



# Landshypotek Bank AB Year-end report 2016

January – December 2016 (compared with 2015)

## Liza Nyberg, CEO of Landshypotek Bank, comments on 2016:

We have posted historically strong earnings and we are a bank with a growing presence in the lending and savings markets. We also grew stronger as a bank during the year. We are building to meet more bank customers – both current and future – through initiatives including our digitalisation and our system improvements. In 2017, we will welcome more farming and forestry loan customers as well as savers. We are also now opening opportunities to offer mortgage loans to homeowners outside the major cities.

### January – December 2016

compared with January – December 2015

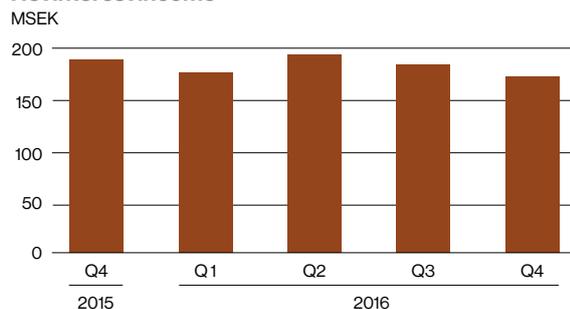
- Operating profit amounted to MSEK 353.4 (330.6).
- The underlying operating profit, excluding the net result of financial transactions, was MSEK 327.3 (322.8).
- Net interest income amounted to MSEK 727.2 (743.4).
- Costs totalled MSEK 404.3 (387.2)
- Net loan losses were MSEK 14.8 (45.9).
- Lending amounted to SEK 66.5 billion (64.5).
- Deposits amounted to SEK 11.7 billion (10.3).

### October – December 2016

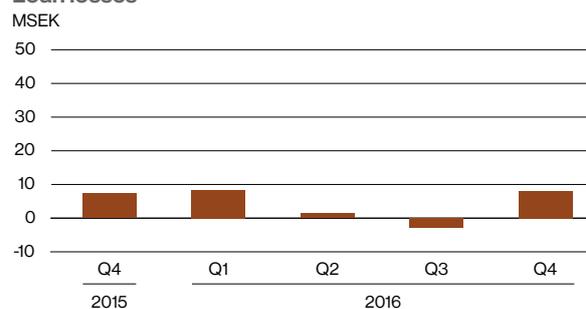
compared with July – September 2016

- Operating profit amounted to MSEK 4.4 (146.3).
- The underlying operating profit, excluding the net result of financial transactions, was MSEK 47.5 (107.2).
- Net interest income amounted to MSEK 172.6 (184.4).
- Costs totalled MSEK 123.3 (83.4).
- Net loan losses were MSEK 8.0 (2.9).
- Lending amounted to SEK 66.5 billion (66.2).
- Deposits amounted to SEK 11.7 billion (11.7).

#### Net interest income



#### Loan losses



# Landshypotek Bank 2016

Landshypotek Bank's primary task is to offer financial services to Sweden's farmers and foresters. The bank also offers loans to people living on farms and savings accounts at competitive interest rates, open to a wider range of customers than just farmers and foresters. In 2017, Landshypotek Bank will also launch its offering of mortgage loans to homeowners in Sweden. Landshypotek Bank is owned by its loan customers in the farming and forestry sector, organised as members of Landshypotek Ekonomisk Förening.

In 2016, Landshypotek Bank grew in terms of both loans outstanding and deposits, and also conducted extensive development activities.

## More active owners

A total of 1,350 members attended the regional meetings of the bank's owner association, Landshypotek Ekonomisk Förening, held at ten different locations across Sweden in March. At the Annual Association Meeting in April, the association resolved to distribute MSEK 149 to its members. A new governance policy aimed at strengthening the association, in terms of the owners and the member organisation, was also adopted. An association council was formed and an election committee will replace the existing Drafting Committee. The first meeting of the Association Council was held in September.

## Stronger bank

At the end of March, Landshypotek Bank announced changes to its customer classification, which will impact the bank's capital requirement. Following the announced change, the bank raised MSEK 1,200 in new T2 capital from investors.

In connection with member dividends, the cooperative association permitted new member investments, which saw members increase their investment in Landshypotek by approximately MSEK 100 during the year.

In the autumn, the bank submitted an application to the Swedish Financial Supervisory Authority for a new fundamental Corporates IRB model. The bank previously used the Retail IRB model.

The Bank's rating agencies, Fitch and Standard & Poor's, confirmed their ratings of the bank during the year.

## Increased presence in farming and forestry

The unclear legal position vis-à-vis borrowing based on EU subsidies was clarified by the Swedish Supreme Court in a process driven by Landshypotek Bank. The Supreme Court ruled in Landshypotek Bank's favour in June. In the event of insolvency proceedings, the collateral in the form of EU subsidies accrues to the lender, meaning that the subsidies can still be used as collateral. This was an important victory for the farming and forestry industries.

The agroforestry industries posted a strong trend in entrepreneurship. In its "Trend Report 2016 – What we eat reflects who we want to be," Landshypotek Bank described

seven societal trends that farmers and foresters are meeting by developing their businesses.

Some 70 farms participated in the "Your farm – Your opportunity" online competition, focusing on rural entrepreneurship in the agroforestry industries throughout Sweden.

During the year, the bank took several initiatives to highlight issues important to the sector and maintained its strong presence at customer meetings, expos and at events across the country.

## Digital strength

Landshypotek Bank actively participates in a partnership to develop blockchain technology as a technical solution for more efficient property transactions. Many partners involved in this collaboration, including the Swedish Land Registry, Lantmäteriet.

The replacement of the bank's credit scoring and treasury systems was initiated and will be completed in 2017, which will provide opportunities for new customer solutions, as well as improved follow-up and enhanced control. The bank is also in the midst of developing Robotic Process Automation (RPA).

## About Landshypotek Bank

While other banks focus on the major cities, Landshypotek looks beyond Stockholm, Gothenburg and Malmö. Landshypotek Bank wants to give everyone in Sweden opportunities to live a richer life and to enable the Swedish countryside to continue to develop.

With SEK 66 billion in loans outstanding, Landshypotek Bank is one of Sweden's ten largest banks.

Its primary task since it was founded in 1836 is to finance farming and forestry. The bank is owned by its 41,000 loan customers in the farming and forestry sector, organised as members of Landshypotek Ekonomisk Förening. All business operations are conducted in Landshypotek Bank.

The bank has divided its business operations into retail and corporate segments. The corporate segment is run by employees who are organised into eight districts and 19 offices nationwide. The regional member organisation strengthens the close relationships with the bank's customers. The retail segment is based on digital support and digital channels.

Landshypotek Bank has slightly more than 160 employees.

## CEO's Statement

# In the Swedish banking market, more people need to meet a bank with a difference



Landshypotek Bank posted historically strong earnings for 2016 and continues to grow. At the same time, we have been working intensively to strengthen the bank for the future, and we are now taking the next step. We are launching mortgage loans with a brand new digital solution in the banking market.

The development of Landshypotek Bank is based on a solid and secure foundation. We are strong and central to the market for financing enterprise in the agroforestry industries based on our 180-year history, closeness to customers and the direct relationship with the farming and forestry sectors from the form of ownership. Our results demonstrate the market's robustness, even in times of negative interest rates.

At a time when many are of the opinion that banks' functions for customers and society have diminished, we are proud to be different with our well-defined task and also to return our surplus to the farming and forestry sectors. For 2016, the bank is paying MSEK 176 to the association, to be used for member dividends, for example. This comprises a major contribution to our 41,000 farming and forestry customers.

We are also more clearly demonstrating our commitment to and our presence in the agroforestry industries. Our clear assignment for the farming and forestry sectors means that we are a unique bank in the Swedish banking market. Together with our customers, we make Sweden grow by financing the country's important farmers and foresters.

Our assignment is engaging and encourages more people to get involved. During the year, we strengthened contacts with loan customers who live on farming and forestry properties but who rely on income from employment. Our savings customers have said that they want to keep their savings at a bank that stands for something. Many new employees are applying to us because they want to work at a bank that has a clear purpose. We have a solid foundation for developing into a broader, more open and better bank.

In 2016, we created a platform for taking additional growth steps:

- We changed our organisation to better meet more customers and varying customer needs in both the retail and corporate sector.
- We changed our method for how we classify customers and have raised more capital. We also applied to the Swedish Financial Supervisory Authority for a permit to use a new fundamental IRB model for our corporates.
- The cooperative association's members continued to invest in Landshypotek during the year, around MSEK 100.

- We continued to develop our IT systems for credit scoring and customer data. This is a major step and put us at the forefront, thus strengthening the bank in the market. This modernisation allows for improved customer solutions and faster launches for various new products in the market. We are now involved in several different projects for the next stage of our development, such as blockchain technology.
- We have worked systematically on continuing to strengthen our risk awareness and credit activities. The organisation has changed and systematics improved. Dialogue with customers experiencing financial difficulties is now initiated at an earlier stage.

We are now welcoming more customers. More customers are a prerequisite for continuing our development. Increasingly stringent requirements from both customers and authorities are placed on banks today. More customers provide more opportunities to develop and meet these requirements.

In 2017, customers will be able to apply for mortgage loans for houses from Landshypotek Bank. We are targeting a market outside the major cities and offering brand new lending possibilities. Our unique digital solution will allow customers to directly access the website and apply for a loan in just a few simple steps. We have excellent experience of showing the market new opportunities. Our digital solutions for opening accounts and starting to save have resulted in the bank attracting savings deposits of just under SEK 12 billion in only a few years.

Banking alternatives are needed outside the major cities. We are secure in our assignment for the farming and forestry sectors. More and more people will now be able to benefit from a better bank with a difference in the Swedish banking market.

We will be a bank for the entire country.

Liza Nyberg  
CEO of Landshypotek Bank

# Operating environment 2016

In many people's opinion, the economic and political playing field changed during the year. Yet market turbulence was only short-lived following the UK's decision to leave the EU and the election of Donald Trump as President of the US. The low interest-rate scenario and central banks' packages to stimulate the economy remained. Optimism among Swedish farmers and foresters increased, and profitability improved slightly together with a willingness to invest. The situation improved for the country's dairy farmers after a number of difficult years.

## Financial market trends

Unease regarding the economic trend, particularly in China, led to declining share prices and falling commodity prices in the first quarter. The profitability of European banks returned to the spotlight after several banks presented weaker earnings. Monetary policy and the actions of central banks remained a focal point. The Federal Reserve rejected slower rate hikes for the repo-rate path and the European Central Bank (ECB) and the Riksbank (Sweden's central bank) decided on additional interest-rate cuts.

The immediate market reaction to the UK voting to leave the European Union at midsummer was dramatic but very short-lived. The market appeared to view the effects on the real economy as significant yet mostly limited to the UK. Until the exit process is initiated, market sentiment seems to view Brexit as a political rather than an economic issue.

The third quarter was weighted down by political risks and continued focus on the European banking system, and prospects for global growth were revised downward. However, the Federal Reserve, ECB and the Riksbank chose to wait and see what the effects of previously decided expansive monetary policies would be. Swedish inflation and expectations of inflation rose and the SEK continued to be kept weak. But the market began to harbour concerns that the central banks have reached the limits for monetary policy.

When Donald Trump won the US presidential election, the market decided to focus on its fiscal-stimulus promises based on major investment in infrastructure, tax cuts and deregulation, instead of threats of protectionism and trade barriers. The result was a brief stock-market, commodity and interest-rate rally. An OPEC agreement on production cutbacks led to a sharp rise in the price of oil, which also drove up rising long-term interest rates.

## Summary Landshypotek Bank

	2016 Q4	2015 Q4	2016 Q3	2016 Full year	2015 Full year
Net interest income, MSEK <sup>1</sup>	172.6	189.0	184.4	727.2	743.4
Operating profit, MSEK	4.4	62.7	146.3	353.4	330.6
Profit after tax, MSEK	2.8	47.9	114.1	275.6	257.1
Loans to the public, MSEK	66,518	64,501	66,240	66,518	64,501
Increase in lending, %	0.4	0.8	0.9	3.1	4.5
Interest margin, % <sup>2</sup>	1.0	1.2	1.1	1.1	1.2
Deposits from the public	11,731	10,310	11,704	11,731	10,310
Increase in deposits, %	0.2	17.5	4.0	13.8	76.9
C/I ratio including financial transactions <sup>3</sup>	0.91	0.63	0.37	0.52	0.51
C/I ratio excluding financial transactions <sup>4</sup>	0.69	0.61	0.44	0.54	0.51
Loan loss level, % <sup>5</sup>	0.05	0.05	-0.02	0.02	0.07
Total capital ratio, %	39.9	26.1	36.5	39.9	26.1
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	164.0	161.0	162.0	162.0	156.0

<sup>1</sup> Deposit insurance fees and fees to the stabilisation fund have been reclassified from Other operating income to Net interest income. The comparative figures for 2015 have been restated.

<sup>2</sup> Net interest income on an annualised basis in relation to average lending during the period.

<sup>3</sup> Costs in relation to income including the net result of financial transactions.

<sup>4</sup> Costs in relation to income excluding the net result of financial transactions.

<sup>5</sup> Net loan losses on an annualised basis in relation to average lending during the period.

The Federal Reserve raised the interest rate by 25 basis points at its December meeting and also signalled a more rapid rate of hikes in 2017. Meanwhile, the ECB promised to continue its stimulus measures throughout 2017 with an expanded bond-purchase programme, with the Riksbank following suit.

The low interest-rate scenario remains a reality for bank customers with these stimulus packages and low Riksbank rates. The Riksbank's forecast now indicates a continuation of this scenario, with extremely low rates for a prolonged period. Landshypotek Bank maintained stable list interest-rates for lending throughout the year, and made only marginal adjustments to deposit rates.

## Trends in farming and forestry

Profitability in the farming and forestry sectors improved slightly during the year. While the Swedish Board of Agriculture's forecast shows unchanged income levels and lower production values compared with 2015, earnings were underpinned through decreasing costs. The forecast expects income from dairy, cereals and oilseeds to fall, while income from beef and pigmeat will rise. Overall, optimism rose among Swedish farmers and foresters in 2016, despite droughts in several areas and widely varying levels of profitability between production sectors.

Increased optimism brings a willingness to invest and greater lending requirements, dominated by loans for purchasing land. Sustained low interest rates stimulated continued stable or rising land prices. The willingness to invest is also increasing in other areas, which can be seen both in the number of newly registered tractors and investments in farm buildings. New enterprise in food production is rising in pace with the high interest aroused by Swedish local produce. The number of dairies and abattoirs is increasing, as are microbreweries.

The following sector trends were noted:

*Milk production* was in focus for the entire year. The year began with continued weak global demand, and it was not until the autumn that prices rose after supply started to decline. The Swedish milk market is becoming increasingly diverse. Differences between dairies and various segments, such as conventional, organic and different varieties of local produce, became very clear in 2016. Heightened global demand and lower production fuelled expectations of continued price increases. However, significant uncertainty remains and the positive trend is not yet stable.

*Swedish meat producers* had one of the best years in a long time. Demand for Swedish meat is strong and targeted profiling efforts have yielded results. At the same time, many consumers are unaware about the origins of meat served by caterers and in restaurants. The trend in beef, pigmeat and poultry was positive. Stable or rising prices combined with declining feed prices improved earnings.

*Cereal production* fell 12 percent compared with 2015 but ended the year on par with the five-year average. Nevertheless, the geographical differences were substantial due to reasons including drought. A weak price trend in the international market due to large inventories and plentiful harvests resulted in lower profitability for Swedish cereal growers.

*Oilseed cultivation* suffered a historically low harvest, down 27 percent year-on-year, and 23 percent lower than the five-year average. Demand for vegetable oils is high in the international market and the price trend is favourable.

*Egg production* reported a positive performance again after a few turbulent years, with both production and consumption on the rise. The Swedish share of consumption is increasing and now at approximately 88 percent.

*Civil engineering contracting* is growing. Investments in housing, roads and railways are increasing. Demand for services in civil engineering and the construction sector, in which many agricultural entrepreneurs work directly or through other organisations such as equipment pools and contractor services, have also increased. An increasing share of agricultural entrepreneurs' total sales derives from this sector.

*Optimism in forestry* The weaker SEK in relation to the EUR and USD made it easier to export pulp and solid-wood products. However, there is a great difference in companies' profitability. Structural measures continue to be taken in the industry. The price of forest land is continuing to rise, particularly in southern Sweden. Timber and pulp wood prices remained still in 2016.

We have learnt in recent years that price and profitability fluctuations are rapid, which is why it is important to build up a stable company that can withstand financial stress. Low interest rates can stimulate higher indebtedness without always resulting in productivity and efficiency.

There are no shortcuts — high profitability, controlled indebtedness and strong liquidity are the foundations of successful entrepreneurship. Keener focus on entrepreneurship and management are key components of such work.

# Landshypotek Bank AB

Landshypotek Bank AB (publ) (Corp. Reg. No.: 556500-2762)  
Year-end report for 1 January – 31 December 2016

Landshypotek Bank is owned by Landshypotek Ekonomisk Förening, in which all of the Bank's loan customers in the farming and forestry sector are members. The Bank's assignment is to provide competitive financing to Sweden's farmers and foresters. With loans outstanding of SEK 66.5 billion, Landshypotek Bank accounts for 25.9 percent of total lending to farmers and foresters in Sweden. Lending is characterised by adequate property collateral. Landshypotek Bank has some 160 employees at 19 offices throughout Sweden.

## Operating profit 2016

The Bank's operating profit for the year rose MSEK 22.8 year-on-year and amounted to MSEK 353.4 (330.6). The increase in earnings was primarily attributable to a year-on-year increase in the net result of financial transactions of MSEK 18.4 and an MSEK 31.1 decrease in loan losses. Costs increased MSEK 17.1. Excluding the net result of financial transactions, operating profit amounted to MSEK 327.3 (322.8), up MSEK 4.5 year-on-year.

### Net interest income

Net interest income for the full-year 2016 was MSEK 727.2 (743.4), down MSEK 16.2 year-on-year.

Interest income amounted to MSEK 1,356.5 (1,560.9), down MSEK 204.4 compared with 2015. Interest income from lending declined on the back of falling market interest rates. In 2016, interest compensation generated lower revenue year-on-year. The return on the bank's liquidity portfolio also declined due to lower market interest rates.

Interest expense amounted to MSEK 629.3 (817.5), down MSEK 188.2 compared with 2015. Lower interest expense was attributable to market rates that continued to decline in 2016. Interest expense fell slightly less than interest income.

This was partly due to the bank issuing a subordinated loan and partly to a larger proportion of deposits, which comprise a more expensive funding source than borrowing in the market. In addition, preliminary financing was carried out for maturing bond loans, which resulted in a temporary increase in interest expenses.

Deposit insurance fees and fees to the stabilisation fund have been reclassified from Other operating income to Net interest income. The comparative figures for 2015 have been restated. Refer to Note 1.

### Other operating income

Other operating income for 2016 was MSEK 45.3 (20.3). The year-on-year improvement was mainly attributable to a higher net result of financial transactions of MSEK 26.2 (7.8).

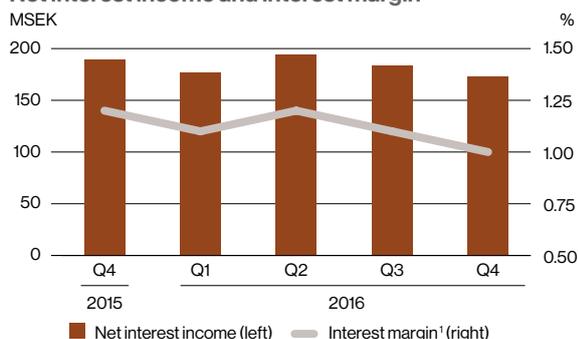
The MSEK 18.4 increase was largely attributable to the positive trend in the credit spread, which experienced a sharply negative decline in 2015 (neg: MSEK 63.9) that was turned around to a cautiously positive trend of MSEK 8.9 in 2016.

The value change in basis spreads<sup>1</sup>, which began the year positively, ended the year at a negative MSEK 17.7. The decline was MSEK 44.3 compared with 2015 when the value of the basis spreads rose MSEK 26.6.

The value of the basis spreads rose at the start of the year since many Swedish companies financed loans in EUR, which reduced demand in SEK. Transaction volumes declined in the second half of 2016 due to lower issue activities and to new regulations that diminished interest in trading in basis spreads.

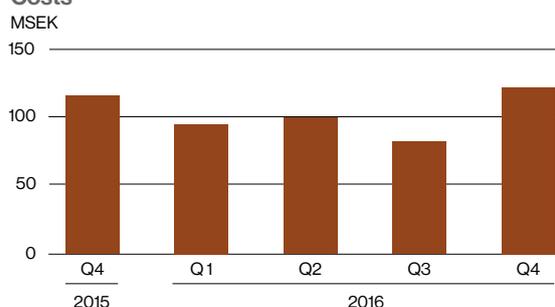
<sup>1</sup> Costs for the ongoing exchange of interest payments from foreign currency to SEK.

## Net interest income and interest margin



<sup>1</sup> Net interest income on an annualised basis by average lending during the period.

## Costs



## Operating profit

	Jan-Dec 2016	Jan-Dec 2015
Net interest income, MSEK <sup>1</sup>	727.2	743.4
Other operating income, MSEK <sup>1</sup>	45.3	20.3
Of which net result of financial transactions	26.2	7.8
Costs, MSEK	404.3	387.2
C/I ratio, including the net result of financial transactions <sup>2</sup>	0.52	0.51
C/I ratio, excluding the net result of financial transactions <sup>3</sup>	0.54	0.51
Net recognised loan losses, MSEK	14.8	45.9
Loan loss level, % <sup>4</sup>	0.02	0.07
Operating profit, MSEK	353.4	330.6
Operating profit excluding the net result of financial transactions	327.3	322.8

<sup>1</sup> Deposit insurance fees and fees to the stabilisation fund have been reclassified from Other operating income to Net interest income.

The comparative figures for 2015 have been restated.

<sup>2</sup> Costs in relation to income including the net result of financial transactions.

<sup>3</sup> Costs in relation to income excluding the net result of financial transactions.

<sup>4</sup> Net loan losses on an annualised basis in relation to average lending during the period.

Earnings realised in 2016 totalled a negative MSEK 9.1, down MSEK 53.1 year-on-year (43.9).

### Costs

Costs in 2016 amounted to MSEK 404.3 (387.2). The higher costs during the year were the result of the bank's investments in developing new products and systems, as well as adjustments to regulatory changes.

### Loan losses

Net loan losses declined to MSEK 14.8 (45.9) in 2016. Confirmed losses totalled a reversal of MSEK 37.7 (50.3). Several high-value commitments were completed during the year. Provisions for probable loan losses amounted to MSEK 56.3 (82.2). In 2016, the inflow of insolvency cases involving customers with high-value commitments declined. Collective reserves were established during the year due to the uncertainty in the wind-power market.

### Credit and credit quality

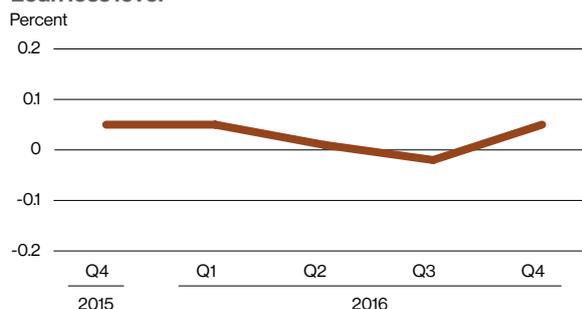
In June 2016, global milk production fell for the first time in several years, leading to an improved balance between supply and demand. International prices continued to rise

in the autumn and rose an average of 14 percent in the fourth quarter.

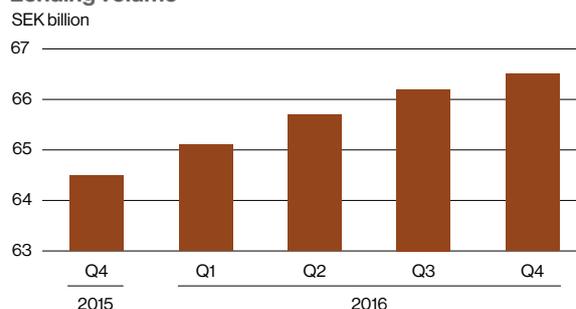
The extended period of low milk prices was tough for many dairy farmers, but profitability is now trending in a positive direction for Swedish dairy companies. Organic milk production generally fared better than conventional milk production based on the price of milk. Despite the improvement in market conditions, it will nonetheless be some time before many dairy companies have balanced their finances. During the year, Landshypotek Bank regularly monitored a number of milk-producing companies that had experienced weak production results and profitability issues. Despite improvements in the operating environment, the bank continuously monitors and maintains a frequent dialogue with these customers.

Landshypotek Bank is continuing its efforts to identify and monitor customers in the credit portfolio with poor profitability and low liquidity, with the aim of deploying suitable measures. Among other initiatives in the year, a review of the arable farming sector was carried out due to the prevailing global surplus and consequent downward price pressure. The results showed that decreased costs for input goods and healthy stock levels offset the revenue

### Loan loss level



### Lending volume



decrease and that repayment capacity is only marginally impacted at present.

At 31 December 2016, net doubtful credits after impairment continued to decline and amounted to MSEK 175.2 (345.0), corresponding to 0.26 percent (0.53) of loans outstanding. The decline was due to a number of commitments ending in 2016 and a lower inflow of doubtful credits.

## Comparison with the third quarter of 2016

Compared with the third quarter 2016, operating profit for the fourth quarter of 2016 was MSEK 4.4, down MSEK 141.9. The net result of financial transactions was MSEK 82.2 lower than in the third quarter, although lower net interest income and higher costs also had an adverse effect on earnings.

The net result of financial transactions for the fourth quarter of 2016 was a negative MSEK 43.1, down MSEK 82.2 on Q3 2016, which was MSEK 39.1. The change was due to the MSEK 51.6 decline in value of basis spreads<sup>1</sup> in the fourth quarter, basis spreads rose MSEK 17.4 in the third quarter. The third-quarter increase in value was the effect of more stringent regulations for US money market funds, while the fourth quarter decline was more a result of the Riksbank's softer monetary policy. Higher costs incurred by banks for positions in basis spreads boosted the increase in value.

Net interest income was lower in the fourth quarter due to lower income from penalty interest. The interest margin strengthened in the late autumn when several major bond loans matured. Preliminary financing was secured for these bond loans and the cost was charged to the third quarter.

The costs were MSEK 39.9 higher in the fourth quarter due to higher levels of operational activity with numerous development projects.

## Landshypotek's lending

Lending in 2016 increased SEK 2.0 billion to SEK 66.5 billion. The increase corresponded to lending growth of 3.1 percent, compared with 4.5 percent in 2015.

Demand for credit remains stable, however, variations exist depending on customers' type of production and the

properties' geographic location. The annualised market growth was about 5 percent (about 6 percent in 2015).

## Funding

### Borrowing

The single largest instance of refinancing for the year was completed in the second quarter of 2016, although Landshypotek Bank was also active in the market in the first and fourth quarters of the year.

In 2016, the bank issued covered bonds to a value of approximately SEK 13.0 billion. In addition, senior bonds were issued to a value of approximately SEK 2.0 billion and subordinated loans to a value of SEK 1.2 billion. During the same period, bonds have matured and been repurchased to a value of SEK 17.4 billion, of which SEK 14.6 billion pertained to covered bonds.

In general, the finance market for Nordic banks functioned smoothly in 2016. Landshypotek Bank was very successful in its funding activities during the year and demand for Landshypotek Bank's bonds was favourable.

### Deposits

Deposits amounted to SEK 11.7 billion (10.3) at 31 December 2016, up 13.8 percent.

### Liquidity

Landshypotek Bank has a substantial liquidity portfolio of interest-bearing securities. This was valued at SEK 12.6 billion at 31 December 2016. The portfolio primarily comprises Swedish covered bonds with the highest credit rating and bonds issued by Swedish municipalities. At 31 December, the liquidity portfolio was 1.4 (1.6) times larger than refinancing requirements for the next six months. The ratio is affected by the allocation of maturing debt for longer than six months and can, therefore, change between measurement periods.

The liquidity coverage ratio<sup>2</sup> was 270 percent at 31 December 2016<sup>3</sup>. This can be compared with the external statutory quantitative requirement of 70 percent.

<sup>1</sup> Costs for the ongoing exchange of interest payments from foreign currency to SEK.

<sup>2</sup> For Landshypotek Bank's consolidated situation.

<sup>3</sup> In this regard, the bank takes into consideration the entire liquidity reserve in the pool for covered bonds.

## Program

MSEK	Issued 31 Dec. 2016	Limit	Issued 31 Dec. 2015
Swedish Commercial paper	2,880	10,000	2,270
MTN programme	44,123	60,000	43,431
EMTN programme	9,531	33,538*	12,713
RCB**	3,354		3,407
Subordinated loans	1,700		500

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

## Rating

Landshypotek Bank has credit ratings from two different rating agencies, Standard & Poor's and Fitch. In the third quarter, both Standard & Poor's and Fitch confirmed Landshypotek's ratings of A- and A respectively.

## Rating

	Long	Short
S&P Covered Bonds	AAA	
S&P	A-	A-2,K1
Fitch	A	F1

## Capital and capital adequacy

The total capital ratio amounted to 39.9 percent compared with 36.5 percent at 30 September 2016 and the CET1 capital ratio was 29.4 percent (26.8). Own funds increased MSEK 41 during the quarter to MSEK 6,455, primarily due to higher member contributions. The minimum capital requirement declined MSEK 112 to MSEK 1,295, mainly as a result of lower derivative exposure on the back of global interest-rate hikes and the bank closing two swaps with positive market values. In addition to the minimum capital requirement of 8 percent of the total risk-weighted amount, the capital conservation buffer requirement is 2.5 percent and the countercyclical capital buffer requirement is 1.5 percent<sup>4</sup>. These two buffers make up the combined buffer requirement that must be covered by CET1 capital. The Bank's remaining CET1 capital to cover the combined buffer requirement and Pillar II requirements corresponded to 23.4 percent of the total risk-weighted exposure amount at 31 December 2016.

The capital quotient under the transitional rules linked to Basel I<sup>1</sup> amounted to 1.51, which was the same as for the last quarter.

The Bank's leverage ratio amounted to 5.8 percent, up on the preceding quarter (5.7). The bank aims to change its exposure classes to better reflect the market trends for farming and forestry, and to adapt to new regulatory changes. As a consequence of the above, the bank applied to the Swedish Financial Supervisory Authority in the autumn for permission to use the IRB approach, excluding our own estimates of LGD values and conversion factors, for corporate exposures. The bank has also applied for permission to change its method for retail exposures. The bank has prepared under the Pillar II framework for the increased capital requirement that is expected to arise as a consequence of the above change, including a buffer given that this is a preliminary assessment.

The internally assessed capital requirement on 31 December 2016 was SEK 4.7 billion<sup>2</sup>, given the aforementioned changes applied for by the bank to the Swedish Financial Supervisory Authority. The capital requirement should be compared with estimated own funds of SEK 6.2 billion. The capital adequacy assessment takes into account the mini-

mum capital requirement, the combined buffer requirement and the Pillar II capital requirement. The capital requirement under the transitional rules related to Basel I is also included in the assessment of the bank's capital requirements, but did not impact the amount of the capital requirements.

## Group structure

All farming and forestry borrowers of Landshypotek Bank are also members of Landshypotek Ekonomisk Förening. Landshypotek Ekonomisk Förening owns 100 percent of the shares in Landshypotek Bank.

All operations were conducted exclusively in Landshypotek Bank. The subsidiary, Landshypotek Jordbrukskredit transferred its operations to Landshypotek Bank in 2015 and was liquidated in September 2016.

## Events after the end of the period

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

## Contact details

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## Financial calendar

Annual Report 2016 20 March 2017  
Interim report January – March 2017 2 May 2017

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

<sup>1</sup> The transitional rules related to Basel I refers to 80 percent of the capital requirement under the Swedish implementation of the Basel I rules. The own-funds calculation for Basel I differs from existing own funds on the basis of Article 500.4 of the Capital Requirements Regulation 575/2013.

<sup>2</sup> The capital adequacy assessment could differ from the internal capital adequacy assessment on the balance sheet date on 31 December 2016 that is to be submitted to the Swedish Financial Supervisory Authority by 31 March 2017, since the review of the capital requirement for Pillar II risks has not yet been completed for the balance sheet date 31 December 2016. However, the current capital adequacy assessment includes an update of the Pillar II capital requirements that are related to the risk weight floor for mortgage loans.

## Capital adequacy analysis

SEK thousand	Consolidated situation <sup>1</sup> 31 December 2016
<b>Own funds reconciliation</b>	
<b>CET1 capital instruments: Instruments and reserves</b>	
Member contributions	1,585,080
Other contributed capital	1,797,796
Reserves	14,991
Actuarial differences	-16,359
Retained earnings	1,424,584
Net profit for the year <sup>2</sup>	296,926
<b>Equity in balance sheet</b>	<b>5,103,018</b>
Deductions related to the consolidated situation and other foreseeable costs	-123,806
<b>CET1 capital before regulatory adjustments<sup>3</sup></b>	<b>4,979,212</b>
<b>CET1 capital: regulatory adjustments</b>	
Further value adjustments	-52,404
Intangible assets	-66,748
Deferred tax assets that rely on future profitability	-2,955
Fair value reserves related to gains or losses on cash-flow hedges	6,723
Negative amounts resulting from the calculation of expected loss amounts (IRB)	-126,324
Defined-benefit pension plans	16,359
<b>CET1 capital</b>	<b>4,753,863</b>
Additional Tier 1 capital	0
<b>Tier 1 capital</b>	<b>4,753,863</b>
Capital instruments and subordinated loans eligible as T2 capital	1,699,972
Positive amounts resulting from the calculation of expected loss amounts (IRB)	1,059
<b>Tier 2 capital</b>	<b>1,701,031</b>
<b>Own funds (Tier 1 capital+Tier 2 capital)</b>	<b>6,454,894</b>
<b>Capital ratios and buffers</b>	
<b>Own funds requirement</b>	<b>1,295,235</b>
<b>Total risk exposure amount</b>	<b>16,190,434</b>
CET1 capital ratio (%)	29.4
Tier 1 capital ratio (%)	29.4
Total capital ratio (%)	39.9
Institution specific CET1-requirement including buffer requirements (%)	8.5
of which: capital conservation buffer requirement (%)	2.5
of which: countercyclical capital buffer (%)	1.5
CET1 capital available to meet buffers (as a share of risk exposure amounts, (%) <sup>4</sup>	23.4
<b>Capital adequacy according to Basel 1-floor</b>	
Own funds	6,580,159
Own funds requirement	4,345,588
Capital quotient	1.51

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

<sup>2</sup> A decision by the Swedish Financial Supervisory Authority on 29 May 2015 gave Landshypotek Bank AB (556500-2762) approval for using the annual surplus in own-funds calculations for the institute and also for its consolidated situation with the prerequisite that the elected auditor (PwC) has verified the surplus and that the surplus has been calculated pursuant to the applicable accounting framework, and that it is possible to verify that deductions have been made for any foreseeable costs and dividends in line with Regulation (EU) No 575/2013 and that these have been calculated according to Regulation (EU) No 241/2014.

<sup>3</sup> The Swedish Financial Supervisory Authority's regulation FFFS 2014:12 entered force in August 2014. Capital adequacy must be reported in accordance with regulatory reporting templates. CET1 capital pertains to the consolidated situation and differs from equity under IFRS. Contributions to equity from proposed dividends are excluded.

<sup>4</sup> Calculated as "the bank's CET1 capital less CET1 used to cover the CET1 capital requirement and less any other CET1 items used to cover the tier 1 capital requirement and/or total own funds requirements" divided by the total risk exposure amount.

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

Consolidated situation <sup>1</sup> 31 December 2016				
SEK thousand	Exposure value <sup>2</sup>	Risk exposure amount <sup>3</sup>	Average risk weight <sup>4</sup>	Own funds requirement <sup>5</sup>
<b>Credit risk - Internal Ratings Based approach</b>	<b>65,219,975</b>	<b>8,799,420</b>	<b>13 %</b>	<b>703,954</b>
Retail - Secured by real estate	65,101,874	8,681,320	13 %	694,506
Other non credit-obligation assets	118,100	118,100	100 %	9,448
<b>Credit risk - Standardised approach</b>	<b>18,169,531</b>	<b>4,454,257</b>	<b>25 %</b>	<b>356,341</b>
Central governments or central banks	1,313	-	0 %	-
Regional governments or local authorities	5,473,685	-	0 %	-
Institutions	2,022,530	676,236	33 %	54,099
Corporates	295,273	293,037	99 %	23,443
Retail	116,781	81,293	70 %	6,503
Secured by mortgages on immovable property	3,019,193	2,661,034	88 %	212,883
Exposures in default	15,889	20,170	127 %	1,614
Covered bonds	7,224,867	722,487	10 %	57,799
Operational risk - Basic Indicator approach <sup>6</sup>		1,423,728		113,898
<b>Credit valuation adjustment risk - Standardised approach</b>	<b>1,543,530</b>	<b>1,513,029</b>	<b>98 %</b>	<b>121,042</b>
<b>Total</b>	<b>84,933,035</b>	<b>16,190,434</b>	<b>-</b>	<b>1,295,235</b>

<sup>1</sup> Consolidated situation includes Landshypotek ekonomisk forening and the Landshypotek Bank AB Group.

<sup>2</sup> After application of relevant credit conversion factors in order to also include unutilized limits to a certain extent. For the Internal Rating Based approach the conversion factor is based on internal historical data while regarding standardised approach the conversion factors are prescribed by the capital requirements regulation.

<sup>3</sup> After application of relevant risk weights. Risk weights for the Internal Rating Based approach are based on internal risk classification and internal historical data, while risk weights are prescribed by the capital requirements regulation for the standardised approach.

<sup>4</sup> Calculated by dividing risk weighted exposure amounts by exposure value for the risk/exposure class.

<sup>5</sup> Calculated by multiplying risk exposure amount amounts by 8 %. Does not include any buffert requirements.

<sup>6</sup> No exposure value exists for operational risk, hence no disclosure of neither exposure value or average risk weight.

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, 27 January 2017

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 two dormant subsidiaries. The wholly owned subsidiary Landshypotek Jordbrukskredit AB was liquidated in 2016. In addition, Landshypotek Bank AB is reported separately. The main difference between the separate company Landshypotek Bank and the Group is the reporting of defined-benefit pensions, according to IAS 19. 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 2016, deposit insurance fees and fees to the stabilisation fund have been reclassified from Other operating income to Net interest income. 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), Investor Relations).

# Income Statement

Landshypotek Bank AB GROUP, SEK thousand	Note	2016 Q4	2015 Q4	2016 Q3	2016 Full year	2015 Full year
Interest income		304,130	367,217	338,383	1,356,505	1,560,908
Interest expense		-131,515	-178,210	-153,985	-629,310	-817,503
- of which: deposit insurance fees		-1,951	-908	-1,859	-7,121	-3,675
- of which: stabilisation fund fees		-7,114	-6,300	-7,114	-28,821	-31,660
<b>Net interest income</b>	Note 1	<b>172,615</b>	<b>189,007</b>	<b>184,398</b>	<b>727,196</b>	<b>743,405</b>
Commission income		3,737	2,288	2,784	11,872	9,987
Net result of financial transactions		-43,097	-5,142	39,064	26,158	7,787
Other operating income		2,405	1,445	440	7,315	2,535
<b>Total operating income</b>		<b>135,661</b>	<b>187,598</b>	<b>226,687</b>	<b>772,540</b>	<b>763,714</b>
General administrative expenses		-108,742	-100,845	-75,330	-359,152	-339,668
Depreciation, amortisation and impairment of tangible and intangible non-current assets		-2,951	-4,942	-2,942	-14,050	-19,678
Other operating expenses		-11,567	-11,866	-5,088	-31,082	-27,831
<b>Total expenses before loan losses</b>		<b>-123,259</b>	<b>-117,653</b>	<b>-83,359</b>	<b>-404,283</b>	<b>-387,177</b>
<b>Profit before loan losses</b>		<b>12,401</b>	<b>69,945</b>	<b>143,328</b>	<b>368,258</b>	<b>376,537</b>
Net loan losses	Note 2	-8,020	-7,269	2,939	-14,814	-45,921
<b>Operating profit</b>		<b>4,381</b>	<b>62,676</b>	<b>146,267</b>	<b>353,444</b>	<b>330,615</b>
Income tax for the period		-1,567	-14,807	-32,161	-77,823	-73,544
<b>Net profit for the period</b>		<b>2,814</b>	<b>47,869</b>	<b>114,106</b>	<b>275,621</b>	<b>257,071</b>

# Statement of Comprehensive Income

Landshypotek Bank AB GROUP, SEK thousand	2016 Q4	2015 Q4	2016 Q3	2016 Full year	2015 Full year
<b>Net profit for the period</b>	<b>2,814</b>	<b>47,869</b>	<b>114,106</b>	<b>275,621</b>	<b>257,071</b>
<b>Other comprehensive income</b>					
<i>Items to be reclassified to profit or loss</i>					
Cash-flow hedges	1,367	9,390	951	11,812	29,425
Available-for-sale financial assets	5,217	-661	28,358	62,087	-46,078
Tax on items to be reclassified	-1,448	-1,920	-6,448	-16,258	3,664
<i>Total, items to be reclassified</i>	<i>5,135</i>	<i>6,809</i>	<i>22,861</i>	<i>57,641</i>	<i>-12,990</i>
<i>Items that are not reclassified</i>					
Actuarial differences for defined-benefit pensions	18,606	15,779	-2,144	-38,811	40,989
Tax items that are not reclassified	-4,093	-3,471	472	8,538	-9,018
<i>Total, items that are not reclassified</i>	<i>14,513</i>	<i>12,308</i>	<i>-1,672</i>	<i>-30,273</i>	<i>31,971</i>
<b>Total other comprehensive income</b>	<b>19,648</b>	<b>19,116</b>	<b>21,188</b>	<b>27,369</b>	<b>18,981</b>
<b>Comprehensive income for the period</b>	<b>22,462</b>	<b>66,985</b>	<b>135,294</b>	<b>302,989</b>	<b>276,052</b>

# Income Statement

Landshypotek Bank AB Parent Company, SEK thousand	Note	2016 Q4	2015 Q4	2016 Q3	2016 Full year	2015 Full year
Interest income		303,852	367,217	338,105	1,355,392	1,548,087
Interest expense		-131,515	-178,153	-153,985	-629,309	-817,284
- of which: deposit insurance fees		-1,951	-908	-1,859	-7,121	-3,675
- of which: stabilisation fund fees		-7,114	-6,300	-7,114	-28,821	-31,660
<b>Net interest income</b>	Note 1	<b>172,337</b>	<b>189,064</b>	<b>184,120</b>	<b>726,083</b>	<b>730,803</b>
Commission income		3,737	2,254	2,784	11,872	9,672
Net result of financial transactions		-43,097	-5,142	39,064	26,158	7,787
Other operating income		2,405	1,445	440	7,315	2,535
<b>Total operating income</b>		<b>135,383</b>	<b>187,622</b>	<b>226,409</b>	<b>771,427</b>	<b>750,798</b>
General administrative expenses		-109,275	-100,615	-74,849	-362,379	-340,295
Depreciation, amortisation and impairment of tangible and intangible non-current assets		-2,951	-4,942	-3,057	-14,165	-19,678
Other operating expenses		-11,567	-11,866	-5,088	-31,082	-27,828
<b>Total expenses before loan losses</b>		<b>-123,792</b>	<b>-117,423</b>	<b>-82,993</b>	<b>-407,626</b>	<b>-387,801</b>
<b>Profit before loan losses</b>		<b>11,590</b>	<b>70,199</b>	<b>143,415</b>	<b>363,802</b>	<b>362,997</b>
Net loan losses	Note 2	-8,020	-7,268	2,939	-14,814	-41,952
Impairment of shares in subsidiaries		0	-2,266	0	0	-2,266
<b>Operating profit</b>		<b>3,570</b>	<b>60,665</b>	<b>146,355</b>	<b>348,988</b>	<b>318,778</b>
Income tax for the period		-1,389	-14,196	-32,185	-77,341	-70,945
<b>Net profit for the period</b>		<b>2,182</b>	<b>46,469</b>	<b>114,170</b>	<b>271,646</b>	<b>247,832</b>

# Statement of Comprehensive Income

Landshypotek Bank AB Parent Company, SEK thousand	2016 Q4	2015 Q4	2016 Q3	2016 Full year	2015 Full year
<b>Net profit for the period</b>	<b>2,182</b>	<b>46,469</b>	<b>114,170</b>	<b>271,646</b>	<b>247,832</b>
<b>Other comprehensive income</b>					
<i>Items to be reclassified to profit or loss</i>					
Cash-flow hedges	1,367	9,390	951	11,812	29,425
Available-for-sale financial assets	5,217	-661	28,358	62,087	-46,078
Income tax related to other comprehensive income	-1,448	-1,920	-6,448	-16,258	3,664
<i>Total, items to be reclassified</i>	<i>5,135</i>	<i>6,809</i>	<i>22,861</i>	<i>57,641</i>	<i>-12,990</i>
<b>Total other comprehensive income</b>	<b>5,135</b>	<b>6,809</b>	<b>22,861</b>	<b>57,641</b>	<b>-12,990</b>
<b>Comprehensive income for the period</b>	<b>7,317</b>	<b>53,277</b>	<b>137,030</b>	<b>329,288</b>	<b>234,843</b>

# Balance Sheet

Landshypotek Bank AB SEK thousand	Group			Parent Company		
	2016 31 Dec	2016 30 Sep	2015 31 Dec	2016 31 Dec	2016 30 Sep	2015 31 Dec
<b>ASSETS</b>						
Cash and balances with central banks	0	0	237	0	0	237
Loans to credit institutions	592,071	833,259	396,214	591,839	833,027	392,262
Loans to the public Note 3	66,518,468	66,239,834	64,501,262	66,518,468	66,239,834	64,501,262
Value changes of interest-rate-risk hedged items in macro hedges	109,075	168,133	87,842	109,075	168,133	87,842
Bonds and other interest-bearing securities	12,614,537	13,112,792	13,251,589	12,614,537	13,112,792	13,251,589
Derivatives	1,840,773	2,670,541	1,874,871	1,840,773	2,670,541	1,874,871
Shares in Group companies	0	0	0	200	200	278,487
Intangible non-current assets	66,748	45,162	20,654	66,748	45,162	20,654
Tangible assets						
Furniture, fixtures and equipment	9,282	8,942	10,621	9,282	8,942	10,621
Buildings and land	10,464	11,436	20,168	10,464	11,436	20,168
Other assets	11,383	6,806	35,324	11,383	6,803	4,951
Current tax assets	0	0	22,137	0	0	20,670
Deferred tax assets	2,955	7,515	0	2,210	2,497	4,756
Prepaid expenses and accrued income	405,411	631,475	498,081	405,411	631,475	498,080
<b>TOTAL ASSETS</b> Notes 4, 5, 6	<b>82,181,168</b>	<b>83,735,893</b>	<b>80,719,000</b>	<b>82,180,391</b>	<b>83,730,842</b>	<b>80,966,450</b>
<b>LIABILITIES, PROVISIONS AND EQUITY</b>						
Liabilities to credit institutions	1,002,399	1,215,094	393,227	1,002,399	1,215,094	393,262
Borrowing from the public	11,731,390	11,703,545	10,309,718	11,731,390	11,703,545	10,309,718
Debt securities in issue, etc.	61,572,138	62,634,626	63,012,651	61,572,138	62,634,626	63,012,651
Derivatives	730,494	792,239	1,059,244	730,494	792,239	1,059,244
Other liabilities	276,177	36,671	297,361	275,654	36,158	569,657
Deferred tax liabilities	6,190	27,517	2,555	6,192	27,517	0
Accrued expenses and deferred income	434,746	764,597	586,824	434,746	764,597	586,824
Provisions	4,193	23,656	0	1,324	1,361	1,361
Subordinated liabilities	1,699,972	1,699,975	499,972	1,699,972	1,699,975	499,972
<b>Total liabilities</b>	<b>77,457,699</b>	<b>78,897,919</b>	<b>76,161,552</b>	<b>77,454,309</b>	<b>78,875,110</b>	<b>76,432,689</b>
<b>Equity</b>	<b>4,723,470</b>	<b>4,837,974</b>	<b>4,557,448</b>	<b>4,726,081</b>	<b>4,855,732</b>	<b>4,533,761</b>
<b>TOTAL LIABILITIES, PROVISIONS AND EQUITY</b> Notes 4, 5, 6	<b>82,181,168</b>	<b>83,735,893</b>	<b>80,719,000</b>	<b>82,180,391</b>	<b>83,730,842</b>	<b>80,966,450</b>

# Cash-flow Statement

Landshypotek Bank AB SEK thousand	Group		Parent Company	
	2016 Full year	2015 Full year	2016 Full year	2015 Full year
<b>Opening cash and cash equivalents</b>	<b>396,451</b>	<b>720,333</b>	<b>392,499</b>	<b>813,558</b>
Cash flow from operating activities	-790,378	-24,462	-786,658	-121,639
Cash flow from investing activities	-49,102	-2,720	-49,102	-2,720
Cash flow from financing activities	1,035,100	-296,700	1,035,100	-296,700
<b>Cash flow for the period</b>	<b>195,620</b>	<b>-323,882</b>	<b>199,340</b>	<b>-421,059</b>
<b>Closing cash and cash equivalents</b>	<b>592,071</b>	<b>396,451</b>	<b>591,839</b>	<b>392,499</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 2014</b>	2,173,000	1,026,254	-38,888	9,228	-18,057	1,178,481	4,330,018
Comprehensive income for the period			22,951	-35,941	31,971	257,071	276,052
<b>Total change before transactions with owners</b>	-	-	22,951	-35,941	31,971	257,071	276,052
New share issue	80,000						80,000
Group contributions paid						-164,900	-164,900
Tax on Group contributions						36,278	36,278
<b>Equity 31 December 2015</b>	2,253,000	1,026,254	-15,936	-26,714	13,914	1,306,930	4,557,448
<b>Equity 31 December 2015</b>	2,253,000	1,026,254	-15,936	-26,714	13,914	1,306,930	4,557,448
Comprehensive income for the period			9,213	48,428	-30,273	275,621	302,989
<b>Total change before transactions with owners</b>	-	-	9,213	48,428	-30,273	275,621	302,989
New share issue							0
Group contributions paid						-175,600	-175,600
Tax on Group contributions						38,632	38,632
<b>Equity 31 December 2016</b>	2,253,000	1,026,254	-6,724	21,714	-16,359	1,445,582	4,723,469

Landshypotek Bank AB Parent Company SEK thousand	Share capital	Other contributed capital	Hedging reserve	Fair value reserve		Retained earnings	Total
<b>Equity 31 December 2014</b>	2,173,000	1,016,694	-38,888	9,228		1,187,510	4,347,542
Comprehensive income for the period			22,951	-35,941		247,832	234,842
<b>Total change before transactions with owners</b>	-	-	22,951	-35,941		247,832	234,842
New share issue	80,000						80,000
Group contributions paid						-164,900	-164,900
Tax on Group contributions						36,278	36,278
<b>Equity 31 December 2015</b>	2,253,000	1,016,694	-15,936	-26,714		1,306,718	4,533,761
<b>Equity 31 December 2015</b>	2,253,000	1,016,694	-15,936	-26,714		1,306,718	4,533,761
Comprehensive income for the period			9,213	48,428		271,646	329,288
<b>Total change before transactions with owners</b>	-	-	9,213	48,428		271,646	329,288
New share issue							0
Group contributions paid						-175,600	-175,600
Tax on Group contributions						38,632	38,632
<b>Equity 31 December 2016</b>	2,253,000	1,016,694	-6,724	21,714		1,441,396	4,726,081

# Notes

## Note 1 Net interest income

Landshypotek Bank AB – Group SEK thousand	2016 Q4	2015 Q4	2016 Q3	2016 Full year	2015 Full year
<b>Interest income</b>					
Interest income on loans to credit institutions	-164	0	-3	-173	-707
Interest income on loans to the public	293,235	338,061	318,804	1,266,978	1,413,906
Less interest losses	-235	-1,022	-233	-1,168	-1,601
Interest income on interest-bearing securities	10,864	30,097	19,536	89,598	149,221
of which interest income for financial assets in fair-value hedges	3,266	0	3,807	12,006	0
of which interest income on financial assets at fair value through profit or loss	8,930	30,723	16,869	81,516	138,361
of which interest income on available-for-sale financial assets	-1,333	-624	-1,140	-3,924	10,860
Other interest income	431	81	279	1,271	89
<b>Total</b>	<b>304,130</b>	<b>367,217</b>	<b>338,383</b>	<b>1,356,505</b>	<b>1,560,908</b>
<i>All interest income is attributable to the Swedish market.</i>					
<b>Interest expense</b>					
Interest expense for liabilities to credit institutions – other	1,329	894	1,814	7,105	4,060
Interest expense for borrowing/deposits from the public	-21,241	-21,804	-22,484	-86,582	-83,941
of which: deposit insurance fees	-1,951	-908	-1,859	-7,121	-3,675
Interest expense for interest-bearing securities	-144,830	-203,259	-160,776	-691,341	-881,429
of which interest expense for financial liabilities in fair value hedges adjusted for the fair value of hedged risk	-87,663	-141,080	-66,754	-492,165	-617,491
of which interest expense on interest-bearing securities at amortised cost	-105,926	-91,771	-144,893	-355,188	-381,341
of which periodisation of the market value created from terminated hedging commitments *	48,758	29,592	50,871	156,013	117,405
Interest expense for subordinated liabilities	-11,165	-4,866	-11,412	-34,641	-24,389
Interest expense for derivative instruments	56,363	60,443	47,903	218,913	209,608
of which interest expense on derivatives at fair value through profit or loss	16,567	-30,550	51,346	41,291	-138,047
of which interest expense on derivatives identified as hedging instruments	81,662	119,740	46,757	326,071	461,705
of which reclassification of terminated hedging relationships *	-41,865	-28,747	-50,200	-148,449	-114,050
Other interest expense	-11,971	-9,618	-9,030	-42,764	-41,412
of which: government stabilisation fund fees	-7,114	-6,300	-7,114	-28,821	-31,660
<b>Total</b>	<b>-131,514</b>	<b>-178,210</b>	<b>-153,985</b>	<b>-629,309</b>	<b>-817,503</b>
<b>Total net interest income</b>	<b>172,615</b>	<b>189,007</b>	<b>184,398</b>	<b>727,196</b>	<b>743,405</b>

\* The item pertains to a reduction in recognised interest expenses from the periodisation of the market value created from hedged risk attributable to fair-value hedging relationships that were terminated in 2013 and 2014. A corresponding amount with a negative impact on earnings, attributable to the decrease in value of hedging instruments (derivatives) in the terminated hedging relationships, has been recognised under Derivatives in Net interest income. The remaining amount to be periodised is MSEK 342.8, which will continue until August 2029.

Costs that were directly attributable to borrowing were reclassified to interest expense in 2015.

Deposit insurance fees and fees to the stabilisation fund have been reclassified from Other operating income to Net interest income in 2016.

The comparative figures for 2015 have been restated.

continued Note 1 Net interest income

Landshypotek Bank AB – Parent Company SEK thousand	2016 Q4	2015 Q4	2016 Q3	2016 Full year	2015 Full year
<b>Interest income</b>					
Interest income on loans to credit institutions	-164	0	-3	-173	-707
Interest income on loans to the public	293,235	338,078	318,804	1,266,978	1,401,091
Less interest losses	-235	-1,015	-233	-1,168	-1,582
Interest income on interest-bearing securities	10,864	30,097	19,536	89,598	149,221
of which interest income for financial assets in fair-value hedges	3,266	0	3,807	12,006	0
of which interest income on financial assets at fair value through profit or loss	8,930	30,723	16,869	81,516	138,361
of which interest income on available-for-sale financial assets	-1,333	-624	-1,140	-3,924	10,860
Other interest income	153	57	0	158	64
<b>Total</b>	<b>303,852</b>	<b>367,217</b>	<b>338,104</b>	<b>1,355,392</b>	<b>1,548,087</b>
<i>All interest income is attributable to the Swedish market.</i>					
<b>Interest expense</b>					
Interest expense for liabilities to Group companies	0	0	0	0	-9
Interest expense for liabilities to credit institutions – other	1,329	895	1,814	7,105	4,061
Interest expense for borrowing/deposits from the public	-21,241	-21,804	-22,484	-86,582	-83,941
of which: deposit insurance fees	-1,951	-908	-1,859	-7,121	-3,675
Interest expense for interest-bearing securities	-144,830	-203,259	-160,776	-691,341	-881,429
of which interest expense for financial liabilities in fair value hedges adjusted for the fair value of hedged risk	-87,663	-141,080	-66,754	-492,165	-617,491
of which interest expense on interest-bearing securities at amortised cost	-105,926	-91,771	-144,893	-355,188	-381,341
of which periodisation of the market value created from terminated hedging commitments *	48,758	29,592	50,871	156,013	117,405
Interest expense for subordinated liabilities	-11,165	-4,866	-11,412	-34,641	-24,389
Interest expense for derivative instruments	56,363	60,443	47,903	218,913	209,608
of which interest expense on derivatives at fair value through profit or loss	16,567	-30,550	51,346	41,291	-138,047
of which interest expense on derivatives identified as hedging instruments	81,662	119,740	46,757	326,071	461,705
of which reclassification of terminated hedging relationships *	-41,865	-28,747	-50,200	-148,449	-114,050
Other interest expense	-11,971	-9,563	-9,030	-42,764	-41,185
of which: government stabilisation fund fees	-7,114	-6,300	-7,114	-28,821	-31,660
<b>Total</b>	<b>-131,514</b>	<b>-178,154</b>	<b>-153,985</b>	<b>-629,309</b>	<b>-817,284</b>
<b>Total net interest income</b>	<b>172,337</b>	<b>189,064</b>	<b>184,120</b>	<b>726,083</b>	<b>730,803</b>

\* The item pertains to a reduction in recognised interest expenses from the periodisation of the market value created from hedged risk attributable to fair-value hedging relationships that were terminated in 2013 and 2014. A corresponding amount with a negative impact on earnings, attributable to the decrease in value of hedging instruments (derivatives) in the terminated hedging relationships, has been recognised under Derivatives in Net interest income. The remaining amount to be periodised is MSEK 342.8, which will continue until August 2029.

Costs that were directly attributable to borrowing were reclassified to interest expense in 2015.

Deposit insurance fees and fees to the stabilisation fund have been reclassified from Other operating income to Net interest income in 2016.

The comparative figures for 2015 have been restated

## Note 2 Net loan losses

Landshypotek Bank AB – Group SEK thousand	2016 Q4	2015 Q4	2016 Q3	2016 Full year	2015 Full year
Write-off for the period for confirmed losses	-19,062	-34,522	-1,817	-37,671	-50,261
Reversal of prior specific provisions for probable loan losses, recognised as confirmed losses in this period's accounts	18,074	33,269	1,812	37,315	49,091
Specific provision for probable loan losses	-9,037	-19,893	-10,831	-51,614	-82,226
Collective provisions for probable loan losses*	-4,696	0	0	-4,696	0
Recovery of previously confirmed losses	2,625	2,415	454	8,852	6,225
Reversal of prior specific provisions no longer necessary for probable loan losses	4,076	11,462	13,321	33,000	31,250
<b>Total loan losses</b>	<b>-8,020</b>	<b>-7,269</b>	<b>2,939</b>	<b>-14,814</b>	<b>-45,921</b>

\* A collective reserve was established during the year due to the uncertainty in the wind-power market.

All loan losses are attributable to loans to the public.  
Properties taken over in foreclosure to protect claims, MSEK 0.4 (8.7).

Landshypotek Bank AB – Parent Company SEK thousand	2016 Q4	2015 Q4	2016 Q3	2016 Full year	2015 Full year
Write-off for the period for confirmed losses	-19,062	-34,520	-1,817	-37,671	-48,232
Reversal of prior specific provisions for probable loan losses, recognised as confirmed losses in this period's accounts	18,074	33,269	1,812	37,315	47,629
Specific provision for probable loan losses	-9,037	-19,893	-10,831	-51,614	-77,091
Collective provisions for probable loan losses*	-4,696	0	0	-4,696	0
Recovery of previously confirmed losses	2,625	2,416	454	8,852	6,225
Reversal of prior specific provisions no longer necessary for probable loan losses	4,076	11,461	13,321	33,000	29,518
<b>Total loan losses</b>	<b>-8,020</b>	<b>-7,268</b>	<b>2,939</b>	<b>-14,814</b>	<b>-41,952</b>

\* A collective reserve was established during the year due to the uncertainty in the wind-power market.

All loan losses are attributable to loans to the public.  
Properties taken over in foreclosure to protect claims, MSEK 0.4 (8.7).

## Note 3 Loans to the public

Landshypotek Bank AB SEK thousand	Group			Parent Company		
	2016 31 Dec	2016 30 Sep	2015 31 Dec	2016 31 Dec	2016 30 Sep	2015 31 Dec
Loan receivables	66,577,900	66,303,964	64,574,511	66,577,900	66,303,964	64,574,511
Less specific provisions for individually valued loan receivables	-54,736	-64,130	-73,249	-54,736	-64,130	-73,249
Less collective provisions for collectively valued loan receivables	-4,696	0	0	-4,696	0	0
<b>Net loan receivables</b>	<b>66,518,468</b>	<b>66,239,834</b>	<b>64,501,262</b>	<b>66,518,468</b>	<b>66,239,834</b>	<b>64,501,262</b>
<b>Disclosures on overdue unimpaired loan receivables</b>						
Loan receivables overdue 5-90 days	77,079	2,500	102,304	77,079	2,500	102,304
Loan receivables overdue more than 90 days	230,696	364,854	260,209	230,696	364,854	260,209
<b>Total overdue unimpaired loan receivables</b>	<b>307,775</b>	<b>367,354</b>	<b>362,513</b>	<b>307,775</b>	<b>367,354</b>	<b>362,513</b>
<b>Disclosures on doubtful credits</b>						
Doubtful credits that are not overdue	103,767	104,263	151,902	103,767	104,263	151,902
Overdue doubtful credits	130,859	167,111	266,378	130,859	167,111	266,378
<b>Total doubtful credits, gross</b>	<b>234,626</b>	<b>271,374</b>	<b>418,281</b>	<b>234,626</b>	<b>271,374</b>	<b>418,281</b>
Less capital provisions made	-59,432	-64,130	-73,249	-59,432	-64,130	-73,249
<b>Total doubtful credits, net</b>	<b>175,194</b>	<b>207,244</b>	<b>345,032</b>	<b>175,194</b>	<b>207,244</b>	<b>345,032</b>

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

## Note 4 Fair-value hierarchy for financial instruments

Landshypotek Bank AB Group and Parent Company, SEK thousand	31 Dec 2016				31 Dec 2015			
	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	2,613,652			2,613,652	7,712,032			7,712,032
Interest-rate swaps		0		0		-		
Cross-currency interest-rate swaps		38,796		38,796		323,037		323,037
<b>Derivatives identified as hedging instruments</b>								
Interest-rate swaps		1,081,659		1,081,659		1,004,653		1,004,653
Cross-currency interest-rate swaps		720,318		720,318		547,181		547,181
<b>Available-for-sale financial assets</b>								
Bonds and other interest-bearing securities	10,000,885			10,000,885	5,539,557			5,539,557
<b>Total assets measured at fair value</b>	<b>12,614,537</b>	<b>1,840,773</b>	<b>-</b>	<b>14,455,311</b>	<b>13,251,589</b>	<b>1,874,871</b>	<b>-</b>	<b>15,126,460</b>
<b>Financial liabilities at fair value through profit or loss</b>								
Interest-rate swaps		145,251		145,251		370,141		370,141
Cross-currency interest-rate swaps		10,557		10,557		42,355		42,355
<b>Derivatives identified as hedging instruments</b>								
Interest-rate swaps		423,878		423,878		198,792		198,792
Cross-currency interest-rate swaps		150,809		150,809		447,956		447,956
<b>Total liabilities measured at fair value</b>	<b>-</b>	<b>730,494</b>	<b>-</b>	<b>730,494</b>	<b>-</b>	<b>1,059,244</b>	<b>-</b>	<b>1,059,244</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 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. 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 2016 Carrying amount	31 Dec 2016 Fair value	31 Dec 2015 Carrying amount	31 Dec 2015 Fair value
<b>Assets</b>				
Cash and balances with central banks	0	0	237	237
Loans to credit institutions	592,071	592,071	396,214	396,214
Loans to the public	66,518,468	67,409,231	64,501,262	64,211,750
Bonds and other interest-bearing securities	12,614,537	12,614,537	13,251,589	13,251,589
Derivatives	1,840,773	1,840,773	1,874,871	1,874,871
<b>Total assets</b>	<b>81,565,849</b>	<b>82,456,612</b>	<b>80,024,173</b>	<b>79,734,661</b>
<b>Liabilities and provisions</b>				
Liabilities to credit institutions	1,002,399	1,002,399	393,227	393,227
Borrowing from the public	11,731,390	11,731,390	10,309,718	10,309,718
Debt securities in issue, etc.	61,572,138	62,632,533	63,012,651	63,303,591
Derivatives	730,494	730,494	1,059,244	1,059,244
Subordinated liabilities	1,699,972	1,745,157	499,972	529,600
<b>Total liabilities</b>	<b>76,736,394</b>	<b>77,841,973</b>	<b>75,274,812</b>	<b>75,595,380</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 2016 Carrying amount	31 Dec 2016 Fair value	31 Dec 2015 Carrying amount	31 Dec 2015 Fair value
<b>Assets</b>				
Cash and balances with central banks	0	0	237	237
Loans to credit institutions	591,839	591,839	392,262	392,262
Loans to the public	66,518,468	67,409,231	64,501,262	64,211,750
Bonds and other interest-bearing securities	12,614,537	12,614,537	13,251,589	13,251,589
Derivatives	1,840,773	1,840,773	1,874,871	1,874,871
<b>Total assets</b>	<b>81,565,617</b>	<b>82,456,380</b>	<b>80,020,221</b>	<b>79,730,708</b>
<b>Liabilities and provisions</b>				
Liabilities to credit institutions	1,002,399	1,002,399	393,262	393,262
Borrowing from the public	11,731,390	11,731,390	10,309,718	10,309,718
Debt securities in issue, etc.	61,572,138	62,632,533	63,012,651	63,303,591
Derivatives	730,494	730,494	1,059,244	1,059,244
Subordinated liabilities	1,699,972	1,745,157	499,972	529,600
<b>Total liabilities</b>	<b>76,736,394</b>	<b>77,841,973</b>	<b>75,274,847</b>	<b>75,595,415</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

Financial assets and liabilities covered by a contractual master netting agreement or similar, but not offset in the balance sheet.

Group and Parent Company 2016 SEK thousand	Amount recognised in the balance sheet 31 Dec 2016	Related amounts not offset in the balance sheet			Net amount 31 Dec 2016
		Financial instruments	Paid (+) Received (-) collateral – securities	Paid (+) Received (-) cash collateral	
<b>Assets</b>					
Derivatives, fair value	1,840,773	-581,547			
Derivatives, accrued interest	244,006	-120,157			
<i>Derivatives, total value including accrued interest</i>	2,084,779	-701,705		-421,237	961,838
Repurchase agreements, reverse repos	-				-
<b>Liabilities</b>					
Derivatives, fair value	-730,494	581,547			
Derivatives, accrued interest	-126,265	120,157			
<i>Derivatives, total value including accrued interest</i>	-856,758	701,705			-155,054
Reverse repos	-558,444				-558,444

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
Reverse repos	0				0

### Amount 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 Bank 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 year-end report for the period 1 January 2016 to 31 December 2016 for Landshypotek Bank AB (publ). The Board of Directors and the CEO 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 Report 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 year-end 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, 27 January 2017

Öhrlings PricewaterhouseCoopers AB

Ulf Westerberg  
*Authorised Public Accountant*  
*Partner in charge*

Helena Kaiser de Carolis  
*Authorised Public Accountant*



**Landshypotek Bank**