		323,038		323,038		234,447		234,447
<b>Derivatives identified as hedging instruments</b>								
Interest-rate swaps		1,004,653		1,004,653		1,303,118		1,303,118
Cross-currency interest-rate swaps		547,181		547,181		496,628		496,628
<b>Available-for-sale financial assets</b>								
Bonds and other interest-bearing securities	5,539,557			5,539,557	6,604,474	149,750		6,754,224
<b>Total assets measured at fair value</b>	<b>13,251,589</b>	<b>1,874,872</b>	<b>-</b>	<b>15,126,461</b>	<b>16,648,508</b>	<b>2,197,672</b>	<b>-</b>	<b>18,846,180</b>
<b>Financial liabilities at fair value through profit or loss</b>								
Interest-rate swaps		370,141		370,141		638,277		638,277
Cross-currency interest-rate swaps		42,355		42,355		252,106		252,106
<b>Derivatives identified as hedging instruments</b>								
Interest-rate swaps		198,792		198,792		196,037		196,037
Cross-currency interest-rate swaps		447,956		447,956		106,300		106,300
<b>Total liabilities measured at fair value</b>	<b>-</b>	<b>1,059,244</b>	<b>-</b>	<b>1,059,244</b>	<b>-</b>	<b>1,192,720</b>	<b>-</b>	<b>1,192,720</b>

Fair value is recognised excluding accrued interest. Accrued interest is recognised under prepaid expenses and accrued income, and accrued expenses and deferred income.

No transfers were made between the levels. Level 1 only comprises listed mortgage bonds and bonds issued by municipalities and county councils. Level 2 comprises derivative instruments and financial liabilities for which there are well-established measuring models based on observable market data.

**Level 1**

The fair value of financial instruments traded on an active market is based on the bid price of quoted market prices.

**Level 2**

The fair values of financial instruments and derivative instruments not traded on an active market are calculated using the valuation technique of discounting future cash flows. Quoted market rates for the tenor in question are used for discounting. In all cases, listed swap curves are utilised as the basis for measurement. Listed credit spreads relative to the interest-rate swap curve are utilised for measuring the value of bond assets. The interest-rate and cross-currency basis swap curves are used for measurement of interest-rate and cross-currency interest-rate swaps, respectively. Debt securities in issue are measured on the interest-rate swap curve with the addition of market-based credit spreads. Accrued interest is not included in the calculation of fair value.

**Level 3**

Input for assets/liabilities that are not based on observable market data.

## Note 5 Fair value disclosures

Landshypotek Bank AB Group, SEK thousand	31 Dec 2015 Carrying amount	31 Dec 2015 Fair value	31 Dec 2014 Carrying amount	31 Dec 2014 Fair value
<b>Assets</b>				
Cash and balances with central banks	237	237	242,001	242,001
Loans to credit institutions	396,214	396,214	478,332	478,332
Loans to the public	64,501,262	64,211,750	61,742,595	61,480,224
Bonds and other interest-bearing securities	13,251,589	13,251,589	16,798,258	16,798,258
Derivatives	1,874,871	1,874,871	2,047,922	2,047,922
<b>Total assets</b>	<b>80,024,173</b>	<b>79,734,661</b>	<b>81,309,107</b>	<b>81,046,736</b>
<b>Liabilities and provisions</b>				
Liabilities to credit institutions	393,227	393,227	447,322	447,322
Borrowing from the public	10,309,718	10,309,718	5,828,821	5,828,821
Debt securities in issue, etc.	63,012,651	63,303,591	68,593,547	70,090,876
Derivatives	1,059,244	1,059,244	1,192,720	1,192,720
Subordinated liabilities	499,972	529,600	699,921	753,229
<b>Total liabilities</b>	<b>75,274,812</b>	<b>75,595,380</b>	<b>76,762,332</b>	<b>78,312,968</b>

Fair value is recognised excluding accrued interest. Accrued interest is recognised under prepaid expenses and accrued income, and accrued expenses and deferred income.

Landshypotek Bank AB Parent Company, SEK thousand	31 Dec 2015 Carrying amount	31 Dec 2015 Fair value	31 Dec 2014 Carrying amount	31 Dec 2014 Fair value
<b>Assets</b>				
Cash and balances with central banks	237	237	242,001	242,001
Loans to credit institutions	392,262	392,262	571,557	571,557
Loans to the public	64,501,262	64,211,750	61,432,397	61,170,508
Bonds and other interest-bearing securities	13,251,589	13,251,589	16,798,258	16,798,258
Derivatives	1,874,871	1,874,871	2,047,922	2,047,922
<b>Total assets</b>	<b>80,020,221</b>	<b>79,730,708</b>	<b>81,092,135</b>	<b>80,830,245</b>
<b>Liabilities and provisions</b>				
Liabilities to credit institutions	393,262	393,262	495,983	495,983
Borrowing from the public	10,309,718	10,309,718	5,828,821	5,828,821
Debt securities in issue, etc.	63,012,651	63,303,591	68,593,547	70,090,876
Derivatives	1,059,244	1,059,244	1,192,720	1,192,720
Subordinated liabilities	499,972	529,600	699,921	753,229
<b>Total liabilities</b>	<b>75,274,847</b>	<b>75,595,415</b>	<b>76,810,993</b>	<b>78,361,629</b>

Fair value is recognised excluding accrued interest. Accrued interest is recognised under prepaid expenses and accrued income, and accrued expenses and deferred income.

## Note 6 Disclosures about offsetting

Group and Parent Company 2015 SEK thousand	Amount recognised in the balance sheet 31 Dec 2015	Related amounts not offset in the balance sheet			Net amount 31 Dec 2015
		Financial instruments	Paid (+) Received (-) collateral – securities	Paid (+) Received (-) cash collateral	
<b>Assets</b>					
Derivatives, fair value	1,874,871	-668,713			
Derivatives, accrued interest	276,556	-169,443			
<i>Derivatives, total value including accrued interest</i>	2,151,427	-838,157		-361,074	952,197
Repurchase agreements, reverse repos	-				-
<b>Liabilities</b>					
Derivatives, fair value	-1,059,244	668,713			
Derivatives, accrued interest	-201,540	169,443			
<i>Derivatives, total value including accrued interest</i>	-1,260,784	838,157			-422,627
Repurchase agreements, reverse repos	-				-

Group and Parent Company 2014 SEK thousand	Amount recognised in the balance sheet 31 Dec 2014	Related amounts not offset in the balance sheet			Net amount 31 Dec 2014
		Financial instruments	Paid (+) Received (-) collateral – securities	Paid (+) Received (-) cash collateral	
<b>Assets</b>					
Derivatives, fair value	2,047,922	-953,926			
Derivatives, accrued interest	268,759	-174,155			
<i>Derivatives, total value including accrued interest</i>	2,316,681	-1,128,081		-423,573	765,026
Repurchase agreements, reverse repos	-				-
<b>Liabilities</b>					
Derivatives, fair value	-1,192,720	953,926			
Derivatives, accrued interest	-293,271	174,155			
<i>Derivatives, total value including accrued interest</i>	-1,485,991	1,128,081			-357,910
Repurchase agreements, reverse repos	-				-

### Amounts recognised in the balance sheet

All assets and liabilities are recognised as gross amounts in the balance sheet, calculated on the basis of each individual instrument.

### Financial instruments

Based on contracted master netting agreements, Landshypotek Bank can offset cash flows with the same counterparty and value date. The procedure lowers risk for open exposures.

### Cash collateral received

Under contracted International Swaps and Derivatives Association (ISDA) agreements, Landshypotek has the right to receive cash collateral for positive market values from counterparties whose ratings fall below a minimum agreed level. Such collateral is paid in cash to Landshypotek Bank's bank account and is recognised as a liability to the respective counterparty in the balance sheet. Paid-in collateral eliminates risk in positive exposures to counterparties with low ratings. If the counterparty defaults, Landshypotek Bank will utilise the paid-in cash collateral.

### Net amounts

Net amounts show the remaining market value of contracted swap agreements that can be neither offset nor covered by received collateral.

## **Review report - For translation purposes only**

We have reviewed this report for the period 1 January 2015 to 31 December 2015 for Landshypotek Bank AB (publ). The Board of Directors and the Managing Director are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Swedish Annual Accounts Act for Credit institutions and Securities Companies. Our responsibility is to express a conclusion on this interim report based on our review.

We conducted our review in accordance with the International Standard on Review Engagements, ISRE 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, ISA, and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act for Credit institutions and Securities Companies regarding the Group, and with the Swedish Annual Accounts Act for Credit institutions and Securities Companies, regarding the Parent Company.

Stockholm, 29 January 2016

Ulf Westerberg  
*Authorized Public Accountant*

Helena Kaiser de Carolis  
*Authorized Public Accountant*



**Landshypotek Bank**