



Landshypotek Bank

Annual Report 2016

For a richer life in the countryside

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Reporting calendar

General Meeting	27 April 2017
Interim Report Q1	2 May 2017
Interim Report Q2	19 July 2017
Interim Report Q3	27 October 2017

For a richer life countryside

Landshypotek Bank wants to promote a richer life countryside. While other banks focus on the major cities and their prevailing economic conditions — we lift our gaze beyond Stockholm, Gothenburg and Malmö.

We want to give everyone in Sweden opportunities to live a richer life. We want the Swedish countryside to continue to develop. This is our vision today. We have promoted and believed in this vision since 1836.

Landshypotek Bank is owned by 41,000 farmers and foresters across the country and our surplus is reinvested in their operations. Over the years, we have financed hundreds of thousands of investments in a living and sustainable countryside — in open landscapes, well-kept forests and locally produced food.

But we are not here solely for farmers and foresters. We offer a selection of well-chosen and key banking services to increasing numbers of people. We are now providing more people with the chance to create a sustainable life through home loans. We believe it is important that all Swedes have the possibility to save toward a better future.

We are a small bank with a vital mission — to promote a richer life countryside.

CEO's Statement

We aim to give more people opportunity to meet a bank with a difference in the Swedish banking market

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 now launching mortgage loans to homeowners with a brand new digital solution in the banking market.

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

At a time when many also believe in the declining importance of banks' for customers and society, we are proud to be different with our well-defined mission and also to return our surplus to farming and forestry. For 2016, the bank is disbursing MSEK 176 in Group contributions to the owner, Landshypotek Ekonomisk Förening. This allows the association to propose a member dividend of 10 percent to the Association Meeting. This is an exceptional 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. During the year, we have worked on our customers' behalf, including opposing the proposed expansion of the capital repayment requirements for consumer mortgages to include the farming and forestry sectors. Another example was the ruling by the Swedish Supreme Court on borrowing based on EU subsidies. The process that we drove benefitted the entire industry. We have also maintained a strong presence at trade fairs and through customer meetings.. We have published several reports that reflect the trends in farming and forestry. Our *Your farm — Your opportunity* competition showcased the strength of diversified farming entrepreneurship across the country.

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 farmers and foresters.

Our assignment engages 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. The customer response has been considerable. 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 with a clear purpose. We have a solid foundation for developing into a broader, more open and better bank.

Entrepreneurs in agriculture and forestry master numerous skills. Farmers and foresters operate in some 30 different industries. Often, one single farm can contain several different farming and forestry industries. Therefore, a Swedish farmer can both compete with products intended for the global market and, concurrently, conduct construction or plant hire operations in the local area. We are developing our operations to meet market variations and to support our customers as they develop. We are developing and strengthening customer relationships through initiatives including new contact possibilities, products and marketing activities.

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

- We have realigned our organisation into a retail and a corporate market to better meet more customers and customer needs.
- We changed our customer classification method and have raised more capital. We also applied to the Swedish Financial Supervisory Authority for a permit to use a fundamental IRB approach to calculate capital requirements for our corporates.
- The cooperative association's members continued to invest in Landshypotek during the year, around MSEK 96.



- 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 market launches for new services. We are now involved in several different projects for the next stage of our development.
- We have worked systematically on continuing to strengthen our risk awareness and credit activities. Banking in the form of lending to farming and forestry is a stable operation. From a historical perspective, our loan losses are very low. Recently, we have strengthened our dialogue with customers for reasons including early identification of changes and any risks associated with individual customers. We have worked intensively on risk issues across the bank and also strengthened our credit and risk organisations. Our loan losses are attributable to a small number of customers.

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

From 2017, customers will be able to apply for mortgage loans from Landshypotek Bank. We are targeting a

market outside the major cities and offering brand new borrowing possibilities. Our unique digital solution will allow customers to apply for a loan on the website.

We have excellent experience of showing the market new opportunities. When we opened our doors to all savers, we also created a movement outside the cooperative association, a movement that benefits Swedish farming and forestry and the Association's members. Our digital solutions for opening accounts and starting to save have resulted in us attracting savings deposits of about SEK 12 billion in only a few years. In the first six months, we were one of the three fastest growing banks in the deposits market.

Banking alternatives are needed outside the major cities. We are secure in our assignment for the farming and forestry sectors. Our history and lending to farming and forestry provide a solid foundation for developing into a broader bank open to more customers.

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 all of Sweden.

Liza Nyberg
CEO of Landshypotek Bank

2016 in figures — A growing bank

Landshypotek Bank posted historically strong earnings and has a growing presence in the lending and savings markets. We also grew stronger as a bank during the year. Landshypotek Bank is 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 more savers. We are also now starting to offer mortgage loans to homeowners outside the major cities.

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). Results were strong, with stable net interest income and low loan losses.

Net interest income amounted to MSEK 727.2 (743.4).

Net interest income declined slightly due to higher costs for, inter alia, a new subordinated loan and a decrease in return on equity due to lower market interest rates.

Costs increased in line with the bank's development and were MSEK 404.3 (387.2).

The bank has invested in the development of new systems and products during the year.

Net loan losses declined and amounted to MSEK 14.8 (45.9).

In 2016, the inflow of insolvency cases declined.

Lending amounted to SEK 66.5 billion (64.5), up 3.1 percent (4.5).

Demand for credit remained stable, but varies between types of production.

Deposits totalled SEK 11.7 billion (10.3), up SEK 1.4 billion.

Landshypotek Bank is a growing bank for savings.

Summary — Landshypotek Bank	2016	2015
Net interest income, MSEK ¹⁾	727.2	743.4
Operating profit, MSEK	353.4	330.6
Profit after tax, MSEK	275.6	257.1
Loans to the public, balance, MSEK	66,518	64,501
Increase in lending, %	3.1	4.5
Interest margin, % ²⁾	1.1	1.2
Deposits from the public, balance, MSEK	11,731	10,310
Increase in deposits, %	13.8	76.9
C/I ratio including financial transactions ³⁾	0.52	0.51
C/I ratio excluding financial transactions ⁴⁾	0.54	0.51
Loan loss level, % ⁵⁾	0.02	0.07
Total capital ratio, %	39.9	26.1
Tier 1 capital ratio, %	29.4	23.4
Rating, long-term		
Standard & Poor's, Covered bonds	AAA	AAA
Standard & Poor's	A-	A-
Fitch	A	A
Average number of employees	162.0	156.0

¹⁾ Deposit insurance fees and fees to the resolution fund have been reclassified from Net commission income to Net interest income. The comparative figures for 2015 have been restated.

²⁾ Net interest income in relation to average lending during the period.

³⁾ Costs in relation to income including the net result of financial transactions.

⁴⁾ Costs in relation to income excluding the net result of financial transactions.

⁵⁾ Net loan losses in relation to average lending during the period.

Operating profit amounted to **MSEK 353**

Low loan losses of **0.02%**

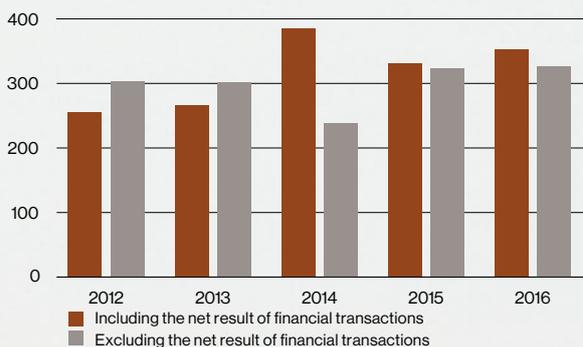
Lending increased **3.1%**

Savings deposits rose **13.8%**

Covered bonds' rating **AAA**
(Standard & Poor's)

Operating profit

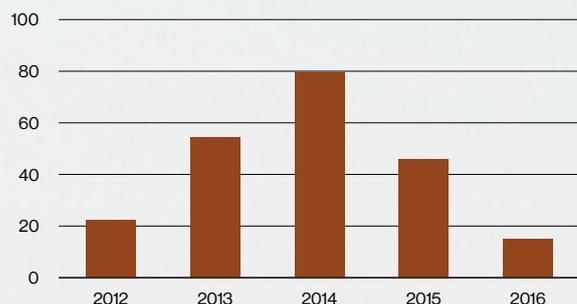
MSEK



Operating profit for 2016 totalled MSEK 353.4. Operating profit excluding the net result of financial transactions was MSEK 327.3.

Loan losses

MSEK



At 31 December 2016, loan losses totalled MSEK 14.8, which corresponded to 0.02 percent of lending.



Events in 2016 — An evolving bank

Regional meeting • 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.

Association council • At the annual Association Meeting, a new governance policy aimed at strengthening the association, in terms of the owners and the member organisation, was 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.

Customer classification • 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 new T2 capital from investors.

IRB approach • In the autumn, the bank submitted an application to Finansinspektionen (the Swedish Financial Supervisory Authority) for permission to use a foundation IRB approach to calculate the capital requirement for Corporates. The bank already has permission to use the IRB approach for retail exposures.

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

EU subsidies • The unclear legal position vis-à-vis borrowing based on EU subsidies was ruled on 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 continue to be used as collateral.

Trend report • 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.

Farm competition • 67 farms participated in the "Your farm — Your opportunity" online competition, showcasing rural entrepreneurship in the agroforestry industries throughout Sweden.

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

Blockchain technology • Landshypotek Bank actively participates in a partnership to develop blockchain technology as a technical solution for more efficient property transactions. Many partners are involved in this collaboration, including the Swedish Land Registry, Lantmäteriet. The bank is also in the midst of developing Robotic Process Automation (RPA).

System replacement • The replacement of the bank's credit scoring and funding systems was initiated and will be completed in 2017. This change will provide opportunities for new customer solutions, as well as improved follow-up and enhanced control.

Employee commitment • Landshypotek Bank received an award as a Career Company 2017. This is a seal of approval for employers with top quality employer branding work, in other words, the brand from an employer's perspective. Each year, Karriärföretagen presents this award to 100 employers. CEO Liza Nyberg also received an award during the year for her commitment to employer branding.

Member commitment • The members believe in Landshypotek and made a net contribution of MSEK 141 in 2016. Accordingly, the net investment was MSEK 95 in member contributions. The share of equity attributable to member contributions grew to almost SEK 1.6 billion.

A digital mortgage application that stands out

In spring 2017, customers will be able to apply for mortgage loans from Landshypotek Bank, thus presenting the market with a completely new form of digital loan application.

“Our new loan application is a unique digital solution. It will position us at the leading edge of the market,” says Erik Henriksson, Head of Retail at Landshypotek Bank.

Customers will be able to go into www.landshypotek.se and apply directly for loans.

Landshypotek Bank has modernised its entire business support, thereby providing a strong foundation for continuing to develop customer solutions. A few years ago, the bank opened its doors to digital saving, with a completely new saving solution. This has resulted in the bank attracting about SEK 12 billion in savings to date.

Reward for a richer life in the countryside

Landshypotek Bank is the farmers and foresters' own bank, where farming and forestry borrowers are also members of the cooperative association that owns the bank. Each year, the bank's surplus is distributed to the owners and thereby Sweden's farming and forestry sectors. In 2016, the association distributed MSEK 149 to members.

“Our elected representatives and members are highly committed to the industry and our bank. The investment opportunity and dividend are key components of ownership and this commitment. We work in numerous ways to reinforce this commitment,” says Gunnar Lans, Chief Membership Officer and executive officer at Landshypotek Ekonomisk Förening.

In connection with the member dividend, the cooperative association permitted new member investments. The members increased their investment in Landshypotek by approximately MSEK 96 during the year.

Horse power wins in the farm competition

For the second year in succession, Landshypotek Bank showcased the countryside's entrepreneurs in the *Your farm — Your opportunity competition*. 67 farms from north to south entered their business concepts in the 2016 competition. Six of them progressed to the final and the public chose the winning entry — The Horse Farmer from Backfors Gård, which aimed to inspire others to use more horse power in farming and forestry.

“It is exciting to see so many different business concepts growing from the countryside. There is strong motivation to continue developing their businesses,” says Margareta Lindahl, Head of Corporates at Landshypotek Bank and one of three members of the jury.

Important victory for the farming and forestry industries

The legal position for borrowing against EU agricultural subsidies has been extremely unclear. Landshypotek Bank drove a process to clarify the legal position. The Supreme Court ruled in Landshypotek Bank's favour in June.

“It was an extremely important ruling for Sweden's farmers and foresters. Many borrow against EU subsidies to be better able to plan and run their businesses over the year. A different ruling by the Supreme Court would have jeopardised that possibility,” says Catharina Åbjörnsson Lindgren, Chief Legal Officer at Landshypotek Bank.

The bank lends against EU subsidies to farmers and foresters, after these have been decided by the Swedish Board of Agriculture, but prior to disbursement. The legal process pertained to what would apply if an entrepreneur were to become bankrupt prior to the disbursement of the subsidies by the Swedish Board of Agriculture. The uncertain legal position has impacted the use of all loans secured against EU subsidies. In time, continued lack of clarity, could have jeopardised borrowing possibilities with the banks. This time, the Supreme Court ruled in Landshypotek Bank's favour and thereby in favour of farmers and foresters.

A bank for ventures countrywide

Landshypotek Bank AB is a member-owned bank with its main operations financing ownership, living and entrepreneurship based on farming and forestry. The bank has a long history dating back to 1836. The operations mainly consist of lending against collateral in real property. The bank also offers savings accounts to the general public in Sweden and, in 2017, is starting to offer mortgages for homeowners outside the major cities.

The bank is a wholly owned subsidiary of Landshypotek Ekonomisk Förening. The bank's borrowers in farming and forestry become members of the association, unlike mortgage customers and savers. Together, the 41,000 members own the bank. Each member has a vote at the annual regional meetings. The appointed Board members from the respective regions, 43 members, then represent the members at the Association Meeting.

All business and licensable activities are conducted within the bank. The has about 160 employees working from 19 offices nationwide.

The bank's main target groups are:

- Rural entrepreneurs in agriculture and forestry — professional farmers, countryside contractors and forest owners
- People who live on farming and forestry properties but who rely on income from employment
- Savers — everyone who wants competitive terms for savings and who holds the countryside dear to their heart
- Homeowners outside the major cities

The bank has divided its business operations into retail and corporate segments.

Retail market operations are responsible for the offering and customer relationships for consumer loans, savings and other financial services. The business area is run centrally and digitally, with personal contact of digital channels or by telephone.

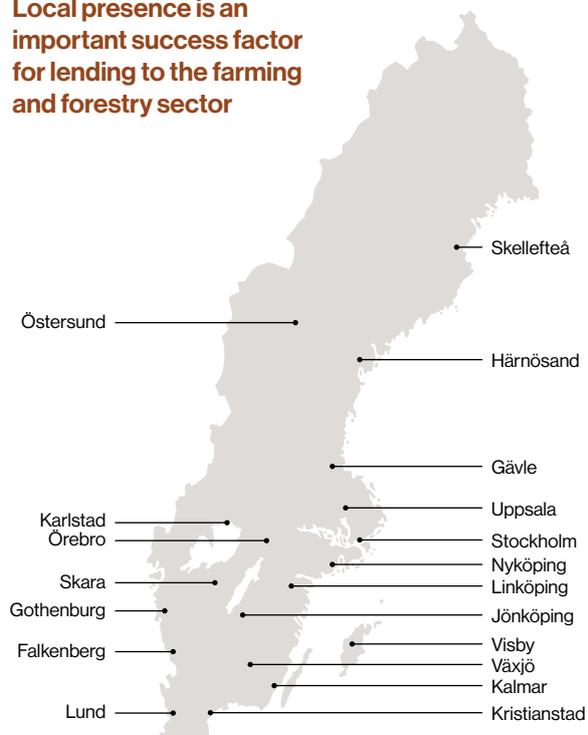
Corporate market operations are responsible for the offering and customer relationships for loans, savings and other financial services to farmers and foresters as well as to farm and forest owners.

Operations are conducted in a decentralised manner through some 70 experts in farm and forest financing organised into eight districts and allocated over 19 offices. Staff all have a good level of local knowledge

and expertise of agricultural and forestry criteria, as well as entrepreneur-driven enterprise. Close relationships with customers is reinforced through member activities and commitment in the regional cooperative association.

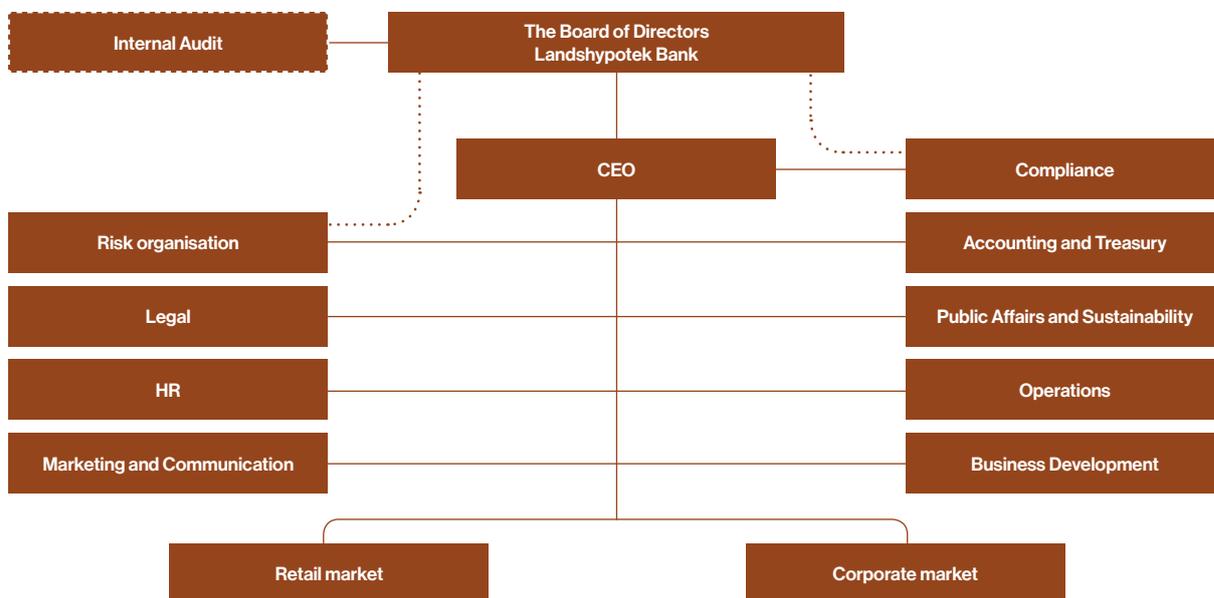
The two business areas have a shared customer service centre in Linköping. This includes savings and loan administration, customer service and mortgage services, and serves both business areas with telephone service, loan disbursements, reviews, and incoming and outgoing payments.

Local presence is an important success factor for lending to the farming and forestry sector



Landshypotek Bank currently has offices throughout Sweden. Having a local presence is highly important in offering the market personal service provided by employees who have intimate knowledge of local conditions.

Organisation



The head office functions are located in Stockholm, Linköping and Lund. These include functions for risk, compliance, legal affairs, accounting, treasury, customer service, HR, marketing and communication, business development and operations as well as public affairs and sustainability.

The vast majority of the bank's operations comprise lending to people against mortgage deeds in real property within 75 percent of an internally assessed loan-to-value (LTV) ratio. A certain amount of lending is also offered to customers with higher LTV ratios and lending against other forms of collateral, such as EU subsidies, as well as to some extent guarantees.

The bank holds a strong position in the Swedish credit market for financing farming and forestry with a market share of 26 percent.

In 2017, the bank will also offer home loans against mortgage deeds in real property within 75 percent of an internally assessed LTV ratio.

In addition to the above credit granting, the bank also collaborates with Sparbanken Syd, DNB, Gjensidige Försäkringsbolag and EuroAccident with the aim of offering its customers a broader range of financial products.

Geographic distribution of lending	Share
Blekinge County	1.4%
Dalarna County	1.4%
Gotland County	4.0%
Gävleborg County	2.4%
Halland County	4.5%
Jämtland County	1.7%
Jönköping County	4.1%
Kalmar County	4.8%
Kronoberg County	2.5%
Norrbottn County	1.0%
Skåne County	15.4%
Stockholm County	4.0%
Södermanland County	4.7%
Uppsala County	3.8%
Värmland County	5.6%
Västerbotten County	1.7%
Västernorrland County	2.1%
Västmanland County	2.0%
Västra Götaland County	14.0%
Örebro County	6.8%
Östergötland County	12.0%



A bank with a difference

Landshypotek Bank is Sweden's ninth largest bank, and is unique in the Swedish banking market with our clear mission for the farming and forestry sectors. We are a small bank with a vital mission. By financing investment in the countryside, together with our customers, we make Sweden grow.

Landshypotek Bank's market strength as a bank with a difference is built on:

- The aim of operations — for a richer life in the countryside
- Competence — close links to farming and forestry
- The strength of the ownership form and member commitment
- Employee commitment
- 180-year-old digital innovator
- Promoting a sustainable countryside
- The security inherent in its longstanding history

For a richer life in the countryside

The bank's main objective is to ensure the availability of financing for farming and forestry operations. This objective is always present in the bank's operations and in the employees' daily work. A key driver for the bank is to promote open landscapes and well-kept forests, and home ownership that leads to continued development of communities. The distribution of the bank's surplus to farmers and foresters comprises another key factor for the value-driven bank that is Landshypotek Bank.

Close to farming and forestry customers

The bank's strength in financing farming and forestry are its close links to the sectors. Account managers at offices around the country often have backgrounds in agriculture and forestry, and banking and financing expertise. They build networks and work closely with business customer relationships. The business organisation is complemented by the regional member organisation of the cooperative association. The Board of each region comprises up to eight elected representatives who represent the members and act as active ambassadors for Landshypotek Bank's brand. They are often themselves active farming and forestry entrepreneurs. These elected representatives perform valuations of agricultural properties on behalf of the bank.

Strength of the member organisation

Since borrowers for farming and forestry also become members of Landshypotek Ekonomisk Förening and thereby owners of the bank, this strengthens ties, commitment and the long-term perspective for the bank's operations. The cooperative association is responsible for relations with the 41,000 member and has overriding control of the bank through the owner directive. The association's annual regional meeting at ten different locations are normally well attended. The association has strongly developed its operations over the last few years to become better as an owner and a member organisation.

Force of employee commitment

Intense, active efforts are being driven at Landshypotek Bank to develop the bank together with its employees. Satisfied employees mean satisfied customers. In 2016, the employees lifted four principles to inspire all work conducted at the bank. As an employee of Landshypotek Bank, you work with:

- A customer-centric approach
- Drive
- Enthusiasm
- Together

During the year, the bank received an award as a Career Company 2017, which means it was one of the 100 employers with the best and highest quality employer branding work in Sweden.

Acts as a 180-year-old innovator

Landshypotek Bank has a long and rich history, but it is also quickly developing to meet customers' needs. The transition rests on the switch to a modern business support platform. Based on this platform, a unique digital solution has been built to allow people to quickly and simply become customers, open accounts and start saving at Landshypotek Bank. Now, a new solution has been developed for applications for mortgage loans by homeowners. The bank is also involved in projects using tomorrow's technology, such as robotic process automation and blockchain technology. Short decision paths and short project times are just a few of the bank's strengths with its future-orientation.

A sustainable bank for all of Sweden

Since its start in 1836, Landshypotek Bank has promoted living and entrepreneurship in the countryside. The majority of the bank's customers operate farming and forestry companies. The bank's sustainability efforts have always focused on customers and their operations. Since the bank is owned by its farming and forestry loan customers, the bank's business model contributes to an economically and socially sustainable society.

A living countryside — fields and forests being cultivated and growing, thereby creating growth and jobs — these are the cornerstones for a well-developed business community and Swedish welfare. The country's sustainable development rests on the conditions for living and working throughout Sweden. Landshypotek Bank enables rural living and investments in rural enterprises, which lays the foundation for a future for the cities and the countryside. In this way, the bank contributes to sustainable societal development — socially, environmentally and economically.

At Landshypotek Bank, sustainability means viewing all aspects of the bank's operations from a long-term and responsible perspective. Therefore, the bank's sustainability efforts permeate operations and affect all of the bank's stakeholders, such as its customers, employees, owners, association members and investors.

Sustainability through responsibility

Landshypotek Bank ensures that operations are driven in a sustainable manner through long-term business relationships, a high level of risk awareness and a solid understanding of the bank's societal role.

Economic responsibility

Landshypotek Bank offers sound, sustainable financing and ensures that high ethical standards are maintained at the bank.

Sound and sustainable lending

Landshypotek Bank strives to offer sound, responsible and thereby sustainable lending. The bank has a responsibility to contribute to customers' financial security, but it also has to be part of the financial system that ensures a long-term, stable economy for society as a whole. The bank strives to achieve simplicity, clarity and transparency in the credit process to enable customers to feel secure with Landshypotek Bank, and to understand the terms being offered, since customers are often facing crucial financial decisions.

Ethical issues and efforts to combat financial crime

Acting ethically and objectively is of great importance in all of the bank's business dealings. Any risk of a conflict of interest must be avoided, and should such a case arise, it must be transferred to another colleague at the bank.

Money laundering and terrorism financing are international problems that comprise serious threats to society. The bank works in a pre-emptive manner to prevent financial crime and, as a financial sector operator, has an obligation to assess and minimise the risk of its operations being used for money laundering or financing terrorism. The bank works actively to minimise this risk through always checking identity, the purpose and the real principal at the customer.

Environmental responsibility

Landshypotek Bank promotes farming and forestry that is sustainable in the long-term. As a bank, we enable this development by financing companies in the farming and forestry sector.

Customers' operations

Many of the solutions to sustainability challenges can be found among companies in the Swedish countryside.

The forest is a key factor in the transition to a fossil-free society. Forest is renewable, it contributes green fuel and provides raw material for a range of products. As a construction material, wood is superior to concrete, steel and other materials in terms of its climate impact. Growing forest and the use of wood has considerable significance for countering climate change and acting as a carbon sink.

Swedish farms produce high-quality food and production follows high standards, from an international perspective, in terms of environmental impact and animal husbandry. Cultivation by Swedish farming and forestry contributes to biodiversity and sound management of the countryside.

A key component of the bank's credit approval process is based on the environmental impact of the customer's



operations. Long-term sustainable production and management means lower risk — for the bank and the customer. Sustainability risks are a key part of the analysis and can seldom be separated from financial risks. Therefore, the bank's employees are trained in sustainability analysis and the bank has clear policies for the analyses, which support accurate assessment of customers' operations and the risks these entail.

The bank's own environmental impact

The bank promotes gradual environmental adjustment of the ongoing operations aimed at minimising the negative environmental impact. Where possible, work travel at the bank should use green forms of transport and, by using digital communication services, the bank can be more resource-efficient and reduce its environmental impact.

Social responsibility

Landshypotek Bank assumes social responsibility by making it possible to live outside of the major cities — now and in the future.

Long-term customer relationships

The bank's customer relationships are longstanding and frequently span several generations. It takes up to a hundred years for a forest to be ready for harvest, which means that what our customers plant today will be harvested by future generations. At some point in their lifetime, our customers implement a generation shift and it is important for the bank to assist and be there for our customers during these events. Through its longstanding relationships the bank can identify the potential, as well as the need, for successful ownership handovers.

Living outside the major cities

Landshypotek Bank has always been the countryside's bank and its customers are mainly located outside the major cities. Even with the new offer of loans to homeowners, the bank is focusing on homes outside the major cities and wants to give everyone in Sweden opportunities to live a richer and more sustainable life.

A bank with a distinguished history — 180 years of service to the countryside

What is it that makes Landshypotek so strong today? One explanation is its close ties with customers and its strong sector presence — today and throughout history. Landshypotek was founded by farmers to develop farming. In 2016, Landshypotek turned 180.

In the 1800s, Sweden was modernising. The proportion of agricultural land increased sharply. New know-how and tools enabled increased production. This was the time in which Landshypotek was born. Because this was when capital was needed for a changing farming practices. Gathering inspiration from Germany — building societies were established across Sweden. The farmers in Skåne were first out and established the Skånska building society in 1836. Over the next two decades, societies were formed across the country. The building societies issued bonds through European banking houses and raised funds to finance the expanding operations on the regions' farms.

In 1861, funding was centralised at one building society — Sveriges Allmänna Hypoteksbank — but the building societies themselves continued. The building societies survived the famine in the late 1860s, the deep international recession in the 1870s and farmers under economic stress from cereal imports in the 1880s. The societies made a clear difference.

In the post-war years, the state issued guarantees to speed up rationalization of farms. At the same time, noticeable limitations applied to the societies' lending. As a consequence, the waiting line to obtain a building society loan grew.

In the 1980s, the financial markets were deregulated. Access to credit increased and lending to farming and forestry grew substantially.

The changes to the financial markets also resulted in changes to the building society. In 1994, the government decided that building societies should conduct their operations as companies — Landshypotek AB. The company was owned by a newly created cooperative association formed from the ten regional building societies.

Accordingly, 1995 marked the founding of Landshypotek AB and one cooperative association, Landshypotek Ekonomisk Förening, by the ten Landshypotek associations. This was how Landshypotek gained its cooperative organisational form, with ownership in the association and operations in the bank, the same formula applies today. Every year, part of the year's profit is paid back to the members. For the past few years, this has been in the form of a distribution based on earnings and customers' member contributions.

In 2013, Landshypotek became a bank and as a credit institution opened its doors to all savers. Deposits and lending meant banking operations were in practice and a banking licence was required. The name Landshypotek Bank AB was registered after Finansinspektionen had granted a banking licence in autumn 2012.

In 2014, a digital savings bank was opened for the general public in Sweden. In 2017, the bank is on the verge of offering mortgage loans to homeowners outside the major cities.

A few historical milestones

1836

The country's first building society was started in Skåne. Its aim was to provide farmers with loans secured by mortgages in agricultural properties. Thereafter, building societies were started for Östgöta in 1845, Småland and other provinces in 1846, the Mälars provinces in 1847, Örebro County in 1849, Värmland County in 1850 and Älvsborg and other counties in 1850, before Norrland, Gotland and Gävle-Dalarna in 1861.

1861

Sveriges Allmänna Hypoteksbank was founded to facilitate borrowing by the country's building societies.

1961

Credit market regulations were eased and Sveriges Allmänna Hypoteksbank was able to issue bonds.

1986

The bond markets were deregulated and bonds with shorter tenors were introduced. Deregulation also entailed increased competition.

1995

The ten rural building societies merged into a single cooperative association and Landshypotek AB was formed. Every year, part of the year's profit is paid back to the members.

2013

Landshypotek became a bank and the name Landshypotek Bank AB (publ) was registered. Finansinspektionen granted a banking licence in autumn 2012.

2014

The new Landshypotek Bank presented itself with a new logotyp. The bank opened a digital savings bank for the general public in Sweden.

2017

Landshypotek Bank presented the news that it would offer mortgage loans to homeowners outside of the major cities.

A bank in an expanding world

In many people's opinion, the economic and political playing field changed during the year. However, 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 long-term interest rates.

The Federal Reserve raise the interest rate by 25 basis points at its December meetings 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, profitability was maintained 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 small-scale 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 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 trends in beef, pigmeat and poultry were 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 is 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 essentially remained still in 2016.

Price and profitability fluctuations are sudden, 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.



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Administration Report

Landshypotek Bank continues to develop and adapt to meet more diversified Swedish agriculture and a digitalised operating environment. Despite the low interest-rate scenario, the bank reported historically strong earnings for 2016.

Structural change and digitalisation

Structural change in Swedish agriculture continues and, during the year, Landshypotek Bank took the step of organising its operations into corporate and retail markets to meet this change. The change is being driven primarily by rapid advancements in technology, but also by market changes, agricultural policy and societal values. The clear trend is that Swedish farms are becoming larger and fewer. Farms are increasingly specialising in one production area with complementary revenue from tourism and farm shops.

Digitalisation continues to make its mark on the industry and the banking market. During the year, Landshypotek Bank started a partnership initiative to develop block-chain technology to provide a technical solution for more efficient and secure property transactions. To create the prerequisites for new digital, customer solutions, Landshypotek Bank, as the first bank in Sweden, invested in the latest data platform technology from SAP in 2016. During the year, the bank also started the replacement of the credit scoring and funding systems, which will be completed in 2017. The system changes will also deliver stricter controls and governance, thus resulting in a stronger and more sustainable bank.

Stronger bank

In 2016, the 41,000 borrowers and, accordingly, members of Landshypotek Ekonomisk Förening invested a further MSEK 141 in the operations and equity, which is comprised of member contributions, grew to around SEK 1.6 billion. The bank also raised new capital from investors through a dated subordinated loan, known as Tier 2 capital, of SEK 1.2 billion.

The structural change in agriculture has also led to Landshypotek Bank taking the decision to change its customer classifications. The change will impact the bank's regulatory capital requirement. In the autumn, Landshypotek Bank submitted an application to Finansinspektionen for a new foundation IRB approach for corporates.

Landshypotek Bank uses the capital market as its primary source of funding but deposits have taken an increasingly significant role. The savings offering has attracted many new customers to the bank and deposits grew to SEK 11.7 billion in 2016.

Local presence and commitment

The bank has offices in 19 locations across Sweden to promote close ties with customers and members. The bank views local knowledge and expertise in farming and forestry as key success factors for creating long-term relationships with the bank's customers. In 2016, Landshypotek Bank strengthened its offering and service levels to customers with smaller agricultural units and people living in the countryside.

The members of Landshypotek Ekonomisk Förening's regional boards of directors are tasked with appraising customers' properties. These appraisers are themselves owners of agricultural properties and have good local knowledge and documented industry expertise. To further strengthen quality, in 2016 a new certification was introduced for property appraisers.

During the year, the bank participated in and drove the process for borrowing against EU subsidies. In June, the Supreme Court ruled in the bank's favour, which means that in the event of insolvency proceedings, the collateral in the form of EU subsidies accrues to the bank, which is an important ruling for the farming and forestry industries.

Financial report 2016

The bank's operating profit in 2016 amounted to MSEK 353.4, up MSEK 22.8 year-on-year (MSEK 330.6). The increase in earnings was primarily attributable to an increase in the net result of financial transactions of MSEK 18.4 and an MSEK 31.1 decrease in loan losses. At the same time, 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 and volumes

Net interest income in 2016 amounted to MSEK 727.2, a year-on-year decrease of MSEK 16.2 or 2.0 percent (MSEK 743.4). The difference was largely due to the return on equity invested in lending declining as a result of lower market interest rates and the bank issuing a subordinated loan in spring 2016 to strengthen own funds.

Interest income amounted to MSEK 1,356.5 (1,560.9), down MSEK 204.4 year-on-year. Lending in 2016 increased SEK 2.0 billion. Interest income from lending declined on the back of falling market interest rates.

The return on the liquidity portfolio decreased to MSEK 89.6 (149.2) due to lower market interest rates and the bank reducing the volume in the portfolio.

Income from interest compensation decreased as a consequence of fewer loan renegotiations.

Interest expense amounted to MSEK 629.3 (817.5), down MSEK 188.2 compared with 2015. The lower interest expense was attributable to market rates that continued to decline in 2016. Interest expense fell slightly less than interest income, partly due to the bank issuing a subordinated loan and partly due 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.

Profit and profitability

Group key ratios, MSEK	2016	2015
Net interest income ¹⁾	727.2	743.4
Interest margin, % ²⁾	1.1	1.2
Other operating income	45.3	20.3
Costs	404.3	387.2
C/I ratio including financial transactions ³⁾	0.52	0.51
C/I ratio excluding financial transactions ⁴⁾	0.54	0.51
Loan losses	14.8	45.9
Loan loss level, % ⁵⁾	0.02	0.07
Operating profit	353.4	330.6
Operating profit excluding the net result of financial transactions	327.3	322.8

¹⁾ Deposit insurance fees and fees to the resolution fund have been reclassified from Net commission income to Net interest income.

The comparative figures for 2015 have been restated.

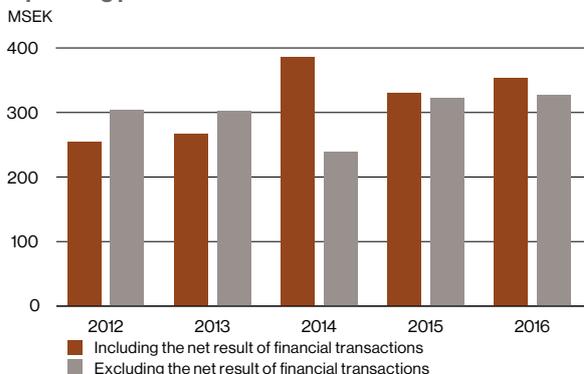
²⁾ Net interest income in relation to average lending during the period.

³⁾ Costs in relation to income including the net result of financial transactions.

⁴⁾ Costs in relation to income excluding the net result of financial transactions.

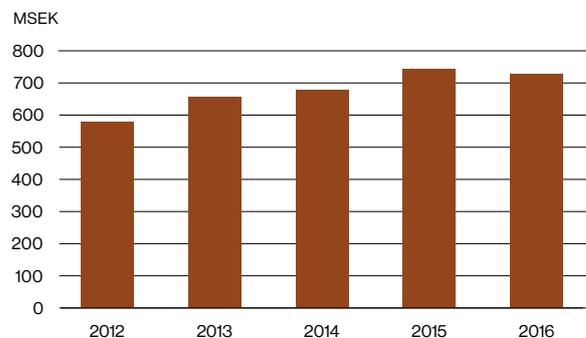
⁵⁾ Net loan losses in relation to average lending during the period.

Operating profit



Operating profit for 2016 totalled MSEK 353.4. Operating profit excluding the net result of financial transactions was MSEK 327.3.

Net interest income



Net interest income for 2016 amounted to MSEK 727.2. Total 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 the equity invested in lending operations.

Other operating income

Other operating income totalled a reversal of MSEK 45.3 (20.3). Other operating income includes the net result of financial transactions, net commission income and income from property. The year-on-year improvement was mainly attributable to a higher net result of financial transactions of MSEK 26.2 (7.8). 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. Of this amount, MSEK 26.2 comprised an unrealised gain of MSEK 35.3 and a realised loss of MSEK 9.1. In addition, this item includes the result from the revaluation of financial instruments.

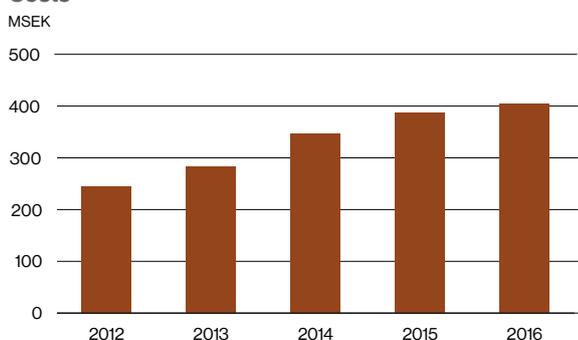
The realised result comprises the redemption of bonds issued and the premature closure of derivatives. Early redemption of own bonds is carried out to extend the duration of Landshypotek Bank's liabilities, whereby bonds with a short remaining time to maturity are redeemed and replaced by bonds with a considerably longer maturity. The early redemption strengthens Landshypotek Bank's balance sheet.

To gain an understanding of the total effect of market valuations, the revaluations recognised directly in equity via other comprehensive income must also be taken into account. Remeasurements of financial instruments in equity amounted to a gain of MSEK 73.9 (loss: 16.7) in 2016.

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.

Costs



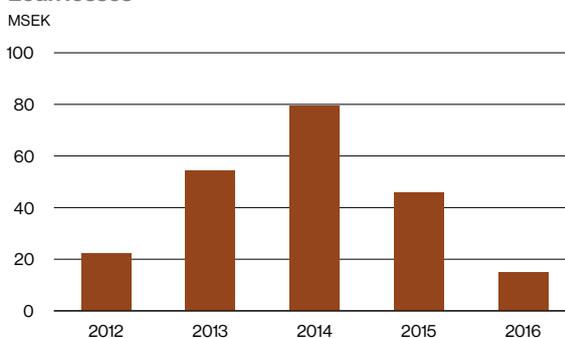
Costs for 2016 amounted to MSEK 404.3, an increase of MSEK 17.1 or approximately 4.5 percent year-on-year. The increase was mainly attributable to the development of new systems and products.

Loan losses and doubtful credits

Net recognised loan losses amounted to MSEK 14.8 (45.9), corresponding to 0.02 percent (0.07) of Landshypotek Bank's total loans outstanding. Confirmed loan losses were somewhat lower year-on-year as was the provision for probable loan losses. In 2016, the inflow of insolvency cases declined. During the year a collective provision of MSEK 4.7 (0.0) was made, which was attributable to wind power commitments. Issues pertaining to the electricity price, electricity certificates, residual values and the secondhand market, which were not possible to identify at an individual level, led to the collective provision.

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

Loan losses



At 31 December 2016, loan losses totalled MSEK 14.8, which corresponded to 0.02 percent of lending.

Financial structure

Consolidated Balance Sheet

Assets, MSEK	2016
Loans to credit institutions	592
Loans to the public	66,518
Bonds and other interest-bearing securities	12,615
Derivatives	1,841
Non-current assets	86
Prepaid expenses, etc.	529
Total assets	82,181

Liabilities, MSEK	2016
Liabilities to credit institutions	1,002
Borrowing/deposits from the public	11,731
Debt securities in issue	61,572
Derivatives	731
Other liabilities	2,421
Equity	4,723
Total liabilities	82,181

Assets

The largest asset item in the balance sheet was Loans to the public, which amounted to MSEK 66,518 (64,501). More information about Landshypotek Bank's loans to the public can be found in Note 2 Risks and Note 3 Capital. At the end of 2016, Landshypotek Bank's holding of interest-bearing securities amounted to MSEK 12,615 (13,252). The portfolio comprises Swedish covered bonds with the highest credit rating and bonds issued by Swedish municipalities. The holding of interest-bearing securities functions as a liquidity reserve.

Landshypotek Bank uses derivatives for the purpose of managing the difference in terms of fixed interest and currency risks between assets and liabilities. At the end of 2016, the Group's holding of derivatives contracts with positive market values amounted to MSEK 1,841 (1,875). This corresponded to a nominal value of MSEK 24,438 (22,776). Additional detail about derivative contracts can be found in Note 16.

Liabilities

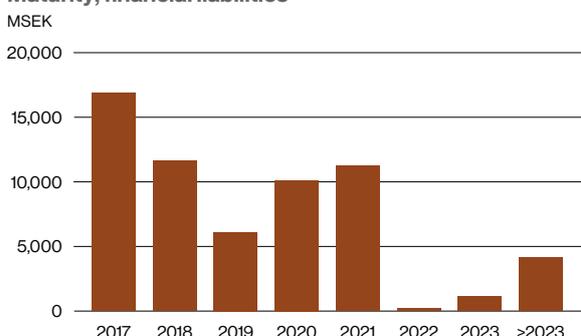
Borrowing

Landshypotek Bank aims to maintain a low risk profile and borrow funds on the best possible terms. Landshypotek Bank utilises several borrowing programmes, both domestic and international. This allows the bank to meet most investors' needs for investments in interest-bearing securities.

In 2016, covered bonds were issued in an amount of approximately SEK 10.4 billion. In addition, senior bonds were issued to a value of SEK 2.0 billion and subordinated loans to a value of SEK 1.2 billion. Bonds have matured or been repurchased to a value of approximately SEK 17.4 billion, of which about SEK 14.6 billion pertained to covered bonds. In general, the financial market for Nordic banks functioned smoothly in 2016. Landshypotek Bank has been very successful in its funding activities and demand for the bank's bonds has been favourable.

Covered bonds are bonds that carry a preferential right in a defined cover pool. At 31 December 2016, Landshypotek Bank had covered bonds in issue at a value of SEK 51.7 billion. Assets in the cover pool corresponding to SEK 67.1 billion are in place as collateral for these bonds.

Maturity, financial liabilities



Cover pool and covered bonds

Cover pool

Loans	SEK 61.9 billion
Supplemental collateral	SEK 5.2 billion
of which Swedish covered bonds	SEK 2.7 billion
of which Swedish municipalities	SEK 2.5 billion
Total cover pool	SEK 67.1 billion

Covered bonds

Issued in SEK	SEK 44.1 billion
Issued in foreign currency	SEK 7.6 billion
Total covered bonds	SEK 51.7 billion
Excess collateral	29.7% SEK 15.4 billion

Key ratios, cover pool

LTV — Loan-to-value ratio

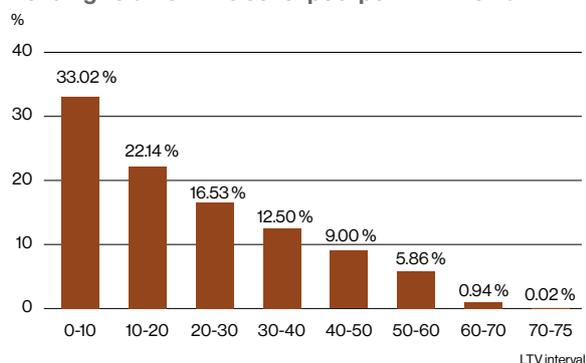
Average volume-weighted LTV	41.8%
Number of pledged properties	31,412
Number of borrowers	40,068
Number of loans	102,180

Landshypotek Bank has two programmes for issuing covered bonds, a Swedish MTN programme with a limit of SEK 60.0 billion and an international EMTN programme with a limit corresponding to SEK 33.5 billion. Covered bonds are Landshypotek Bank's most important source of funding and in 2016, covered bonds were issued in an amount of SEK 10.4 billion. Landshypotek Bank's covered bonds have an AAA credit rating from the rating agency Standard & Poor's.

The cover pool comprises loans with Swedish agricultural and forest properties as collateral, and supplemental collateral. The supplemental collateral comprises covered bonds issued by other credit institutions, and bonds issued by Swedish municipalities.

Landshypotek Bank has an LTV of 41.8 percent. The LTV or loan-to-value ratio shows loan amounts in relation to the value of the collateral. Accordingly, an LTV of 41.8 percent entails that Landshypotek Bank's customers' loans amount to an average value of 41.8 percent of the value of their farms. Landshypotek Bank has around 41,000 borrowers and 31,412 pledged properties. The difference is attributable to, in many cases, there being more a number of people jointly pledging their shared property. The number of loans amounts to 102,180. This means that many customers have more than one loan.

Lending volume in the cover pool per LTV interval



Of Landshypotek Bank's lending, 56 percent takes place against collateral where the loan amount is less than 20 percent of the value of the collateral. Only 1 percent of lending is against collateral where the loan amount is 70 percent of the value of the collateral.

At 31 December 2016, the Group's holdings of derivative contracts with a negative market value totalled MSEK 730 (1,059). This corresponded to a nominal value of MSEK 26,872 (31,264). Additional detail about derivative contracts can be found in Note 26.

Short-term borrowing in the form of commercial paper was MSEK 2,881 (2,271). Commercial paper is used as bridging finance when issued bonds mature.

Deposits

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

Sparkonto Trygghet accounted for the largest part of that increase.

Rating

Landshypotek Bank has credit ratings from two different rating agencies, Standard & Poor's and Fitch.

During the year, 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

The total capital ratio amounted to 39.9 percent at 31 December 2016. Own funds amounted to MSEK 6,580 and the capital requirement was MSEK 1,295.



During the year, own funds were strengthened by measures including a new subordinated loan of SEK 1.2 billion and through contributed capital of MSEK 96K. The size of contributed capital is affected by the dividends received by members, which is enabled through Group contributions from Landshypotek Bank.

Of the dividend of MSEK 149, MSEK 33 was added through member contributions. The remainder of the year's increase was mainly due to the members choosing to invest in Landshypotek.

Group contributions

A Group contribution will be paid by Landshypotek Bank AB, contingent upon the approval of the General Meeting, in the amount of MSEK 176 (165) to Landshypotek Ekonomisk Förening

Proposed appropriation of profits

Retained earnings	1,321,708,797
Group contributions	-175,600,000
Tax effect of Group contribution	38,632,000
Total	1,184,740,797
Net profit for 2016	271,646,957
At the disposal of the Annual General Meeting	1,456,387,754

Conditional on the approval of the Annual General Meeting, a Group contribution has been paid in the

amount of SEK 175,600,000, which has reduced unrestricted equity as of the balance sheet date by SEK 136,968,000 after taking the tax effect into account. The proposed transfer of value in the form of a Group contribution reduces the company's capital quotient to 1.45, calculated in accordance with Finansinspektionen's transitional rules. Unrealised changes in the value of assets and liabilities measured at fair value had a net negative impact on equity of MSEK 145.8.

The Board of Directors is of the opinion that the proposed dividend, in the form of a Group contribution, does not compromise the company's or the Group's ability to discharge its obligations in the short and long term, nor to make any necessary investments.

The proposed transfer of value can therefore be justified considering that stated in Chapter 17, Section 3, paragraphs 2–3 of the Swedish Companies Act. The Board of Directors proposes that the year's funds at the disposal of the Annual General Meeting, SEK 1,456,387,754, be carried forward.

The Board of Directors and the CEO hereby certify 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 annual accounts have been prepared in accordance with generally accepted accounting principles and provide a fair representation of the Parent Company's position and performance.



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Corporate Governance Report

Corporate governance is a key support in Landshypotek Bank's efforts to create value for its stakeholders and for the Board with its effective governance and control of operations.

Foundation for corporate governance at Landshypotek Bank

Landshypotek Bank strives to implement corporate governance that is marked by its focus on structure, processes, and efficient governance and control, and which comprises a value-steered employee culture that reinforces own responsibility and commitment. During the year, the bank has implemented targeted efforts to improve both of these areas. The bank has high ambitions in terms of good corporate governance, risk management and internal control.

Governance is conducted pursuant to external rules for corporate governance that include, inter alia, the Swedish Companies Act, the Swedish Annual Accounts Act and the Swedish Corporate Governance Code (applicable parts thereof). The fundamental internal framework for corporate governance comprises, inter alia, the Articles of Association, the owner directive, formal work plans for the Board and its committees, the CEO's instruction, report plans and policies.

Policies, guidelines and instructions that clarify the delegation of responsibility and working methods at the bank comprise key tools for the Board and CEO in their governance and control roles.

Deviations from the Swedish Corporate Governance Code

Given the ownership structure with just one shareholder and the fact that the bank is not a listed company, certain parts of the Code are not appropriate for Landshypotek Bank. The following deviations from the Code are made in this corporate governance report:

General Meeting

Code rule 1.1

There is no publication on the website of information pertaining to general meetings of shareholders and shareholders' right to propose business at the general meetings. The aim of this rule is to provide shareholders with the opportunity to prepare themselves in a timely fashion ahead of the Annual General Meeting and to have business taken up in the notification thereof as well as enable shareholders to partake of the information. A deviation is made as the bank has only one shareholder.

Election and remuneration of the Board and auditor

Code rules 2.3–2.6

Instead of following the Code's rules governing Board appointments, nomination issues are prepared pursuant to an instruction for the Election Committee adopted by the General Meeting. The aim of these rules is to provide all shareholders with, among other things, insight into the nomination process and to prevent major shareholders gaining undue influence over nominations. A deviation is made as the bank has only one shareholder.

Board procedures

Code rule 7.3

This rule means that the Board must ensure that the company's financial reporting meets other requirements of listed companies. A deviation is made as the bank is not a listed company.

Owners' control

Landshypotek Bank is a wholly owned subsidiary of Landshypotek Ekonomisk Förening. The bank is domiciled in Stockholm. The owners' control of the bank is exercised directly and indirectly through the delegation of responsibility contained in the internal and external rules. In the first instance, through the owners' resolutions at the General Meeting, secondly, through the Board appointed by the General Meeting and thirdly through the CEO appointed by the Board.

Articles of Association

The Articles of Association is the fundamental document that defines the framework for the Bank's activities. The Articles of Association contain provisions on the minimum and maximum number of Board members and that Board members and the Chairman of the Board be appointed by the General Meeting. Moreover, no provisions exist governing the appointment or removal of Board members. Any amendment of the Articles of Association requires notification to be issued at the earliest six weeks and at the latest four weeks before the General Meeting that will examine the proposed amendment. Landshypotek Bank has only one shareholder and no limitations apply to the number of votes the shareholder may cast at the General Meeting.

Annual General Meeting 2016

The Annual General Meeting of Landshypotek Bank was held on 20 April 2016. Henrik Toll, Chairman of the bank was the Annual General Meeting's Chairman. The owner was represented by Lars Öhman, Chairman of Landshypotek Ekonomisk Förening. The AGM was attended by the majority of the bank's and the association's Board members, the CEO, auditors and members of the Election Committee. The General Meeting elected the Board, Election Committee and auditors for the period until the next AGM. The General Meeting re-elected the following Board members: Anna-Karin Celsing, Hans Heuman, Nils-Fredrik Nyblæus, Henrik Toll, Johan Trolle-Löwen, Synnöve Trygg and Charlotte Önnestedt. At the AGM, Hans Broberg, with Petra Nilsson as deputy and Helena Andersson, with Ingrid Nordqvist as deputy, as the employee representatives. Henrik Toll was re-elected Chairman of the Board. Furthermore, the authorised auditing firm Öhrlings PricewaterhouseCoopers AB (PwC) was elected as auditors. Authorised Public Accountant Ulf Westerberg was elected Auditor in Charge. The AGM resolved to discharge the Board of Directors and the CEO from liability. Furthermore, resolutions were passed on fees, appropriation of profits and adoption of the annual accounts for 2015. The CEO and Board of Directors presented the work performed in the company and on the company's Board during the year. The Election Committee presented its work during the year and its assessment of the eligibility of Board members on an individual basis as well as collectively. The General Meeting did not authorise the Board of Directors to issue new shares or buy back the company's shares.

Election committee

The Election Committee is tasked with preparing election and remuneration issues ahead of the next AGM. The Election Committee follows the instruction established for the Committee and the adopted policy regarding Board diversity and for assessing the eligibility of Board members. The 2016 AGM resolved that the Election Committee should remain unchanged and comprise: Lars Öhman, Pär Sahlin, Kjell Hedman and Richard Montgomery. Lars Öhman and Pär Sahlin represent the owner in their respective capacities as Chairman and Vice Chairman of Landshypotek Ekonomisk Förening, while Richard Montgomery and Kjell Hedman contribute with their respective previous experience as a Board member and CEO of Landshypotek Bank.

External auditors

The AGM appoints external auditors to Landshypotek Bank. These auditors must be authorised public accountants. The mandate period of the auditors appointed by the General Meeting is one year. The auditors are responsible for examining the Annual Report, consolidated financial statements and accounts and also the Board's and CEO's administration of the bank. The auditors report the results of their examination in the audit report, which is submitted at the AGM. Furthermore, the auditors examine one of the bank's interim reports and the year-end report, and submit their findings in their notes to the Audit Committee and the Board. To ensure the independence of the external auditor with regard to the audit of the Bank and the Bank's financial statements, the Board has established a policy governing the independence of the external auditor. Fees to the bank's auditors are reported in Note 8.

Owner directive

Landshypotek Ekonomisk Förening's Board has adopted an owner directive. The aim of the owner directive is to clarify the owner's requirements of the bank and the targets that the bank is expected to achieve. The owner directive sets out a number of overarching principles regarding the bank's independence. Moreover, target metrics are stipulated for market share, profitability and risk appetite, which are followed up by the Association's Board.

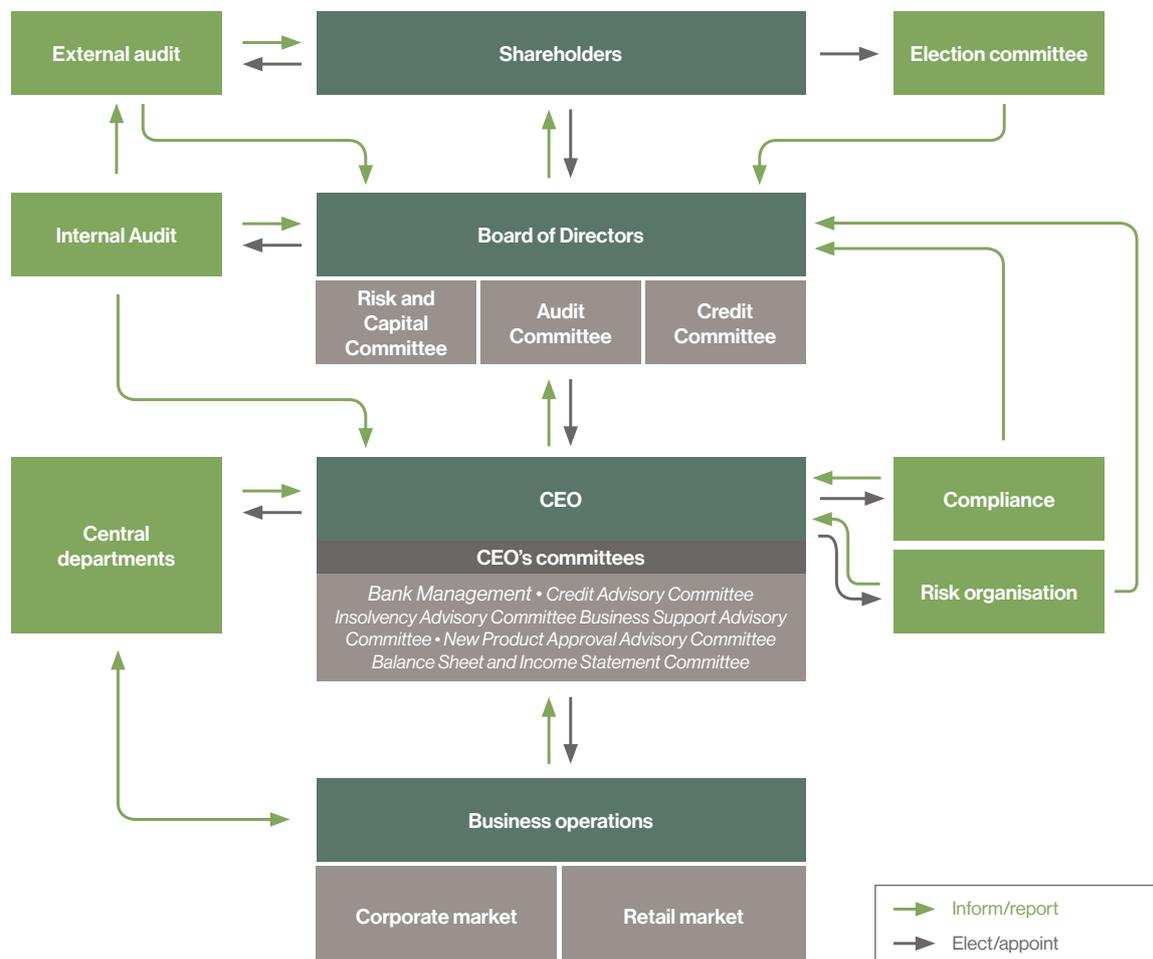
The Board of Directors

The Board's members are elected by the General Meeting from proposals made by the bank's Election Committee. The Board is responsible for the organisation and administration of the bank affairs.

The Board's composition and eligibility

According to the Articles of Association, the Board comprises a minimum of four and a maximum of eight members who are elected each year at the AGM until the AGM the following year. The bank performs an eligibility assessment in parallel with the appointment of Board members, on re-election of Board members and when needed. The eligibility assessment of Board members is performed by the Election Committee in accordance with the bank's eligibility assessment policy and Board diversity policy. The eligibility assessment takes in to consideration the individual's expertise, experience, reputation and other criteria, such as potential conflicts of interest and the member's ability

Corporate governance



to dedicate sufficient time to the assignment. Among other items, the Board diversity policy states that the background of Board members as well as the Board's gender balance and ages should be considered to obtain sufficient diversity on the Board. More detailed descriptions of the eligibility assessment and the diversity policy are published on the bank's website.

The Board comprises nine individuals, of which seven were elected at the AGM and two employee representatives — four women and five men. Six of the Board members are independent in relation to the company and the management of the company. One member is also a Board member of the cooperative association. All of the Board members have extensive experience from trade and industry and/or agriculture and forestry. The composition of the Board ensures that the Board understands the overall picture of the bank's operations and the associated risks. The composition of the Board is set out on pages 36 and 37. None of the Board

members or the CEO hold shares or financial instruments issued by the bank. Through their or their related parties' membership of Landshypotek Ekonomisk Förening, four of the Board members have member contributions in the cooperative association.

The Board's responsibilities and its procedures

The Board is responsible for the organisation and administration of the bank affairs. Among other tasks, the Board should also decide issues regarding the bank's overriding goals and strategies, its risk appetite and risk strategy, the internal capital and liquidity adequacy assessment processes (ICAAP and ILAAP), and decide other matters of greater strategic and financial significance. The Board also decides over the bank's business plan and budget, and follows up the bank's performance in relation to these on an ongoing basis. The Board is also tasked with ensuring that internal rules are in place for effective governance and control

of the bank, and that a framework for risk management exists that ensures the bank's management and follow up of risks is satisfactory. The Board is also to perform regular evaluations of whether the bank controls and manages its risks in an efficient and appropriate manner, and ensure the bank complies with the rules applicable for licensable operations. The Board also appoints, evaluates and, if the need arises, dismisses the CEO.

The Chairman of the Board is appointed by the Annual General Meeting. The Chairman leads the Board's work and ensures that the work is performed efficiently and that the Board fulfils its duties. Among other duties, the Chairman is tasked with accepting directives from the association, ensuring that the Board members are provided with satisfactory information and decision data for their work by the CEO on an ongoing basis and that Board members receiving the required training to conduct Board work efficiently and check that the Board's decisions are applied efficiently.

The Board's work follows the formal work plan and annual plan adopted at the statutory Board meeting. In 2016, the Board had 12 scheduled Board meetings.

The Board has established three committees to increase the efficiency of the Board's work. The committees prepare issues for decision by the Board and have also received specific decision mandates in certain issues. All of the committees have a formal work plan that sets out the tasks and the Board's delegated decision mandates as well as how the committee should report to the Board.

The Board's Credit Committee

The Credit Committee's primary task is to make decisions regarding loans and problem commitments pursuant to the established credit policy and to decide the members of the Credit Advisory Committee/Insolvency Committee. In addition, the Committee is tasked with preparing amendments to and/or annual confirmation

of items including credit policy and decision mandates for granting credit prior to the Board's decision. Furthermore, the Committee prepares items regarding the evaluation of portfolio strategies, the transparency of the credit portfolio, the review of valuation and decision models as well as the evaluation of existing or new delegation rights.

Following the statutory meeting in 2016, the members of the Credit Committee were as follows: Henrik Toll (Chairman) and Nils-Fredrik Nyblæus. Johan Trolle-Löwen and Charlotte Önnestedt were appointed deputies. Credit analysts, the Insolvency Manager or another specially appointed executive presents agenda items. The Credit Committee takes weekly credit decisions and, in addition, held four meetings in 2016.

The Board's Risk and Capital Committee

The principal task of the Risk and Capital Committee is to prepare items for the Board and, through liaison with internal functions to provide the Board with information about and prepare internal rules, and to monitor, analyse and prioritise risk and capital-related issues.

Following the statutory meeting in 2016, the members of the Committee were as follows: Henrik Toll (Chairman), Anna-Karin Celsing, Hans Heuman and Synnöve Trygg. The Chief Risk Officer or another specially appointed executive presents agenda items. The Committee held nine meetings in 2016.

The Board's Audit Committee

The Committee's primary tasks are to be responsible for preparing the Board's work with quality assurance of the financial reporting and to receive the reports from the auditors. In addition, the Committee monitors and reviews the work of internal and external auditors. The Committee meets in conjunction with external financial reports and, otherwise, whenever necessary.

Following the statutory meeting in 2016, the members

Board attendance

Board member	Board meetings	Credit Committee	Risk and Capital Committee	Audit Committee
Henrik Toll	12/12	4/4	9/9	
Anna-Karin Celsing ¹⁾	9/12		8/9	4/7
Hans Heuman	12/12		9/9	
Johan Trolle-Löwen	12/12			6/7
Nils-Fredrik Nyblæus	12/12	4/4		7/7
Synnöve Trygg ²⁾	9/12		3/9	3/7
Charlotte Önnestedt	12/12			7/7
Helena Andersson	12/12			
Hans Broberg	10/12			

¹⁾ This Board member joined the Audit Committee in April 2016.

²⁾ This Board member joined the Risk and Capital Committee and stepped down from the Audit Committee in April 2016.

of the Committee were as follows: Anna-Karin Celsing (Chairman), Nils-Fredrik Nyblaeus, Johan Trolle-Löwen and Charlotte Önnestedt. The Committee held seven meetings in 2016.

Evaluation of the Board of Directors

Each year, the work of the Board and its respective committees is evaluated using a systematic and structured process. The evaluation's findings are presented to the full Board and the Election Committee. In conjunction with the Board evaluation, the Board's competence and training needs are reviewed and, based on this review, an annual training plan is prepared for the Board.

Internal control and risk management

The Board is also responsible for ensuring that internal rules are in place for effective governance and control of the bank, and that an appropriate framework for risk management exists that is regularly followed up and evaluated.

The basis for the internal governance and control at Landshypotek Bank consists of the bank's control environment in the form of the organisational structure, decision and reporting pathways, authorities and responsibility. The framework for conducting operations is established through internal policies, guidelines and instructions. Day-to-day operations are tasked with complying with these. The business operations are also responsible for their own risk management and for conducting self-evaluations of their operations. The bank strives to ensure that all operations apply a sound risk culture.

To ensure appropriate risk management — to identify, analyse, rectify, monitor and report risk — and internal control, responsibility is divided between various functions based on the three lines of defence principle. The model differentiates between functions responsible for risk and regulatory compliance (first line of defence), functions for monitoring and control (second line of defence) and functions for independent review (third line of defence).

The first line of defence — business operations

A core principle is that the line organisation forms the first line of defence with responsibility for internal control and risk management. Responsibility for self-assessment is thus located where risk originates. This means that each employee is responsible for managing the risks in their own areas of responsibility. Therefore, internal control and risk management includes all employees.

The second line of defence — independent control functions

The risk organisation and compliance are independent control functions and comprise the second line of defence. These functions monitor the business areas' risk management and regulatory compliance. The second line of defence maintains policies and frameworks for the first line of defence's risk management and validates the first line's methods and models for risk measurement and control.

Risk organisation

The risk organisation is responsible for structured and systematic measurement, control, analysis and continuous reporting on all material risks in the bank. The risk organisation is also tasked with, inter alia, the regular performance of relevant stress tests of material risks for the bank and for performing in-depth risk analyses in one or more risk areas where higher risks may exist. The work is conducted pursuant to a policy decided by the Board that describes its responsibilities and an annual plan. The risk organisation is independent from operations and the Chief Risk Officer is directly subordinate to the CEO and the Board.

Compliance

Compliance is tasked with advising and supporting the CEO and employees with ensuring that the bank's operations are conducted pursuant to the regulatory frameworks that govern licensable activities and to identify and report compliance risks. The work is conducted pursuant to a policy decided by the Board that describes its responsibilities and an annual plan. The Compliance unit is independent from business operations and the Chief Compliance Officer reports directly to the CEO and Board.

Third line of defence — internal audit

The third line of defence, internal audit, evaluates the bank's overall management of risk and regulatory compliance, and reviews the work of the first and second lines of defence.

Internal Audit aims to examine and evaluate internal governance and controls as well as provide an image of how well processes and procedures contribute to the operational goals. This includes, not least, the evaluation of the effectiveness of the risk management efforts and the work of the control function. The internal audit review initiatives are conducted pursuant to a policy decided by the Board that describes its responsibilities and an annual plan. Since 2016, the bank's internal audit has been carried out by Deloitte AB.

Internal control over financial reporting

The bank's financial department is responsible for managing internal control over financial reporting to

ensure that accurate information reaches external stakeholders. This includes work, such as, ongoing financial accounting, the annual accounts, external reporting and income tax returns. Furthermore, the Accounts Department makes a proactive contribution to decision making and corporate governance through financial follow-ups, forecasts and impact analyses. The Board receives monthly financial reports in addition to the reporting submitted at each Board meeting. In addition, the Finance Department's Middle Office has a role in the internal control of financial reporting due to its responsibility for administrating the financial system and measuring financial instruments. Middle Office is tasked with continuously evaluating the bank's valuation methods and ensuring that they comply with established market practices, internal guidelines, internal policy documents and external regulations for reporting and capital adequacy. Furthermore, Internal Audit is tasked with examining and evaluating the reliability of the financial reporting.

The Board's measures to follow up on internal control of financial reporting are executed through the Board's follow-up of the bank's finances and performance. This is carried out through monthly financial reports and reports at each Board meeting. Moreover, the Board and Audit Committee review and follow-up on the auditor's review reports.

Remuneration system

The Board has set out the principles for the remuneration system that encompasses all employees at the bank in the remuneration policy. The remuneration policy is aimed at ensuring that the bank has a remuneration system that counters any incentive to accept unsound risks or act with a short-term perspective. The remuneration system should apply market terms, be non-discriminatory and reward good performance as well as ensure that the employees' efforts align with the bank's strategies and policies. Special weighting should be given toward a sound level of risk.

The base employee remuneration model consists of a fixed basic salary. The bank has no variable remuneration program. The bank does have a profit-sharing foundation to which the bank allocates part of its profits to benefit its employees. Profit sharing is based on long-term company-wide targets in accordance with the guidelines established by the Board. Variable remuneration in the form of a bonus can, in individual cases, be paid in arrears to reward exceptional performances. The bank is restrictive with benefits over and above those offered to all employees.

Remuneration to the CEO, Bank Management and the managers of the control functions is set by the Board.

The principle applied for other employees is that decisions on remuneration are always made by the manager together with the manager's immediate superior and the HR Manager. Fixed remuneration is reviewed each year as part of the salary review and, each year, the bank conducts an employee salary survey.

Information regarding the remuneration to the Board, the CEO and the Bank Management is presented in Note 8.

CEO

The CEO is appointed by the Board and is responsible for the administration of the day-to-day operations. Among other tasks, the CEO must monitor the bank's operational and performance trends, and take ongoing decisions regarding the operations, development and control of the business. The CEO is responsible for operational compliance with the internal policies, strategies and strategic plans established by the Board for the bank. The CEO must review and assess the efficiency of the company's organisational structure, procedures, measures, methods and the like decided by the bank, and take appropriate measures to correct any inadequacies with the aforementioned. The CEO also evaluates whether the bank controls and manages its risks in an efficient and appropriate manner. The CEO reports to the Board on an ongoing basis liaises closely with the Chairman. The Board has adopted a written instruction governing the role and work of the CEO. The instruction is a complement to the provisions in the Swedish Companies Act and the bank's Articles of Association. To ensure that the CEO has a good knowledge and understanding of the bank's organisation structure and processes, the bank's operations as well as the nature and scope of the bank's risks, the Board conducts an eligibility assessment of the CEO and evaluates the CEO's performance each year.

The Bank Management and committees

The Bank Management supports the CEO in her role with the implementation of the guidelines and instructions decided by the Board and with the day-to-day operations. The Bank Management has no decision mandate and all decisions are taken by the CEO.

The collective expertise of the Bank Management should contribute to the CEO making good and well-balanced decisions. The Bank Management must ensure that the bank's employees are guided toward the shared goals and contribute to the fulfillment of the bank's strategy.

In addition to the CEO, the following positions are included in the Bank Management: Chief Business Development Officer, Chief Legal Officer, Chief Financial Officer, Head

of Corporates, HR Manager, Chief Communications Officer, Chief Operations Officer, Head of Public Affairs and Sustainability, and the Chief Risk Officer.

The CEO has also appointed councils and committees to support operational leadership. The committees that have been established are: the Business Support Advisory Committee, Work Environment Committee, Balance Sheet and Income Statement Committee, Credit Advisory Committee, Insolvency Advisory Committee and the New Product Approval Advisory Committee.

To ensure that senior executives included in the Bank Management have a good knowledge and understanding of the bank's organisation structure and processes, the bank's operations as well as the nature and scope of the bank's risks, the CEO conducts an eligibility assessment of the senior executives included in the Bank Management.

Business

Business operations

The bank has divided its business operations into corporate and retail markets. Each business area manager reports directly to the CEO and has full responsibility for all risks and operational performance.

The operations include ten separately appointed risk and compliance managers. These individuals are all tasked with comprising a link between the bank's control functions and its operations, consulting on the preparation of new policies, assisting with the implementation of new regulatory frameworks and participating in new training initiatives.

During the year, the bank has applied a targeted approach to reinforcing the bank's risk framework and risk culture, and to implementing clearer processes and control frameworks in the business activities. Each new employee receives a regulatory dialogue and information about the bank's policies during induction training. Continuously training the employees comprises another key part of the internal control of operations. The bank has a training programme that is adapted to the respective professional roles. During the year, a number of employees have completed the new Swed-Sec licence for mortgage loans.

Central departments

The bank has a number of staff functions with the primary task of supporting the CEO and business activities.

The bank has implemented a larger reorganisation to achieve more appropriate and process-driven operations that meet the new requirements demanded by the bank's development. Among other actions, two

new departments have been established: operations, and public affairs and sustainability. Moreover, a new position has been filled in the form of a Chief Information Security Officer (CISO).

A number of new policies and follow-up methods were added during the year to support business activities. All of the policies are published on the bank's intranet and are revised according to plan, mainly annually.

Several larger projects were conducted during the year to promote control and follow-up, among other projects, the bank initiated the implementation of the new credit scoring system and a new treasury system.

Corporate culture

A small bank with a vital mission.

Landshypotek Bank is a unique bank in the Swedish banking market. The bank has a clear assignment for Sweden's farming and forestry sectors and is owned by its farming and forestry loan customers, the bank's objectives, together with the ownership model, are important reasons behind the bank's values-driven organisation and its strong corporate culture with committed employees who contribute to the bank's sound risk culture.

Employees are the key to the bank's development. Therefore, the bank has worked during the year with a programme to strengthen the employee culture. This encompassed the employees themselves drawing up a number of employee values to apply in all operations. The values are: customer-centric, drive, enthusiasm and together. Bank management should be values-driven, respectful, brave, inspiring and visible.

Close dialogue between employees and managers is important at the bank. Therefore the bank has implemented a structured dialogue between managers and employees that is conducted every six weeks, known as a "GÅS" dialogue. The dialogue aims to check the current status of employees' work situations. Managers follow up set goals and activities regarding what to focus on for the period until the next dialogue. The employee values are also followed up in the dialogue.

Market disclosures

Landshypotek Bank has guidelines for disclosure that ensure the bank meets the external requirements set for the bank in terms of transparency, openness and information disclosure. The guidelines comprise an element of the bank's control framework.

Employee values

Customer-centric

- We take responsibility for understanding our customers and developing our business through openness and curiosity, and through asking questions.
- We reflect on the value and the relevance each task has for the customer and the bank.
- We prioritise our activities and ensure that all our actions deliver the highest possible value and relevance for our customers and the bank.
- We keep our promises and strive to complete our task in the best way possible.

Drive

- We have the courage to drive change.
- We take responsibility for our own work and initiate activities that develop the bank.
- We thereby take responsibility for our own development and the optimal use of our skills.
- We show commitment and inquisitiveness in our actions, by means including suggesting solutions and presenting ideas.
- We act unpretentiously by being open to and leveraging each others' skills.

Enthusiasm

- We meet each other using open body language.
- We stimulate, leverage ideas and build an open-minded working climate that delivers the preconditions for sharing knowledge.
- We think about how we convey messages and differentiate between the person and the action.
- We give praise and constructive feedback.
- We give each other high fives!

Together

- We welcome views regarding daily operations to be able to secure improved results.
- We contribute views by acting as sounding boards and through our focus on results and solutions.
- We work together to strengthen creativity and ensure mutual development, and thereby increase value for customers and the bank.

Leadership values

Values-driven

- We live by and express our values on a daily basis through our actions, choices and communication.
- We are a bank with a difference with a drive to create long-term value for the Swedish countryside. We demonstrate this by securing added value for customers.
- We always show clear commitment to issues affecting the countryside.

Respectful

- We listen actively to each other.
- We leverage each others' opinions, skills and personalities.
- We create a sense of participation that develops individuals and the organisation.

Brave

- We demonstrate drive by taking clear, goal-oriented decisions. When necessary, we dare to change previous decisions.
- We delegate responsibility and authorities through trusting our employees.
- We follow up and provide constructive feedback to help each other develop.

Inspiring

- We clarify the bank's path forward.
- We broaden perspectives by sharing our skills, insights and possibilities.
- We energise, encourage and motivate to leverage employees' inner drive.

Visible

- We are available and prioritise our leadership roles.
- We attend activities at and outside of the bank.
- We inform about events at the bank.
- We step forward in times of trouble and dare to act as leaders.

Board members

As of 16 March 2017



Helena Andersson

Born: 1986, Helsingborg, Director
Employee Representative for SACO.
Director since 2013
MSc. Agronomy and Economics, officer of
Landshypotek Bank.



Hans Heuman

Born: 1952, Tågarp, Director
Director since: 2013
Member of the Risk and Capital Committee
Farmer, Reg. Physician, Chairman of AB
Marsvinsholms Gods AB and Vice Chairman
of Lantmännens Forskningsstiftelse.
Director of AB Gårdstånga Nygård and
Landshypotek Ekonomisk Förening.



Hans Broberg

Born: 1962, Lund, Director
Employee Representative for the Financial
Sector Union of Sweden.
Director since 2012
MSc. in Business and Economics, officer of
Landshypotek Bank.



Nils-Fredrik Nyblæus

1951, Nyköping, Director
Director since: 2011
Member of the Credit Committee and Audit
Committee
MSc. in Business and Economics, Bank Direc-
tor, Chairman of Bankgirocentralen (BGC) AB
and Upplysningscentralen (UC) AB. Director
of SEB Trygg Liv Gamla AB, Euroclear SA/Plc
and the Austin-Healey Club of Sweden.



Anna-Karin Celsing

Born: 1962, Stockholm, Director
Director since 2014
Chairman of the Audit Committee and member
of the Risk and Capital Committee
MSc. in Business and Economics, Chairman
of Sveriges Television AB, Director of
Kungliga Operan AB, Lannebo Fonder, Seven
Day Finance AB, OX2 Vind AB. Director of the
Wall-Beijer foundations.



Henrik Toll

Born: 1954, Sorunda, Chairman
Director since: 2003
Member of the Credit Committee and Audit
Committee
Agrologist, Chairman of Tham Invest AB and
Fallda AB. Director of Stora Sundby Lantbruks
och Fritids AB, Harry Cullbergs Fond and
Norra Djurgårdsstadens Holding.



Johan Trolle-Löwen

Born: 1959, Nyköping, Director
Director since: 2011
Member of the Audit Committee
Graduate engineer, Director of Bergvik Skog AB, Firefly AB, Hargs Bruk AB, Boo Egendom AB, Limmersvik AB and Sjösa Förvaltnings AB.
Deputy Director of HäradSkog i Örebro AB.
Managing Director Sjösa Förvaltnings AB.



Charlotte Önnestedt

Born: 1963, Ödeshög, Director
Director since: 2009
Member of the Audit Committee
Agrologist, owner and manager of Åby Storgård and Håssleby Gård, member of the Election Committee for LRF Östergötland.



Synnöve Trygg

Born: 1959, Stockholm, Director
Director since: 2014
Member of the Risk and Capital Committee
MSc. in Business and Economics, Director of Intrum Justitia AB, Volvo Finans Bank AB, Wrapp AB, Noredax Bank AB and Precise Biometrics.

Changes in the bank's Board during the year
No changes were made to the Board of Directors after the 2016 AGM.

Senior Management

As of 16 March 2017



Annelie von Dahn

HR Manager
Born: 1968
Employed in: 2010
Education: BSc. in Behavioural Science
Previous experience: HR Manager at HQ Bank, HR Representative at Accenture



Margareta Lindahl

Commercial Director
Born: 1976
Employed in: 2015
Education: MSc. Agronomy and Economics
Previous experience: Risk Management Consultant at Transcendent Group AB, Capital Adequacy Expert, Financial Supervisor at the Swedish Financial Supervisory Authority, Corporate Advisor at Swedbank.



Martin Kihlberg

Head of Public Affairs and Sustainability
Born: 1974
Employed in: 2015
Education: Master of Law, LL.M.
Previous experience: Senior Legal Counsel SBAB Bank, Trainee Solicitor at the Mannerheim Swartling law firm



Annika Lindström

Chief Operations Officer
Born: 1977
Employed in: 2013
Education: MSc. in Business and Economics
Previous experience: Head of Saving and Loan Administration at Landshypotek Bank, Department Manager Business Operations at EnterCard, Product Specialist at EnterCard.



Jan Lilja

Chief Risk Officer
Born: 1957
Employed in: 2016
Education: MSc. in Business and Economics
Previous experience: Head of Group Treasury at Swedbank, Head of Group Risk Control at Swedbank, CEO Swedbank Hypotek



Liza Nyberg

CEO
Born: 1963
Employed in: 2014
Education: MSc. in Business and Economics
Previous experience: Head of Personal Banking Danske Bank SE, CEO SkandiaMåklarna, CEO Emric, CEO Bokredit, managerial positions at Swedbank.
Other assignments: Board member of Seven Days Finance AB.



Fredrik Sandberg

Chief Financial Officer
Born: 1977
Employed in: 2015
Education: MSc. in Business and Economics
Previous experience: CFO Swedbank Robur, Management Consultant at Caggemini Consulting and KPMG.



Daniel Wahlström

Head of Business Development
Born: 1980
Employed in: 2017
Education: Business Administration (IHM)
Previous experience: Deputy Head of Business Development at Danske Bank, Head of Channels & Online at Danske Bank.



Tomas Uddin

Chief Communications Officer
Born: 1971
Employed in: 2012
Education: BSc. Political Science
Previous experience: Chief of Staff at the Ministry of the Environment



Catharina Åbjörnsson Lindgren

Chief Legal Officer
Born: 1971
Employed in: 2010
Education: BSc. in law
Previous experience: Bank Lawyer at Nordea Bank AB Group Legal

Changes in the Bank Management during the year

During the year, Johanna Bentzer, Maria Brattström, Per-Olof Sandberg and Annika Vangstad have left the Bank Management and Martin Kihlberg, Annika Lindström and Daniel Wahlström joined.



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Income Statement

SEK thousand	Note	Group		Parent Company	
		2016	2015	2016	2015
Interest income		1,356,505	1,560,908	1,355,392	1,548,087
Interest expense		-629,310	-817,503	-629,309	-817,284
- of which: deposit insurance fees		-7,121	-3,675	-7,121	-3,675
- of which: resolution fund fees		-28,821	-31,660	-28,821	-31,660
Net interest income	4	727,196	743,405	726,083	730,803
Commission income	5	11,872	9,987	11,872	9,672
Net result of financial transactions	6	26,158	7,787	26,158	7,787
Other operating income	7	7,315	2,535	7,315	2,535
Total operating income		772,540	763,714	771,427	750,798
General administrative expenses	8	-359,152	-339,668	-362,379	-340,295
Depreciation, amortisation and impairment of tangible and intangible non-current assets	9	-14,050	-19,678	-14,165	-19,678
Other operating expenses	10	-31,082	-27,831	-31,082	-27,828
Total expenses before loan losses		-404,283	-387,177	-407,626	-387,801
Profit before loan losses		368,258	376,537	363,801	362,997
Net loan losses	11	-14,814	-45,921	-14,814	-41,952
Impairment of shares in subsidiaries	17				-2,266
Operating profit		353,444	330,615	348,987	318,778
Tax on profit for the year	12	-77,823	-73,544	-77,341	-70,945
Net profit for the year		275,621	257,071	271,647	247,832
Earnings per share		122.3	114.1	120.6	110.0
Parent Company's portion of net profit for the year		100%	100%	100%	100%

Statement of Comprehensive Income

SEK thousand	Note	Group		Parent Company	
		2016	2015	2016	2015
Net profit for the period		275,621	257,071	271,647	247,832
Other comprehensive income					
<i>Items to be reclassified to profit or loss</i>					
Cash-flow hedges		11,812	29,425	11,812	29,425
Of which change in fair value		3,857	19,684	3,857	19,684
Of which transfers to the income statement		7,954	9,741	7,954	9,741
Available-for-sale financial instruments		62,087	-46,078	62,087	-46,078
Of which change in fair value		61,988	-22,436	61,988	-22,436
Of which transfers to the income statement		99	-23,643	99	-23,643
Income tax related to other comprehensive income	12	-16,258	3,664	-16,258	3,664
<i>Total, items to be reclassified</i>		<i>57,641</i>	<i>-12,990</i>	<i>57,641</i>	<i>-12,990</i>
<i>Items that are not reclassified</i>					
Actuarial differences for defined-benefit pensions		-38,811	40,989		
Tax items that are not reclassified	12	8,538	-9,018		
<i>Total, items that are not reclassified</i>		<i>-30,273</i>	<i>31,971</i>		
Total other comprehensive income		27,369	18,981	57,641	-12,990
Comprehensive income for the period		302,989	276,052	329,289	234,843
Parent Company's portion of comprehensive income for the year		100%	100%	100%	100%

Balance Sheet

SEK thousand	Note	Group		Parent Company	
		2016	2015	2016	2015
ASSETS					
Cash and balances with central banks			237		237
Loans to credit institutions	13	592,071	396,214	591,839	392,262
Loans to the public	14	66,518,468	64,501,262	66,518,468	64,501,262
Value changes of interest-rate-risk hedged items in macro hedges		109,075	87,842	109,075	87,842
Bonds and other interest-bearing securities	15	12,614,537	13,251,589	12,614,537	13,251,589
Derivatives	16	1,840,773	1,874,871	1,840,773	1,874,871
Shares in Group companies	17			200	278,487
Intangible non-current assets	18	66,748	20,654	66,748	20,654
Tangible assets					
Furniture, fixtures and equipment	19	9,282	10,621	9,282	10,621
Buildings and land	19	10,464	20,168	10,464	20,168
Other assets	20	11,383	35,324	11,383	4,951
Current tax		0	22,137	0	20,670
Deferred tax assets	21	2,955	-	2,210	4,756
Prepaid expenses and accrued income	22	405,411	498,081	405,411	498,080
TOTAL ASSETS		82,181,168	80,719,000	82,180,391	80,966,450
LIABILITIES, PROVISIONS AND EQUITY					
Liabilities					
Liabilities to credit institutions	23	1,002,399	393,227	1,002,399	393,262
Borrowing from the public	24	11,731,390	10,309,718	11,731,390	10,309,718
Debt securities in issue, etc.	25	61,572,138	63,012,651	61,572,138	63,012,651
Derivatives	26	730,494	1,059,244	730,494	1,059,244
Other liabilities	27	282,367	297,361	281,846	569,657
Deferred tax liabilities			2,555		
Accrued expenses and deferred income	28	434,746	586,824	434,746	586,824
Provisions	29	4,193	-	1,324	1,361
Subordinated liabilities	30	1,699,972	499,972	1,699,972	499,972
Total liabilities		77,457,699	76,161,552	77,454,309	76,432,689
Equity					
Share capital, number of shares outstanding: 2,253,000 (2,253,000)		2,253,000	2,253,000	2,253,000	2,253,000
Other contributed capital		1,026,254	1,026,254	1,016,694	1,016,694
Reserves		14,991	-42,650	14,991	-42,650
Actuarial differences		-16,359	13,914		
Retained earnings		1,306,930	1,178,481	1,306,718	1,187,508
Net profit for the year		275,621	257,071	271,647	247,832
Group contributions paid		-136,968	-128,622	-136,968	-128,622
Total equity	31	4,723,470	4,557,448	4,726,081	4,533,761
TOTAL LIABILITIES AND EQUITY		82,181,169	80,719,000	82,180,391	80,966,450

Statement of Changes in Equity

GROUP, SEK thousand	Share capital	Other contributed capital	Hedging reserve ¹⁾	Fair value reserve ¹⁾	Actuarial differences ¹⁾	Retained earnings	Total
Equity, 31 December 2014	2,173,000	1,026,254	-38,888	9,228	-18,057	1,178,481	4,330,018
Comprehensive income for the year			22,951	-35,941	31,971	257,071	276,052
Total change before transactions with owners			22,951	-35,941	31,971	257,071	276,052
New share issue	80,000						80,000
Group contributions paid, Landshypotek Ekonomisk Förening						-164,900	-164,900
Tax on Group contributions paid						36,278	36,278
Equity, 31 December 2015	2,253,000	1,026,254	-15,937	-26,714	13,914	1,306,930	4,557,448
Equity, 31 December 2015	2,253,000	1,026,254	-15,937	-26,714	13,914	1,306,930	4,557,448
Comprehensive income for the year			9,213	48,428	-30,273	275,621	302,989
Total change before transactions with owners			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 paid						38,632	38,632
Equity 31, December 2016	2,253,000	1,026,254	-6,724	21,714	-16,359	1,445,583	4,723,470

¹⁾ For more information see Note 31. Share capital and other contributed capital is classified as restricted equity. Other items are classified as unrestricted equity.

Statement of Changes in Equity

Parent Company, SEK thousand	Share capital	Other contributed capital	Hedging reserve ¹⁾	Fair value reserve ¹⁾	Actuarial differences ¹⁾	Retained earnings	Total
Equity, 31 December 2014	2,173,000	1,016,694	-38,888	9,228		1,187,510	4,347,542
Comprehensive income for the year			22,951	-35,941		247,832	234,843
Total change before transactions with owners	-	-	22,951	-35,941		247,832	234,843
New share issue	80,000						80,000
Group contributions paid						-164,900	-164,900
Tax on Group contributions paid						36,278	36,278
Equity, 31 December 2015	2,253,000	1,016,694	-15,937	-26,714		1,306,718	4,533,761
Equity, 31 December 2015	2,253,000	1,016,694	-15,937	-26,714		1,306,718	4,533,761
Comprehensive income for the year			9,213	48,428		271,647	329,289
Total change before transactions with owners			9,213	48,428		271,647	329,289
New share issue	0						0
Group contributions paid						-175,600	-175,600
Tax on Group contributions paid						38,632	38,632
Equity, 31 December 2016	2,253,000	1,016,694	-6,724	21,714		1,441,396	4,726,081

¹ For more information see Note 31.

Share capital and other contributed capital is classified as restricted equity. Other items are classified as unrestricted equity.

Number of shares outstanding	2016	2015
Number of shares outstanding, opening balance	2,253,000	2,173,000
New share issue during the year		80,000
Number of shares outstanding, closing balance	2,253,000	2,253,000

Cash-flow Statement

SEK thousand	Note	Group		Parent Company	
		2016	2015	2016	2015
Cash flow from income statement					
Interest received	4	1,448,063	1,639,728	1,448,062	1,622,340
Interest paid	4	-781,387	-888,110	-781,387	-888,120
Commission received	5	11,872	9,987	11,872	9,672
Commission paid	5		-35,335		-35,335
Net receipts of financial transactions	6	-9,138	43,938	-9,138	43,938
Other operating cash receipts		7,315	2,535	7,315	2,535
Administrative expenses paid		-393,626	-370,946	-393,498	-368,782
Recovery of previously confirmed losses		8,853	6,224	8,853	6,224
Income tax paid		-29,533	-46,814	-29,493	-46,003
Total cash flow from income statement		262,419	361,207	262,586	346,469
Cash flow from balance sheet					
Increase (-)/decrease (+) Loans to credit institutions					
Increase (-)/decrease (+) Loans to the public		-2,040,873	-2,810,812	-2,040,873	-3,117,041
Increase (-)/decrease (+) Bonds and other interest-bearing securities		658,779	3,207,946	658,779	3,207,946
Increase (+)/decrease (-) Liabilities to credit institutions		609,172	-54,095	612,988	-102,721
Increase (+)/decrease (-) Borrowing from the public		1,421,672	4,480,897	1,421,672	4,480,897
Increase (+)/decrease (-) Debt securities in issue, etc.		-1,668,930	-5,227,822	-1,668,930	-5,227,822
Change in other balance-sheet items					
Increase/decrease Other assets		-6,178	14,690	-6,433	13,991
Increase/decrease Other liabilities		-26,439	3,527	-26,447	276,642
Total cash flow from balance sheet		-1,052,797	-385,669	-1,049,244	-468,108
Cash flow from operating activities		-790,378	-24,462	-786,658	-121,639
Change in intangible and tangible non-current assets					
Purchase of intangible non-current assets		-56,179		-56,179	
Purchase of tangible non-current assets		7,078	-2,720	7,078	-2,720
Total cash flow from investment activities		-49,102	-2,720	-49,102	-2,720
Cash flow from financing activities					
New share issue			80,000		80,000
Subordinated liabilities		1,200,000	-200,000	1,200,000	-200,000
Dividends and Group contributions paid		-164,900	-176,700	-164,900	-176,700
Total cash flow from financing activities		1,035,100	-296,700	1,035,100	-296,700
Cash flow for the period		195,620	-323,882	199,340	-421,059
Change in cash and cash equivalents	37	195,620	-323,882	199,340	-421,059
Cash and cash equivalents at beginning of year		396,451	720,333	392,499	813,558
Cash and cash equivalents at year end		592,071	396,451	591,839	392,499

Five-year Summary

Earnings trend Landshypotek Bank AB — Group

MSEK	2016	2015	2014	2013	2012
INCOME STATEMENT					
Net interest income ¹⁾	727.2	743.4	649.4	622.7	554.6
Operating income excl. net interest income ²⁾	45.3	20.3	161.7	-18.4	-33.0
Operating expenses	-390.2	-367.5	-330.0	-272.6	-242.3
Depreciation and amortisation	-14.0	-19.7	-16.5	-10.5	-2.2
Loan losses	-14.8	-45.9	-79.6	-54.4	-22.1
Operating profit	353.4	330.6	384.9	266.8	254.9
BALANCE SHEET					
Assets					
Loans to the public, net	66,518	64,501	61,743	60,859	58,885
Other assets	15,663	16,218	20,363	17,114	18,592
Total assets	82,181	80,719	82,106	77,973	77,477
Liabilities					
Borrowing	76,006	74,216	75,570	71,525	71,103
Other liabilities	1,452	1,946	2,206	2,327	2,568
Equity	4,723	4,557	4,330	4,121	3,806
Total liabilities and equity	82,181	80,719	82,106	77,973	77,477
Key financial ratios					
Interest margin ³⁾	1.1%	1.2%	1.1%	1.0%	1.0%
Return on equity ⁴⁾	5.8%	5.7%	7.1%	5.1%	4.6%
Loan loss level ⁵⁾	0.02%	0.07%	0.13%	0.09%	0.04%

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

²⁾ Other operating income includes the net result of financial transactions. For 2016, this item amounted to MSEK 26.2 (7.8). See the explanation in the Administration Report under the heading "Financial report 2016."

³⁾ Net interest income in relation to average lending during the period.

⁴⁾ Net profit for the year divided by average equity.

⁵⁾ Net loan losses in relation to average lending during the period.

Notes

Note 1 Accounting policies

Corporate information

On 16 March 2017, the Board of Directors of Landshypotek Bank AB (publ.), Corporate Registration Number 556500-2762, approved the financial statements. These financial statements will be presented for final adoption by the Annual General Meeting on 27 April 2017.

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. Landshypotek Bank AB is specialised in lending to Swedish farming and forestry and lending for rural living. Landshypotek Bank also offers savings products to the general public. The Group uses the capital market as its primary source of funding but deposits have taken an increasingly significant role. Funding is allocated over a number of loan programmes, adapted to various types of investors. All funding in the Group takes place in Landshypotek Bank.

Basis for preparing the annual accounts

The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations of the above as published by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the EU. Furthermore, the Swedish Financial Supervisory Authority's regulations and general guidelines for annual reports in credit institutions and securities companies (FFFS 2008:25, including amendments), the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL) and the recommendations of the Swedish Financial Reporting Board, RFR 1, Supplementary Accounting Rules for Groups are also applied.

The Parent Company, Landshypotek Bank AB, applies statutory IFRS, which means that the legal entity's financial statements must be prepared with application of the IFRSs and statements adopted by the EU, in so far as this is possible within the framework of the Swedish Annual Accounts Act, the Swedish Pension Obligations Vesting Act and after taking into account the relationship between accounting and taxation. Permissible exceptions and supplements to IFRS are stated in the Swedish Financial Reporting Board's recommendation RFR 2, Accounting for Legal Entities and the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL) as well as the Swedish Financial Supervisory Authority's regulations and general guidelines for annual reports in credit institutions and securities companies (FFFS 2008:25). Differences in accounting policies between the Group and the Parent Company are set out under each heading below.

Definitions and comparative data

The Group includes Landshypotek Bank AB as well as dormant companies. The subsidiary, Landshypotek Jordbrukskredit transferred its operations to Landshypotek Bank in 2015

and was liquidated in September 2016. In running text in the Annual Report, "Landshypotek Bank" refers to the Group as defined above. The complete corporate names are used for individual Group companies. The Parent Company's functional currency and the Group's presentation currency are SEK. All amounts are reported, unless otherwise specified, in SEK thousands. Comparative figures for the preceding year are stated in parentheses.

Standards, amendments and interpretations coming into effect during the year

No significant changes took place with respect to the IFRS during the year. Amendments to ÅRKL and FFS 2008:25 gave rise to certain changes in the disclosure requirements.

New standards, amendments and interpretations as well as annual improvement projects that have not yet come into effect and were not applied in advance by the Group.

- *IFRS 9 Financial Instruments will replace IAS 39 Financial Instruments.*

The standard has been adopted by the EU and is to be applied from 1 January 2018. There will be three measurement categories for financial assets: amortised cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). How an instrument is classified depends on the business model and the nature of the instrument. A new approach for calculating provisions for credit losses is being implemented and calculations are based on expected loan losses, which comprises the main difference to the existing regulations. Under IAS 39, credit losses are calculated based on incurred credit loss events. Using the fair value option, the classification and measurement of financial liabilities has been changed to recognition at FVTPL. In this case, changes in credit risk are presented in other comprehensive income. Hedge accounting requirements have been changed through the replacement of the 80–125% effectiveness rule with requirements for an economic relationship between hedging instruments and underlying instruments and that the hedge ratio is the same as that used in the risk management. Evaluation is ongoing as to which measurement categories to use for financial assets when IFRS 9 is introduced. The standard is not expected to have any material impact on the income statement, balance sheet and equity with regard to the application of measurement categories.

A project is ongoing with regard to provisions for credit losses, where Landshypotek Bank is developing impairment models. The transition to IFRS 9 is expected to have some impact on earnings and a marginal effect on capital adequacy, but a reliable assessment of the potential impact on the financial statements will not be available until the impairment models have been developed and tested. As yet, it remains unclear as to how the supervisory bodies will

treat the relationship between expected provisions for credit losses in the accounts and expected credit losses in terms of capital adequacy.

In terms of hedge accounting, the bank foresees limited impact from the change as compared with how accounting is performed under the existing regulations. The standard is not expected to have any material impact on the income statement, balance sheet and equity with regard to the application of hedge accounting.

• *IFRS 15 Revenue from Contracts with Customers*
IFRS 15 enters force on 1 January 2018 and replaces all previously issued standards and interpretations pertaining to revenue recognition (including IAS 11 Construction Contracts and IAS 18 Revenue). The standard describes how a contract and its various components are identified, how the contract price is determined and allocated to the various performance obligations, and how revenue is recognised when the performance obligation vis-à-vis the customer has been fulfilled. The standard has been adopted by the EU and is to be applied for financial years starting 1 January 2018. The Group has yet to evaluate the impact of IFRS 15 on the financial reporting.

• *IFRS 16 Leases*
For lessees, IFRS 16 will lead to the inclusion of almost all leases in the balance sheet. The right to utilise the leased asset is recognised as an asset and the present value of leasing fees are recognised as a corresponding liability in the balance sheet for lessees. Exceptions may be made for short-term contracts and low-value contracts. The income statement will be impacted in the form of higher costs at the start of the lease and lower costs toward the end. The standard has not yet been adopted by the EU and is to be applied for financial years starting 1 January 2019. The bank is in the process of evaluating the effect, but does not expect it to have any significant impact.

Other new standards, amendments and interpretations as well as annual improvement projects that have not yet come into force were not considered to have any material impact on the consolidated financial statements.

Consolidated accounting

The consolidated financial statements encompass the Parent Company and its subsidiaries. All subsidiaries are 100-per-cent owned by Landshypotek Bank AB. Subsidiaries are consolidated in accordance with the purchase method of accounting. All companies in the Group are Swedish limited liability companies with SEK as their accounting currency. Landshypotek Bank AB has no associated companies, other joint arrangements or unconsolidated structured entities. The subsidiaries are all companies where the Parent Company exercises a controlling influence. Controlling influence means that the Parent Company is exposed to, or has the right to, returns from subsidiaries and the ability to affect those returns through exercising its influence. Subsidiaries are included in the consolidated accounts as of the date on which the controlling influence is transferred to the Group. They are

excluded from the consolidated accounts as of the date on which the controlling influence ceases to apply. The purchase method is used to report Group acquisitions of subsidiaries. The cost comprises the fair value of all assets, liabilities and issued equity instruments placed as consideration for net assets in the subsidiary. Any surplus due to the cost exceeding the identifiable net assets of the acquisition balance is recognised as goodwill. Transaction costs are recognised directly in profit or loss.

Operating segments

An operating segment is a part of a company that generates income and costs through its operations, and its operating profit is regularly reviewed by the company's chief operating decision maker (CODM) as the basis for decisions pertaining to the allocation of resources and assessment of the segment's results. Furthermore, an operating segment has separate financial information. Landshypotek Bank offers loans in Sweden with real property as collateral. Customer deposits are included as an element of Landshypotek Bank's funding. For follow-up and reporting to the CODM, the operations are viewed as one operating segment.

Additional information in line with IFRS 8, paragraphs 32–34, is not provided in the Annual Report since customer deposits do not generate any income, the operations are conducted in one geographic area and no single customer of Landshypotek Bank accounts for 10 percent or more of the company's income.

Measurement of receivables and liabilities in foreign currency

Transactions in foreign currency are measured in the functional currency at the rate of exchange prevailing on the transaction date. Monetary assets and liabilities in foreign currency are measured in the functional currency at the rate of exchange prevailing on the balance sheet date. Exchange-rate differences that arise on translation of balance sheet items in foreign currency are recognised in profit or loss as exchange-rate gains or losses.

Classification and measurement rules for financial assets

Financial assets are divided into the following categories for measurement:

- 1 Loans and receivables
- 2 Financial assets at FVTPL
- 3 Available-for-sale financial assets

Loans to credit institutions and loans to the public are classified as "Loans and receivables." This means that they are measured at amortised cost through application of the effective-interest method.

Bonds and other interest-bearing securities are classified as "Available-for-sale financial assets" or as "Financial assets at FVTPL." The classification is determined for each specific transaction. These assets are valued at fair value in the balance sheet regardless of classification. Holdings classified as "Available-for-sale financial assets" are initially recognised at fair value plus transaction costs. Gains and losses that arise as a result of

changes in value are recognised after taxes via other comprehensive income in the fair-value reserve under equity until the financial asset is sold or impaired. When objective indications exist that a financial asset's recoverable amount is less than the carrying amount, an impairment test is performed. The need for impairment is defined as the difference between cost and actual fair value less any previous impairment recognised in profit or loss. When the asset is sold or impaired, the accumulated gain or loss, previously recognised in equity, is recognised in profit or loss.

Bonds and other interest-bearing securities classified as "Financial assets at FVTPL" are initially recognised at fair value and transaction costs are recognised in profit or loss. The gains and losses arising as a result of changes in value are recognised in profit or loss under the heading "Net result of financial transactions." Interest income from these instruments is recognised through application of the effective-interest method.

Derivative instruments with a positive market value are classified as "Financial assets at FVTPL." Gains and losses that arise as a result of unrealised and realised changes in value are recognised on a current basis in profit or loss under the item "Net result of financial transactions." Accrued and realised interest in derivative instruments is recognised net as an interest expense.

Financial assets are derecognised from the balance sheet when the right to receive cash flows from the instruments expires or is transferred and the Group has transferred virtually all risks and benefits associated with the right of ownership.

Classification and measurement of financial liabilities

For measurement purposes, financial liabilities are divided into two categories:

- 1 Other financial liabilities
- 2 Financial liabilities at FVTPL

Liabilities to credit institutions, and borrowing from the public, debt securities in issue and subordinated liabilities are classified as "Other financial liabilities." Other financial liabilities are recognised at amortised cost by using the effective-interest method. Transaction costs directly attributable to a specific liability are added to the cost and consideration is given thereto when calculating amortised cost. Recognition of financial liabilities subject to hedge accounting is dealt with in the section on Hedge accounting.

Derivative instruments with a negative market value are classified as "Financial liabilities at FVTPL." Gains and losses that arise as a result of unrealised and realised changes in value are recognised on a current basis in profit or loss under the item "Net result of financial transactions." Accrued and realised interest in derivative instruments is recognised net as an interest expense.

Financial liabilities are derecognised from the balance sheet when the obligation to pay cash flows from the instruments has

expired or been transferred and the Group has largely transferred all risks and obligations associated with the liability.

Transaction-date or settlement-date accounting

Financial assets and liabilities attributable to lending and deposits are recognised on the settlement date. Business transactions in the money, bond or equity markets are recognised on the transaction date when the material rights and risks transfer between the parties.

Intangible assets

An intangible asset is an identifiable, non-monetary asset without physical form. An asset is a resource, over which control is exercised by the company, that is expected to yield future economic benefits. Expenses associated with intangible assets are capitalised from the point in time when it is probable that the economic benefits that can be calculated in a reliable manner will arise. Amortisation is based on the economic life of the asset and starts when the asset is put to use. Intangible assets are amortised over a period of three to seven years. An impairment test is performed when there is an indication that the asset may have diminished in value. Landshypotek Bank applies straight-line amortisation.

Tangible assets

Tangible assets consist mainly of real property. Properties are valued at cost less accumulated depreciation and any impairment. Each part of a tangible non-current asset with a cost that is significant relative to the aggregate cost of the asset is depreciated separately. The depreciation method used reflects how the future economic benefits of the asset are expected to be used. Straight-line depreciation is used. Landshypotek Bank has produced separate depreciation plans for each significant component.

- PCs are depreciated over three years
- Furniture, fixtures and equipment are depreciated over five years
- Fixed equipment is depreciated over five years

The depreciation periods for the components of properties vary between 20 and 150 years.

Provisions

Provisions consist of recognised expected negative outflows of resources from the Group. Provisions are recognised when the Group has a legal or informal obligation as a result of events that have occurred when it is probable that an outflow of resources will be required to settle the undertaking. Landshypotek Bank has set aside provisions for future pension obligations and deferred taxes. For more information, refer to the section on Pension Costs.

Interest income and interest expense

Interest income and interest expense on financial assets and liabilities are recognised in profit or loss in accordance with the effective-interest method under the heading "Interest

income and interest expense." The change in value of financial assets and liabilities measured at FVTPL is recognised under the heading "Net result of financial transactions." This is also true for changes in the fair value of financial assets and liabilities included in hedge accounting. From 2016, fees to the resolution fund and deposit insurance fees are recognised as interest expense.

Hedge accounting

Hedge accounting is divided into different types of hedging relationships, depending on the purpose of the hedge.

Fair-value hedges for borrowing

The Group applies hedge accounting for parts of its exposure to interest-rate risk in fixed-interest lending against changes in fair value due to movements in market interest rates. Interest-rate swaps and cross-currency interest-rate swaps are used for this purpose. Changes in the fair value of a derivative formally identified as a hedging instrument, and which fulfils the requirements for hedge accounting, are recognised in profit or loss under the heading "Net result of financial transactions." In addition, changes in fair value, attributable to the hedged risk, of a hedged liability are also recognised under this heading.

Cash-flow hedges

The Group hedges parts of its exposure to interest-rate risk, in floating interest financial liabilities, against changes in future cash flows due to market interest-rate changes. Interest-rate swaps and cross-currency interest-rate swaps are used for this purpose. The effective portion of changes in the fair value of a derivative instrument identified as a hedging instrument, and which fulfils the requirements for hedge accounting is recognised in equity through other comprehensive income. When the hedged transaction occurs, the accumulated reserve in equity is returned to profit or loss. The gain or loss attributable to the ineffective portion is recognised immediately in profit or loss under the heading "Net result of financial transactions." Cash flows are expected to arise on an ongoing basis over the hedged item's remaining time to maturity.

Macro hedging of fair value in the lending portfolio

The Group applies hedge accounting for parts of its exposure to interest-rate risk in fixed-interest lending against changes in fair value due to movements in market interest rates. For this purpose, groups of loans with similar risk exposure are identified as a portfolio, which is then hedged using interest-rate swaps. Changes in the fair value of a derivative formally identified as a hedging instrument, and which fulfils the requirements for hedge accounting, are recognised in profit or loss under the heading "Net result of financial transactions." Changes in value attributable to the hedged risk for the hedged lending portfolio are recognised in profit or loss under the heading "Net result of financial transactions" and in the balance sheet on a separate line in connection with "Loans to the public."

Fair-value hedges in fixed-interest investments

The Group applies hedge accounting for fixed-interest bonds in the liquidity portfolio. The hedge aims to cover any changes in fair value excluding credit spreads. Interest-rate swaps are used for this purpose. Changes in the fair value of a derivative formally identified as a hedging instrument, and which fulfils the requirements for hedge accounting, are recognised in profit or loss under the heading "Net result of financial transactions." In addition, changes in fair value, attributable to the hedged risk, of a hedged liability are also recognised under this heading. The credit spread is recognised under other comprehensive income.

Discontinuation of hedge accounting

Landshypotek Bank terminates hedge accounting when the hedged item or hedging instrument is sold or expires and when the criteria for hedge accounting are no longer met. Gains or losses, which for cash-flow hedges and fair-value hedges in investments, were previously recognised in other comprehensive income are transferred to profit or loss in conjunction with divestment of the underlying instrument and recognised there under the heading "Net result of financial transactions." If a fair-value hedge is no longer assessed as effective, the hedging instrument is reclassified as a derivative for trading. The accumulated change in fair value for the hedged item at the point in time when the hedging relationship ends is periodised via net interest income over the hedged item's remaining time to maturity.

Commission income

Commission income is attributable to Landshypotek Bank's lending and borrowing. Income attributable to lending is recognised as revenue on notification and income attributable to borrowing is recognised on the transaction date.

Net result of financial transactions

Realised gains and losses attributable to the purchase and sale of bonds and derivative instruments in the liquidity reserve and the buyback of bonds are recognised under the heading "Net result of financial transactions." In addition, unrealised gains and losses attributable to market-value changes of derivative instruments, holdings of financial assets valued at FVTPL and changes in fair value attributable to the hedged risk of the hedged assets or liabilities in a fair-value hedge are also recognised under this heading. When applicable, impairment attributable to available-for-sale financial assets is recognised under this item.

Other income

Income from services sold and external rental income relating to real property owned are reported under "Other income." Results from the sale of operating property are also recognised here.

Personnel costs

All direct personnel costs, including various forms of social security costs and payroll overheads are classified as personnel costs.

Pension costs

Landshypotek Bank's pension obligation under the BTP plan is a defined-benefit pension plan. Landshypotek Bank has funded its obligation via SPK, which manages the assets and administers pension payments on behalf of Landshypotek Bank. The Group recognises primarily the following three items:

- Service costs, i.e. pension entitlement earned for the current and prior periods, as well as gains and losses from settlements
- Net interest income (expense) is calculated on the net of the defined-benefit pension obligation less plan assets through the use of market rates of return on first-class corporate bonds.
- Actuarial gains and losses are recognised in other comprehensive income as they arise together with the return on plan assets.

The liability recognised in the balance sheet in respect of defined-benefit pension plans is the present value of the defined-benefit obligation on the balance sheet date less the fair value of plan assets. The present value calculation is based on the interest on a covered bond. The defined-benefit pension obligation is calculated annually by independent actuaries using the "projected unit credit method." For more information about pensions, refer to Note 8 and Note 29.

Other operating expenses

The "Other operating expenses" item contains other costs, including operating costs for own properties and marketing expenses.

Loan losses

Receivables of which any component is more than five days overdue are recognised as overdue receivables regardless of the possibility of recovering the receivable by realising collateral. Receivables are first tested individually and thereafter groups of receivables with similar credit characteristics where a need for impairment has not been identified on an individual basis. A loan receivable is recognised as a doubtful receivable when an individual assessment indicates that it is unlikely to be paid in accordance with the terms of the loan agreement and where the value of the collateral is feared to be insufficient to cover the value of the receivable with a sufficient margin. The full amount of a receivable is recognised as doubtful, even if parts of the receivable are covered by collateral. For the purpose of calculating the recoverable amount, estimated future cash flows are discounted using the original contract rate of interest. The difference between the loan receivable and the present value of the estimated recovery is reported as a probable loan loss. Objective evidence that loan receivables or that a group of loan receivables need impairment comprises observable data that has come to the bank's knowledge regarding the following loss events: a) the borrower is suffering from significant financial difficulties, b) a breach of contract, such as missing or late payments of interest or principal, c) the granting by the lender, for financial or legal reasons

related to the borrower's financial difficulties, of a concession that the lender would otherwise not have considered, or d) it is likely that the borrower will enter receivership or other financial reconstruction.

Restructuring of loans

Agreements on concessions that entail a restructuring of a loan receivable are only made on an exceptional basis since all lending is against collateral, the value of which is realised in the event of default. When applicable, restructured loan receivables are commented on in the Administration Report.

Tax expenses

Recognised tax expenses include taxes for the current year, adjustments relating to prior years' current taxes and changes in deferred taxes. Deferred taxes are the taxes attributable to all temporary differences that arise between carrying amounts and the fiscal values of assets and liabilities.

Group contributions

Group contributions are recognised in accordance with RFR 2. Yield-related Group contributions paid by Landshypotek Bank AB to the Parent Association, Landshypotek Ekonomisk Förening, are recognised directly in equity in Landshypotek Bank AB. Landshypotek Ekonomisk Förening recognises Group contributions received as financial income. Group contributions paid to reduce the Group's taxes are recognised directly in equity in each company.

Estimates and critical assessments

The application of the Group's accounting policies means that, in certain instances, recognised amounts are based on estimates and assumptions about the future. The estimates and assumptions made are always based on company management's best and fairest assessment of the future and affect the carrying amounts of assets, liabilities and off-balance sheet exposures, as well as income and expenses presented in the Annual Report. Moreover, they are subject to continual review and validation. Despite this, future outcomes may, to a certain extent, differ from the original assumptions made.

The calculation of Group expenses and obligations for defined-benefit pensions is based on a number of actuarial, demographic and financial assumptions that have a significant impact on recognised amounts. A list of the most critical assumptions used in the calculation of the provision for the year is presented in Note 29.

The value of the Group's loan receivables is subject to continual assessment at both individual and collective levels. If necessary, receivables are impaired to the assessed recoverable amount. In order to estimate the recoverable amount, a number of assessments are carried out, including an assessment of the counterparty's repayment capacity and the realisation value of any collateral. The final outcome may deviate from original provisions for loan losses.

Note 2 Risks

Risk arises in all financial operations. Sound management of these risks is a core focus at Landshypotek Bank. The foundation of sound risk management is a strong, shared risk culture with responsibility and decision making based on solid knowledge of the bank's customers.

Landshypotek Bank strives to achieve a high degree of risk awareness and a low degree of risk undertaking. A high degree of risk awareness means that each employee understands the risks implied for the company by the individual's work duties, the degree of risk undertaking that is acceptable and how the individual needs to behave so as to avoid exceeding the acceptable level of risk.

Low risk undertaking is achieved through a combination of a high degree of risk awareness, a low acceptance level for risk undertaking, a distinct decision-making structure, shared definitions and assessment principles, as well as sophisticated tools for risk assessment. The Board specifies the acceptance level for risk undertaking and the CEO ensures that this level of acceptance is implemented in business activities. The main risks to which Landshypotek Bank is exposed are defined below. For further information regarding risks, refer to the Information regarding capital adequacy and risk management, Pillar III.

Credit risk

Definition

Landshypotek Bank defines credit risk as follows:

The risk that Landshypotek Bank does not receive payment as agreed and that the value of the collateral is not adequate and therefore will not cover the outstanding claim.

Credit risk in the lending portfolio

Landshypotek Bank's loans to the public totalled SEK 66.5 billion at 31 December 2016. Lending encompasses lending to entrepreneurs and residents in the countryside primarily against collateral in agricultural and forest properties. All lending takes place in Sweden.

Management of credit risk

Credit process

The credit policy, which is set by the Board, sets out the frameworks and fundamental principles for granting credit at Landshypotek Bank. All granting of credit at the bank is to be based on customers' repayment capacity and loans are only granted if, based on sound reasoning, commitments can be expected to be fulfilled. To further protect the bank against loan losses, accepted collateral primarily comprise real property.

Credit portfolio monitoring

All commitments are subject to credit monitoring on a scheduled and ongoing basis. Customers with higher risk levels

are monitored more frequently. All credit decisions are to be preceded by a careful risk assessment and risk classification. The credit control unit uses portfolio analysis to identify sectors and segments, where risk has risen, for further assessment.

Management of problem loans

Operations at Landshypotek Bank bear full responsibility for customer relationships, profitability and risks in all customer commitments. When needed, operations is assisted by the central departments with in-depth analyses and with managing problem customers and insolvency cases. The unit for Special Issues assists with expertise with regard to problem commitments and confirmed insolvency cases. The bank's insolvency unit works primarily with defaulting commitments with the aim of discontinuing the loans with a minimal loss for the bank.

Counterparty risk, credit risk in treasury operations

Landshypotek Bank's counterparty risks comprise credit risk for counterparties in the liquidity reserve, for counterparties with whom Landshypotek Bank has derivative transactions and for counterparties with whom the bank has deposits. The bank's liquidity reserve comprises interest-bearing securities with high credit ratings and which are all issued by Nordic credit institutions, Swedish municipalities or county councils. The objective of the liquidity reserve is to reduce the bank's liquidity risk. The bank enters into derivative transactions (swap contracts) to reduce interest-rate and currency risk.

Counterparties with whom the bank enters into swap contracts are Swedish or international banks with high credit ratings and with whom International Swaps and Derivatives Association (ISDA) agreements and unilateral Credit Support Annexes (CSAs) to Landshypotek Bank's benefit are in place, which reduce counterparty risk. The bank never pledges collateral since the derivative contracts are in the pool for covered bonds. The Chief Financial Officer has overall responsibility for management of counterparty risk.

Liquidity risk

Landshypotek Bank defines liquidity risk as follows:

The risk of being unable to discharge its payment obligations at the due date.

To a great extent, Landshypotek Bank is dependent on market funding and the inability to discharge payment obligations connected to market funding can have immediate and serious consequences for the bank.

To maintain good payment capacity, the Board has decided that a liquidity buffer should be available that corresponds to the forecast, accumulated net cash outflows for the next 180-day period and the outflows of deposits in a stressed scenario, without any possibility of refinancing. At 31 December 2016,

the liquidity reserve was 1.4 times larger than the need for refinancing over the next six months.

Landshypotek Bank's holdings in its liquidity reserve are of the type that may be used as security for loans from the Riksbank. This liquidity reserve gives the bank the opportunity of bridging temporary strains on liquidity, but also provides the opportunity of procuring the necessary funds in times of severe liquidity crisis by borrowing against or selling assets in an orderly fashion to reduce the financing need. The bank also measures the liquidity reserve, based on it covering net outflows over a 30-day significant stress period in accordance with external regulations. At 31 December 2016, the bank's LCR under EU Regulation 575/2013 and Commission Delegated Regulation (EU) 2015/61 was 270 percent for Landshypotek Bank's consolidated situation and 270 percent for Landshypotek Bank.

Landshypotek Bank has started to offer deposits with the aim of diversifying its funding and, thereby, reducing refinancing risk. At year end, the bank's deposits totalled SEK 11.7 billion. Landshypotek Bank performs regular stress tests of liquidity risk. These include a decline in value of the liquidity reserve, reduced capital repayments and interest income, lack of new borrowing and withdrawals of deposits. The results of the stress tests demonstrate that Landshypotek Bank has an extremely healthy payment capacity.

Market risk

The market risks to which Landshypotek Bank is exposed are interest-rate risk, currency risk, credit-spread risk and basis-spread risk, and are defined as follows:

- **Interest-rate risk** — *The risk that the market value of discounted future inflows and outflows will develop negatively as a result of changes in interest rates.*
- **Currency risk** — *The risk of losses on borrowed, lent or invested capital when exchange rates fluctuate.*
- **Credit-spread risk** — *The risk of decreased market values as a consequence of widened spreads for risk-free interest for assets measured at fair value.*
- **Basis-spread risk** — *The risk of decreased market values for derivatives entered into on borrowing in foreign currencies that cannot be compensated with a corresponding change in the market value of the issued debt instrument.*

Interest-rate risk

Interest-rate risk arises when fixed-interest terms for assets and liabilities are mismatched, and as a consequence of utilising equity to finance fixed-term lending. It is measured, inter alia, as the changes in the market values that occur if there is a parallel shift in the interest-rate curve. The bank utilises interest-rate swaps as a tool for managing interest-rate risks. At year end, the total impact of interest-rate risk on the balance sheet's market values for a parallel movement of the interest-rate curve of one percentage point amounted to negative MSEK 116. Only a marginal portion of the change in the market values of assets and liabilities is recognised and, therefore interest-rate risk in net profit for the year amounted to MSEK 8.

Table 5 Liquidity reserve by rating, measured at fair value

SEK thousand	Covered bonds	Municipal bonds	Bonds issued by Kommuninvest Sverige AB
AAA	7,228,601	2,374,636	625,102
AA+		2,449,780	
Total	7,228,601	4,824,416	625,102

Table 6 Derivative contracts by rating, measured at fair value

SEK thousand	Positive gross market-value incl. premium for potential future exposure ¹⁾	Positive gross market value	Positive gross market-value incl. premium for potential future exposure, adjusted for bilateral netting agreements
AA-	1,035,635	807,104	464,296
A+	276,443	131,796	118,777
A	871,288	674,532	722,051
BBB ²⁾	459,399	421,237	459,399
Total	2,642,765	2,034,669	1,764,523

¹⁾ Exposure value of derivative instruments based on the mark-to-market approach stipulated in the CRR.

²⁾ Landshypotek Bank received SEK 443,955,000 in cash collateral under derivative contracts. This cash collateral has not been taken into account in the above figures.

Currency risk

Landshypotek Bank has parts of its financing in currencies other than SEK. Where financing is conducted in currencies other than SEK, the currency risk is managed by hedging foreign currency cash flows with swap contracts. Marginal differences may arise. At 31 December 2016, all currency risk was hedged with derivatives. For further information; see Note 36.

Basis-spread risk and credit-spread risk

Basis-spread risk arises for Landshypotek Bank when the currency and interest-rate risks that arise in conjunction with borrowing in a foreign currency are reduced by swapping payments in foreign currency for payments in Swedish currency through cross-currency interest-rate swaps. However, if Landshypotek Bank does not terminate the swap agreements ahead of time, the net earnings impact on expiry of the swap agreements would be zero. Due to increased volatility in basis spreads, Landshypotek Bank has chosen not to take up any funding in foreign currencies since 2011. Credit-spread risk arises from fluctuations in credit spreads in Landshypotek Bank's liquidity reserve and these also impact earnings. An increase in the credit spread of one basis point (1bp) would lead to an MSEK 2.7 decrease in the value of the liquidity portfolio and a 1bp movement in basis spreads would lead to an MSEK 5.0 value change in the swaps.

Operational risk

Definition

Landshypotek Bank defines operational risk as:

The risk of losses as a result of inappropriate or failed internal processes, human error, faulty systems and external events including legal risk.

Operational risk

Landshypotek Bank has a low appetite for operational risk. The bank does not conduct operations in areas that generally generate the largest operating losses for banks. The bank conducts no trading operations or operations related to payment services, and conducts relatively uncomplicated operations for a bank. However, a certain degree of operational risk exists in all operations and the bank breaks operational risk down into the following areas:

- Business and process risk
- Personnel risk
- IT and information security
- External risk

Fixed-interest terms for interest-bearing assets and liabilities, 2016

SEK thousand	< 3 months	3–12 months	1–3 years	3–5 years	> 5 years	Total
Assets						
Loans to credit institutions	592,071					592,071
Loans to the public	40,921,812	11,075,976	9,279,752	4,199,585	783,402	66,260,527
Bonds and other interest-bearing securities	5,918,000	1,800,000	1,550,000	2,900,000	0	12,168,000
Derivatives	28,997,168	4,235,823	5,533,050	7,188,800	5,355,133	51,309,973
Total assets	76,429,051	17,111,799	16,362,802	14,288,384	6,138,535	130,330,571
Liabilities						
Liabilities to credit institutions	1,002,399					1,002,399
Borrowing/deposits from the public	11,731,390					11,731,390
Debt securities in issue	32,400,000	6,605,823	7,538,050	7,888,800	5,455,133	59,887,805
Derivatives	30,656,118	9,200,000	6,704,000	4,290,000	570,000	51,420,118
Subordinated liabilities	1,630,000	70,000	0	0	-	1,700,000
Total liabilities	77,419,908	15,875,823	14,242,050	12,178,800	6,025,133	125,741,713
Net	-990,856	1,235,976	2,120,752	2,109,585	113,402	4,588,859
Interest-rate sensitivity, net	-3,288	-179	-49,552	-66,575	3,701	-115,893
Cumulative interest-rate sensitivity	-3,288	-3,467	-53,019	-119,594	-115,893	

The above table shows nominal amounts for derivatives. Nominal amounts for inflows from derivatives are shown on the asset side and nominal amounts for outflows on the liability side. The amounts have been allocated according to the dates when interest is reset. This differs from the maturity analysis, which includes all contracted flows, that is, nominal amounts plus contracted interest payments.

Management of operational risk

Incident identification and management of operational risks increases awareness and reduces the risk of losses. The bank uses a system for incident management and risk analysis, whereby risks and incidents are linked to processes deemed significant for the bank. Identified risks are assessed based on likelihood and consequence, and the results are reported to the Bank Management and the Board. The main purpose of these efforts is, as far as possible, to identify operational risks in the significant processes and to take actions to ensure these risks do not materialise.

Landshypotek Bank has an established process for significant changes, known as New Product Approval (NPAP). The process aims to ensure the bank is ready to manage new products, services and other significant changes. Key components in this process comprise the involvement of relevant departments at Landshypotek Bank, transparent discussion of the operational risks that could arise and well-documented decisions.

Risk analysis for the significant processes is also complemented through Landshypotek Bank's business continuity efforts. The aim of business continuity management is to identify the critical parts of operations and, thereafter, work to improve the robustness of these parts. Business continuity management should also manage the type of events that cannot be foreseen in the risk analysis, but which could have major consequences for the bank.

Maturity analysis for financial assets and liabilities, 2016

SEK thousand	< 3 months	4–12 months	1–3 years	3–5 years	> 5 years	Total
Financial assets						
Loans to credit institutions	592,071					592,071
Loans to the public	41,186,493	11,401,482	9,708,502	4,336,739	881,571	67,514,788
Bonds and other interest-bearing securities	1,021,805	2,460,136	4,988,356	4,247,475	0	12,717,772
Derivatives	95,542	586,072	4,463,601	1,706,286	4,121,613	10,973,114
Total	42,895,910	14,447,690	19,160,459	10,290,500	5,003,185	91,797,745
Financial liabilities						
Liabilities to credit institutions	1,002,399					1,002,399
Borrowing/deposits from the public	11,731,390					11,731,390
Granted credit facilities	711,321					711,321
Debt securities in issue	5,061,366	11,949,519	19,303,495	20,974,798	7,000,139	64,289,317
Derivatives	63,403	445,088	4,052,693	1,597,522	3,792,388	9,951,094
Subordinated liabilities	10,089	528,586	73,110	1,276,152	0	1,887,937
Total	18,579,969	12,923,194	23,429,297	23,848,472	10,792,527	89,573,459
Contracted cash flows	24,315,941	1,524,496	-4,268,838	-13,557,971	-5,789,343	2,224,285

The above table includes all contracted cash flows. The amounts are not discounted and are recognised during the time slot when Landshypotek is entitled to request payment or has an obligation or right to repay. Future variable rates of interest have been included in the calculation for derivatives and financial liabilities. Loans to the public are reported until the next date for loan renewal, when the customer can redeem the loan if the customer so desires. Interest-rate derivatives are settled on a net basis, while currency interest-rate derivatives are settled on a gross basis, which is reflected in the above table. This entails that contracted amounts on maturity are only included for currency interest-rate derivatives. All flows are stated net for interest-rate derivatives.

Note 3 Capital

Capital situation

Landshypotek Bank's total capital ratio amounted to 39.9 percent compared with 26.1 percent at 31 December 2015 and the CET1 capital ratio was 29.4 percent (23.4). During the year, own funds increased MSEK 1,521 to MSEK 6,455, mainly due to the issue of T2 capital. The regulatory capital requirement decreased MSEK 219 to MSEK 1,295, mainly due to reduced risk weights for exposures where the capital requirement is calculated with the IRB approach for credit risk. In addition to the minimum capital requirement of 8 percent of the total risk exposure amount of MSEK 1,295, the capital conservation buffer requirement is 2.5 percent and the countercyclical buffer requirement is 1.5 percent of the total risk exposure amount. 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 exposure amount at 31 December 2016. The capital quotient under the Basel I floor¹⁾ increased to 1.51 from 1.22 last year. The bank's leverage ratio amounted to 5.8 percent.

Capital requirement

Landshypotek 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 Finansinspektionen in autumn 2016 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 approach 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 bank's assessment is that the above changes will lead to a preliminary increase of around SEK 750 million in the capital requirement as per 31 December 2016. The internally assessed capital requirement on 31 December 2016 was SEK 4.7 billion²⁾ taking into account the above changes. At the same date, own funds were assessed as amounting to SEK 6.2 billion, even after the above changes. The capital adequacy assessment takes into account the minimum capital requirement, the combined buffer requirement and the Pillar II capital requirement. The capital requirement under the transitional rules related to the Basel I floor is also included in the assessment of the bank's capital requirements, but did not impact the scope of the capital requirements..

¹⁾ Basel I floor entails a requirement that own funds under Basel I comprise not less than 80 percent of the total amount of own funds the bank must hold under Basel I rules. Own funds under Basel I are calculated based on own funds under the CRR, but neutralise the impact of negative amounts resulting from the calculation of expected loss amounts (IRB) on the size of own funds under the CRR.

²⁾ 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 Finansinspektionen 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.

Own funds requirement by risk, approach and exposure class

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

¹⁾ Exposure value calculated in accordance with the CRR. In certain cases, instead of exposure value, the abbreviation EAD (Exposure at default) and the term exposure amount were used in the bank's previous reports.

²⁾ 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 CRR are applied for the standardised approach.

³⁾ Calculated by multiplying the risk exposure amount by 8 percent. Does not include any buffer requirements.

⁴⁾ Calculated by dividing the risk exposure amount by the exposure value for the respective risk/exposure class.

Capital adequacy analysis

SEK thousand	Consolidated situation ¹⁾ 31 December 2016
CET1 capital instruments: Instruments and reserves	
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 ²⁾	296,926
Equity in balance sheet	5,103,018
Deductions related to foreseeable costs	-123,806
CET1 capital before regulatory adjustments³⁾	4,979,212
CET1 capital: regulatory adjustments	
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
Total regulatory adjustments to CET1 capital	-225,349
CET1 capital	4,753,863
Additional Tier 1 capital: instruments	
Additional Tier 1 capital	
Tier 1 capital (CET1 capital + Tier 1 capital)	4,753,863
Tier 2 capital: instruments and provisions	
Capital instruments and subordinated loans eligible as Tier 2 capital	1,699,972
Positive amounts resulting from the calculation of expected loss amounts (IRB)	1,059
Tier 2 capital before regulatory adjustments	1,701,031
Tier 2 capital: regulatory adjustments	
Total regulatory adjustments to Tier 2 capital	
Tier 2 capital	1,701,031
Own funds (Tier 1 capital + Tier 2 capital)	6,454,894
Total risk exposure amount	16,190,434
Capital ratios and buffers	
Own funds requirement	1,295,235
CET1 capital ratio (%)	29.4
Tier 1 capital ratio (%)	29.4
Total capital ratio (%)	39.9
Institution-specific CET1 capital requirement including buffer requirements (%)	8.5
of which: capital conservation buffer requirement (%)	2.5
of which: countercyclical buffer requirement (%)	1.5
CET1 capital available to meet buffers (%) ⁴⁾	23.4
Capital adequacy according to Basel I floor	
Own funds	6,580,159
Own funds requirement	4,345,588
Capital quotient	1.51

¹⁾ The consolidated situation encompasses Landshypotek Ekonomisk Förening and the Landshypotek Bank Group.

²⁾ A decision by Finansinspektionen on 19 February 2016 gave Landshypotek Bank approval, under specific circumstances as set out in the permission, for using the interim or full-year surplus in own-funds calculations for the institute and also for its consolidated situation.

³⁾ This item pertains to the consolidated situation and differs from equity under IFRS in that the proposed dividend's contribution to equity is excluded.

⁴⁾ Calculated as "the bank's CET1 capital less CET 1 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

SEK thousand	Landshypotek Bank AB 31 December 2016			
	Exposure value ¹⁾	Risk exposure amount ²⁾	Own funds requirement ³⁾	Average risk weight ⁴⁾
Credit risk — IRB approach	65,236,386	8,815,831	705,267	14%
Retail — real estate collateral	65,101,874	8,681,320	694,506	13%
Other non-credit-obligation assets	134,512	134,512	10,761	100%
Credit risk — Standardised approach	18,218,570	4,454,610	356,369	24%
Central governments or central banks	46,140	-	-	0%
Regional governments or local authorities or agencies	5,476,209	-	-	0%
Institutions	2,024,199	676,570	54,126	33%
Corporates	295,292	293,056	23,445	99%
Retail	116,781	81,293	6,503	70%
Secured by mortgages on immovable property	3,019,193	2,661,034	212,883	88%
Exposures in default	15,889	20,170	1,614	127%
Covered bonds	7,224,867	722,487	57,799	10%
Operational risk — Basic indicator approach		1,423,728	113,898	
Credit valuation adjustment risk — Standardised approach	1,543,530	1,513,029	121,042	98%
Total	84,998,486	16,207,198	1,296,576	-

¹⁾ After application of the appropriate conversion factors to, where possible, also capture unutilised limits. For the IRB approach, the conversion factor is based on internal historic data while standardised conversion factors as stated in the CRR are applied for the standardised approach.

²⁾ 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 CRR are applied for the standardised approach.

³⁾ Calculated by multiplying the risk exposure amount by 8 percent. Does not include any buffer requirements.

⁴⁾ Calculated by dividing the risk exposure amount by the exposure value for the respective risk/exposure class.

Capital adequacy analysis

SEK thousand	Landshypotek Bank AB 31 December 2016
CET1 capital instruments: Instruments and reserves	
Share capital	2,253,000
Other contributed capital	1,016,694
Reserves	14,991
Actuarial differences	
Retained earnings	1,169,750
Net profit for the year ¹⁾	271,647
Equity in balance sheet	4,726,081
Deductions related to the consolidated situation and other foreseeable costs	
CET1 capital before regulatory adjustments	4,726,081
CET1 capital: regulatory adjustments	
Further value adjustments	-52,404
Intangible assets	-66,748
Deferred tax assets that rely on future profitability	-2,210
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	
Total regulatory adjustments to CET1 capital	-240,963
Common Equity Tier 1 (CET1) capital	4,485,118
Additional Tier 1 capital: instruments	
Additional Tier 1 capital	
Tier 1 capital (CET1 capital + Tier 1 capital)	4,485,118
Tier 2 capital: instruments and provisions	
Capital instruments and subordinated loans eligible as Tier 2 capital	1,699,972
Positive amounts resulting from the calculation of expected loss amounts (IRB)	1,059
Tier 2 capital before regulatory adjustments	1,701,031
Tier 2 capital: regulatory adjustments	
Total regulatory adjustments to Tier 2 capital	
Tier 2 capital	1,701,031
Own funds (Tier 1 capital + Tier 2 capital)	6,186,149
Total risk exposure amount	16,207,198
Capital ratios and buffers	
Own funds requirement	1,296,576
CET1 capital ratio (%)	27.7
Tier 1 capital ratio (%)	27.7
Total capital ratio (%)	38.2
Institution-specific CET1 capital requirement including buffer requirements (%)	8.5
of which: capital conservation buffer requirement (%)	2.5
of which: countercyclical buffer requirement (%)	1.5
CET1 capital available to meet buffers (%) ²⁾	21.7
Capital adequacy according to Basel I floor	
Own funds	6,311,415
Own funds requirement	4,346,835
Capital quotient	1.45

¹⁾ A decision by Finansinspektionen on 19 February 2016 gave Landshypotek Bank approval, under specific circumstances as set out in the permission, for using the interim or full-year surplus in own-funds calculations for the institute and also for its consolidated situation.

²⁾ Calculated as "the bank's CET1 capital less CET 1 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.

Note 4 Net interest income

SEK thousand	Group		Parent Company	
	2016	2015	2016	2015
Interest income				
Interest income on loans to credit institutions	-173	-707	-173	-707
Interest income on loans to Group companies				0
Interest income on loans to the public	1,266,978	1,413,906	1,266,978	1,401,091
Less interest losses	-1,168	-1,601	-1,168	-1,582
Interest income on interest-bearing securities	89,598	149,221	89,598	149,221
of which interest income for financial assets in fair-value hedges	12,006		12,006	
of which interest income on financial assets at FVTPL	81,516	138,361	81,516	138,361
of which interest income on available-for-sale financial assets	-3,924	10,860	-3,924	10,860
Other interest income	1,271	89	158	64
Total	1,356,505	1,560,908	1,355,392	1,548,087
Average interest on loans to the public	1.93%	2.24%	1.93%	2.22%
All interest income is attributable to the Swedish market				
Interest expense				
Interest expense for liabilities to Group companies	0		0	-9
Interest expense for liabilities to credit institutions — other	7,105	4,060	7,105	4,061
Interest expense for borrowing/deposits from the public				
of which: deposit insurance fees	-86,582	-83,941	-86,582	-83,941
Interest expense for borrowing/deposits from the public	-7,121	-3,675	-7,121	-3,675
Interest expense for interest-bearing securities	-691,341	-881,429	-691,341	-881,429
of which interest expense for other financial liabilities in fair value hedges adjusted for the fair value of hedged risk	-492,165	-617,491	-492,165	-617,491
of which interest expense on interest-bearing securities at amortised cost	-355,188	-381,341	-355,188	-381,341
of which periodisation of the market value created from terminated hedging commitments ¹⁾	156,013	117,405	156,013	117,405
Interest expense for subordinated liabilities	-34,641	-24,389	-34,641	-24,389
Interest expense for derivative instruments	218,913	209,608	218,913	209,608
of which interest expense on derivatives at FVTPL	41,291	-138,047	41,291	-138,047
of which interest expense on derivatives identified as hedging instruments	326,071	461,705	326,071	461,705
of which reclassification of terminated hedging relationships ¹⁾	-148,449	-114,050	-148,449	-114,050
Other interest expense	-42,764	-41,412	-42,764	-41,185
of which: government resolution fund fees	-28,821	-31,660	-28,821	-31,660
Total	-629,309	-817,503	-629,309	-817,284
Total net interest income	727,196	743,405	726,083	730,803

¹⁾ 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 resolution fund have been reclassified from Net commission income to Net interest income in 2016. The comparative figures for 2015 have been restated.

Note 5 Commission income

SEK thousand	Group		Parent Company	
	2016	2015	2016	2015
Loan commissions	11,872	9,987	11,872	9,672
Total	11,872	9,987	11,872	9,672

Note 6 Net result of financial transactions

SEK thousand	Group		Parent Company	
	2016	2015	2016	2015
Financial assets at FVTPL				
Realised result of sales of bonds and other interest-bearing securities	389	43,942	389	43,942
Available-for-sale financial assets				
Realised result of sales of bonds and other interest-bearing securities	2,263	27,555	2,263	27,555
Other financial liabilities				
Realised result on early redemption of own bonds issued	-49,121	-28,200	-49,121	-28,200
Financial liabilities at FVTPL				
Realised result from purchase/sale of derivative contracts	37,331	642	37,331	642
Total realised result	-9,138	43,938	-9,138	43,938
Financial assets at FVTPL				
Change in value of bonds and other interest-bearing securities	-50,876	-119,855	-50,876	-119,855
Change in value of derivatives with positive market values not included in any hedging relationship	-19,724	-20,028	-19,724	-20,028
Financial liabilities at FVTPL				
Change in value of derivatives with negative market values not included in any hedging relationship	83,876	88,487	83,876	88,487
Of which reclassification of terminated hedging relationships	2,893		2,893	
Items included in hedging relationships and subject to hedge accounting				
Change in value of bonds in issue included in fair-value hedges	-227,360	353,074	-227,360	353,074
Value changes of interest-rate-risk hedged items in macro hedges	21,233	-27,580	21,233	-27,580
Change in value of investment bonds included in fair-value hedges	21,481		21,481	
Change in value of derivatives included in fair-value hedges	203,773	-310,248	203,773	-310,248
– Of which reclassification of terminated hedging relationships ¹⁾	106,718	114,048	106,718	114,048
Total unrealised result	35,295	-36,151	35,295	-36,151
Net result of financial transactions	26,158	7,787	26,158	7,787

¹⁾ 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. The remaining amount to be periodised is MSEK 342.8, which will continue until August 2029.

Realised result is defined as changes in value that were realised, that is, received/paid from/to a counterparty, for transactions that were closed during the year. Unrealised result is defined as changes in the market values of open positions.

Note 7 Other operating income

SEK thousand	Group		Parent Company	
	2016	2015	2016	2015
Income from property	3,532	1,368	3,532	1,368
Operating net from repossessed properties		-377		-377
Other	3,783	1,544	3,783	1,544
Total	7,315	2,535	7,315	2,535

Note 8 General administrative expenses

SEK thousand	Group		Parent Company	
	2016	2015	2016	2015
Personnel costs				
Salaries, etc. to CEO, senior executives and Board of Directors	-19,016	-15,447	-19,016	-15,447
Salaries, etc., to other personnel	-90,049	-84,364	-90,049	-84,364
Provision to profit-sharing foundation	-4,461	-5,506	-4,461	-5,506
Pension costs	-18,857	-16,540	-22,202	-19,169
Social insurance charges	-34,515	-31,798	-34,515	-31,798
Other personnel costs	-1,844	-1,394	-1,844	-1,394
Total	-168,742	-155,049	-172,087	-157,678
Specification of pension costs				
Change in provision for pensions	37	659	37	659
Pension premiums	-16,966	-15,372	-16,966	-15,372
of which to senior executives	-2,726	-1,810	-2,726	-1,810
Directly paid pensions	-967	-692	-967	-692
Payroll and yield taxes attributable to pension costs	-4,306	-3,764	-4,306	-3,764
Defined-benefit pension plans	3,345	2,629		
Total	-18,857	-16,540	-22,202	-19,169

Pension costs in the Group are recognised in accordance with IAS 19, Employee Benefits. Pension costs in Landshypotek Bank AB have been calculated in accordance with Finansinspektionen's regulations.

The company's pension obligations are covered by insurance in Sparinstitutens Pensionskassa and by provisions for pensions covered by credit insurance from FPG (Försäkringsbolaget Pensionsgaranti, mutual). Further information about the pension liability is reported in Note 28.

SEK thousand	Group		Parent Company	
	2016	2015	2016	2015
Number of male employees	82	85	82	85
Number of female employees	81	79	81	79
Total	163	164	163	164
Average number of salaried employees, including substitutes	164.0	156.0	164.0	156.0
Directors and senior executives				
Number of directors	9	15	9	11
of whom, men	5	5	5	5
of whom, women	4	10	4	6

Refer to Note 39 for information on loans to directors and senior executives.

Cont. **Note 8** General administrative expenses

SEK thousand

Remuneration and other benefits, 2016	Basic salary/ Board fees	Other benefits	Pension costs	Other com- pensation	Total
Chairman of the Board Henrik Toll	647				647
Board member Hans Heuman	355			34	389
Board member Johan Trolle Löwen	373			6	379
Board member Nils-Fredrik Nyblaeus	478			17	496
Board member Charlotte Önnestedt	355				355
Board member Anna-Karin Eliasson Celsing	599			14	613
Board member Synnöve Trygg	355			2	357
CEO Liza Nyberg	3,225	119	614		3,958
Other senior executives (10 persons)	12,066	316	2,726	55	15,163
	18,453	435	3,339	128	22,356

Remuneration and other benefits, 2015	Basic salary/ Board fees	Other benefits	Pension costs	Other com- pensation	Total
Chairman of the Board Henrik Toll	762			8	770
Board member Hans Heuman	328			37	364
Board member Catharina Lagerstam	265				265
Board member Johan Trolle Löwen	478				478
Board member Nils-Fredrik Nyblaeus	501			10	511
Board member Charlotte Önnestedt	405				405
Board member Anna-Karin Eliasson Celsing	233				233
Board member Synnöve Trygg	355			5	360
CEO Liza Nyberg	2,922	91	1,008		4,021
Deputy Managing Director	383	40	118		541
Other senior executives (6 persons)	8,398	210	1,810	18	10,436
	15,028	341	2,936	77	18,383

No variable remuneration or share-based remuneration has been paid.

A mutual notice period of six months applies for the CEO and Landshypotek Bank. In case of termination by the company, compensation is payable of up to 12-months' remuneration excluding the notice period. In the case of a sale of the business, whereby Landshypotek Bank and the CEO are not in agreement regarding continued employment, compensation of up to 24-months' remuneration is payable excluding the notice period.

For other senior executives and Landshypotek Bank, contractual notice periods of six months apply.

Other administrative expenses	Group		Parent Company	
	2016	2015	2016	2015
Cost of premises	-15,360	-14,920	-15,360	-14,920
Office expenses	-3,084	-3,160	-3,084	-3,160
Telephone, data networks and postage expenses	-5,494	-5,883	-5,494	-5,872
IT expenses	-95,785	-74,241	-95,785	-74,241
Purchased services	-56,157	-75,523	-56,062	-74,423
Other	-6,681	-6,486	-6,661	-5,704
Fees and expenses to appointed auditors				
Audit assignment	-2,937	-3,121	-2,937	-3,012
Audit activities other than audit assignment	-1,376	-1,144	-1,376	-1,144
Tax consultancy	-107	-142	-107	-142
Other services	-3,427	0	-3,427	0
Total	-190,408	-184,620	-190,293	-182,618
Total general administrative expenses	-359,152	-339,668	-362,379	-340,295

Note 9 Depreciation, amortisation and impairment of intangible and tangible non-current assets

SEK thousand	Group		Parent Company	
	2016	2015	2016	2015
Tangible non-current assets				
Depreciation of furniture, fixtures and equipment	-3,365	-2,946	-3,365	-2,946
Depreciation of real property	-572	-844	-572	-844
Depreciation of land improvements	-28	-25	-28	-25
Intangible non-current assets				
Amortisation of IT system	-10,086	-15,863	-10,086	-15,863
Impairment of shares				
Impairment of shares in subsidiaries			-115	
Total	-14,050	-19,678	-14,165	-19,678

Note 10 Other operating expenses

SEK thousand	Group		Parent Company	
	2016	2015	2016	2015
Marketing expenses	-28,968	-25,226	-28,968	-25,226
Property expenses	-817	-1,087	-817	-1,087
Other	-1,296	-1,518	-1,296	-1,518
Total	-31,082	-27,831	-31,082	-27,828

Note 11 Net loan losses

SEK thousand	Group		Parent Company	
	2016	2015	2016	2015
Loan losses				
Write-off for the period for confirmed losses	-37,671	-50,261	-37,671	-48,232
Reversal of prior specific provisions for probable loan losses, recognised as confirmed losses in this period's accounts	37,315	49,091	37,315	47,629
Specific provisions for probable loan losses	-51,614	-82,226	-51,614	-77,091
Collective provisions for probable loan losses	-4,696		-4,696	
Recovery of previously confirmed losses	8,852	6,225	8,852	6,224
Reversal of prior specific provisions no longer necessary for probable loan losses	33,000	31,250	33,000	29,518
Total	-14,814	-45,921	-14,814	-41,952

All loan losses are attributable to loans to the public.

Properties taken over in foreclosure to protect claims, MSEK 0.4 (9).

Note 12 Income tax on comprehensive income

SEK thousand	Group		Parent Company	
	2016	2015	2016	2015
Profit before tax	353,444	330,615	348,988	318,778
Income tax calculated at national tax rates	-77,758	-72,735	-76,777	-70,131
Tax effects of:				
Non-taxable income	35	9	35	3
Non-deductible expenses	-426	-784	-426	-784
Adjustment of preceding year's tax expense	327	-33	-172	-33
Total income tax related to profit or loss	-77,823	-73,544	-77,341	-70,945
Weighted-average tax rate	-22.0%	22.2%	-22.2%	22.3%
<i>of which current tax</i>	-77,393	-72,569	-77,393	-70,997
<i>of which deferred tax</i>	-430	-975	52	52
Specification of deferred tax				
Deferred tax relating to pension costs	-482	-1,027		
Deferred tax relating to depreciation of real property	52	52	52	52
Deferred tax relating to loss carry-forwards		-		-
Total change in deferred tax	-430	-975	52	52
The actual tax rate for the year was 22 percent (22) for the Group and the Parent Company. Deferred tax amounted to 22 percent.				
Income tax related to other comprehensive income				
Cash-flow hedges				
Profit/loss before tax	11,812	29,425	11,812	29,425
Deferred tax	-2,599	-6,473	-2,599	-6,473
Profit after tax	9,213	22,951	9,213	22,951
Available-for-sale financial instruments				
Profit/loss before tax	62,087	-46,078	62,087	-46,078
Tax	-13,659	10,137	-13,659	10,137
Profit/loss after tax	48,428	-35,941	48,428	-35,941
Actuarial differences				
Profit/loss before tax	-38,811	40,989		
Deferred tax	8,538	-9,018		
Profit/loss after tax	-30,273	31,971		
Other comprehensive income	27,369	18,981	57,641	-12,990
Tax	-13,659	10,137	-13,659	10,137
Deferred tax	5,940	-15,491	-2,599	-6,473
Total income tax related to other comprehensive income	-7,719	-5,354	-16,258	3,664

Note 13 Loans to credit institutions

SEK thousand	Group		Parent Company	
	2016	2015	2016	2015
Loans to Group companies				70
Loans to banks	592,071	396,214	591,839	392,192
<i>of which reverse repos</i>		-		-
Total	592,071	396,214	591,839	392,262

Landshypotek Bank has no amounts outstanding.

Note 14 Loans to the public

SEK thousand	Group		Parent Company	
	2016	2015	2016	2015
Loan receivables	66,577,900	64,574,511	66,577,900	64,574,511
Less specific provisions for individually valued loan receivables	-54,736	-73,249	-54,736	-73,249
Less collective provisions for collectively valued loan receivables	-4,696		-4,696	
Net loan receivables	66,518,468	64,501,262	66,518,468	64,501,262
Disclosures on overdue unimpaired loan receivables				
Loan receivables overdue 5–90 days	77,079	102,304	77,079	102,304
Loan receivables overdue more than 90 days	230,696	260,209	230,696	260,209
Total overdue unimpaired loan receivables	307,775	362,513	307,775	362,513
Disclosures on doubtful credits				
Doubtful credits that are not overdue	103,767	151,902	103,767	151,902
Overdue doubtful credits	130,859	266,378	130,859	266,378
Total doubtful credits, gross	234,626	418,281	234,626	418,281
Less capital provisions made	-59,432	-73,249	-59,432	-73,249
Total doubtful credits, net	175,194	345,032	175,194	345,032
Doubtful credits at beginning of year	418,281	357,048	418,281	332,431
Asset transfer from subsidiaries				24,617
New doubtful credits during year	53,191	283,374	53,191	283,374
Doubtful credits settled during year	-236,845	-222,142	-236,845	-222,142
Doubtful credits at year end	234,626	418,281	234,626	418,280
Capital provisions at beginning of year	-73,249	-82,138	-73,249	-57,029
Asset transfer from subsidiaries	0		0	-24,617
Additional provisions during the year	-27,429	-43,452	-27,429	-43,452
Deducted provisions during the year	41,246	52,341	41,246	51,849
Capital provisions at year end	-59,432	-73,249	-59,432	-73,249

Refer to page 24 for details regarding collateral for loans outstanding. ▶

Note 15 Bonds and other interest-bearing securities

SEK thousand	Group		Parent Company	
	2016	2015	2016	2015
Bonds				
Issued by Swedish municipalities	5,478,389	5,110,402	5,478,389	5,110,402
Issued by credit institutions	0	-	0	-
Issued by housing finance institutions	7,136,148	8,141,187	7,136,148	8,141,187
of which covered bonds	7,136,148	8,141,187	7,136,148	8,141,187
Total	12,614,537	13,251,589	12,614,537	13,251,589
Valuation of bonds and other interest-bearing securities				
Nominal amount	12,168,000	12,955,000	12,168,000	12,955,000
Amortised cost	12,516,976	13,186,719	12,516,976	13,186,719
Fair value	12,614,537	13,251,589	12,614,537	13,251,589
<i>Bonds and other interest-bearing securities are classified as available-for-sale financial assets or as a trading portfolio.</i>				
Bonds and other interest-bearing securities by category				
Financial assets at FVTPL	2,613,652	7,712,032	2,613,652	7,712,032
Available-for-sale financial assets	10,000,885	5,539,557	10,000,885	5,539,557
Total	12,614,537	13,251,589	12,614,537	13,251,589

Note 16 Derivatives

Group and Parent Company

SEK thousand	2016		2015	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Derivatives not included in hedge accounting				
Positive closing value of interest-rate swaps	0	0	-	-
Positive closing value of cross-currency interest-rate swaps	833,660	38,796	2,272,055	323,038
Total	833,660	38,796	2,272,055	323,038
Derivatives included in hedge accounting				
Positive closing value of interest-rate swaps	20,091,168	1,081,659	17,238,000	1,004,653
Positive closing value of cross-currency interest-rate swaps	3,512,834	720,318	3,265,471	547,181
Total	23,604,002	1,801,977	20,503,471	1,551,833
Total	24,437,662	1,840,773	22,775,526	1,874,871

Carrying amounts pertain to market values excluding accrued interest on derivative contracts. Accrued interest is included under prepaid expenses and accrued income.

Note 17 Shares and participations in Group companies

SEK thousand	Group		Parent Company	
	2016	2015	2016	2015
Holdings in credit institutions				
Landshypotek Jordbrukskredit AB 1,000,000 shares with a quotient value of SEK 100			0	278,287
Other holdings				
Hypoteksbanken AB, 1,000 shares with a quotient value of SEK 100			100	100
Sveriges Allmänna Hypoteksbank AB 1,000 shares with a quotient value of SEK 100			100	100
Total			200	278,487
Dividends and Group contributions received, Jordbrukskredit			-	-
Impairment of shares in Jordbrukskredit				-2,266
Net result of shares in Jordbrukskredit				-2,266

All subsidiaries are wholly owned.

Hypoteksbanken, 556370-1100 domiciled in Stockholm.

Sveriges Allmänna Hypoteksbank AB, 556373-4432 domiciled in Stockholm.

Note 18 Intangible assets

SEK thousand	Group		Parent Company	
	2016	2015	2016	2015
Other intangible non-current assets				
Cost at beginning of year	59,047	59,047	59,047	59,047
Purchases during the year	56,179		56,179	
Closing cost	115,226	59,047	115,226	59,047
Accumulated amortisation at beginning of year	-38,393	-22,530	-38,393	-22,530
Amortisation for the year	-10,086	-15,863	-10,086	-15,863
Closing accumulated amortisation and impairment	-48,479	-38,393	-48,479	-38,393
Carrying amount	66,748	20,654	66,748	20,654

Intangible non-current assets consist of investments in software.

Note 19 Tangible assets

SEK thousand	Group		Parent Company	
	2016	2015	2016	2015
Furniture, fixtures and equipment				
Non-current assets				
Cost at beginning of year	27,234	24,263	27,234	24,263
Purchases during the year	2,025	2,971	2,025	2,971
Disposals during the year				
Closing cost	29,259	27,234	29,259	27,234
Accumulated depreciation at beginning of year	-16,613	-13,667	-16,613	-13,667
Depreciation and impairment for the year	-3,365	-2,946	-3,365	-2,946
Accumulated depreciation of assets sold				
Closing accumulated depreciation	-19,978	-16,613	-19,978	-16,613
Total furniture, fixtures and equipment	9,282	10,621	9,282	10,621
Buildings and land				
Non-current assets				
Operating properties				
Number of properties	1	1	1	1
Estimated fair value	28,000	28,000	28,000	28,000
Properties taken over in foreclosure to protect claims				
Number of properties	1	2	1	2
Estimated fair value	400	8,675	400	8,675
Cost at beginning of year	24,947	25,197	24,947	25,197
Reclassification				
Foreclosure properties	400		400	
Capitalised renovation costs		7,000		7,000
Sales	-9,918	-7,250	-9,918	-7,250
Closing cost	15,429	24,947	15,429	24,947
Depreciation for the year				
Accumulated depreciation at beginning of year	-4,779	-3,909	-4,779	-3,909
Reclassification				
Closing accumulated depreciation				
Depreciation for the year	-186	-870	-186	-870
Closing accumulated depreciation	-4,965	-4,779	-4,965	-4,779
Total buildings and land	10,464	20,168	10,464	20,168

Note 20 Other assets

SEK thousand	Group		Parent Company	
	2016	2015	2016	2015
Receivables from Group companies	8,924	3,127	8,924	3,127
Surplus in pension plan ¹⁾	0	30,115	-	
Other receivables	2,459	2,082	2,459	1,824
Total	11,383	35,324	11,383	4,951

¹⁾ See Note 29.

Note 21 Deferred tax

SEK thousand	Group		Parent Company	
	2016	2015	2016	2015
Deferred tax assets (+)/ liabilities (-)	2,955	-2,555	2,210	4,756
Total	2,955	-2,555	2,210	4,756
Opening deferred tax receivables on hedging reserve	4,495	10,968	4,495	10,968
Change in deferred tax on hedging reserve	-2,599	-6,473	-2,599	-6,473
Closing deferred tax receivables on hedging reserve	1,896	4,495	1,896	4,495
Opening deferred tax on actuarial differences	-9,657	-639		
Change in deferred tax on actuarial differences	8,538	-9,018		
Closing deferred tax receivables on actuarial differences	-1,118	-9,657		
Opening deferred tax receivables on pensions under IAS 19	2,345	3,372		
Less deferred tax on pensions under IAS 19	-482	-1,027		
Closing deferred tax receivables on pensions under IAS 19	1,863	2,345	0	
Opening deferred tax on depreciation of real property	261	209	261	209
Add deferred tax on depreciation of real property	52	52	52	52
Closing deferred tax on depreciation of real property	313	261	313	261
Total deferred tax assets (+)/liabilities (-)	2,955	-2,555	2,210	4,756

Deferred tax was calculated using a tax rate of 22 percent.
All items are expected to be settled later than within 12 months.

Note 22 Prepaid expenses and accrued income

SEK thousand	Group		Parent Company	
	2016	2015	2016	2015
Prepaid expenses	17,225	22,066	17,225	22,066
Accrued interest on loans to the public	49,044	63,858	49,044	63,858
Accrued interest on interest-bearing instruments	90,590	127,476	90,590	127,475
Accrued interest on derivatives	244,005	276,556	244,005	276,556
Other accrued income	4,547	8,125	4,547	8,125
Total	405,411	498,081	405,411	498,080

Note 23 Liabilities to credit institutions

SEK thousand	Group		Parent Company	
	2016	2015	2016	2015
Liabilities to Group companies			0	35
Swedish banks	558,444		558,444	0
Non-Swedish banks	443,955	393,227	443,955	393,227
Total	1,002,399	393,227	1,002,399	393,262

Note 24 Borrowing from the public

SEK thousand	Group		Parent Company	
	2016	2015	2016	2015
Deposits from the public	11,566,390	9,792,638	11,566,390	9,792,638
Other notes payable	165,000	517,079	165,000	517,079
Total	11,731,390	10,309,718	11,731,390	10,309,718

Note 25 Debt securities in issue, etc.

SEK thousand	Group		Parent Company	
	2016	2015	2016	2015
Commercial paper	2,881,206	2,270,516	2,881,206	2,270,516
Bond loans	58,690,932	60,742,135	58,690,932	60,742,135
Total	61,572,138	63,012,651	61,572,138	63,012,651
Debt securities in issue — hedged items in fair-value hedges				
Amortised cost	24,388,599	29,146,172	24,388,599	29,146,172
Fair value adjusted for the change in the fair value of hedged risk	25,411,672	30,069,566	25,411,672	30,069,566

Fair-value hedges

The Group hedges part of its exposure to interest-rate risk, in fixed-interest financial liabilities, against changes in fair value due to movements in interest rates. Interest-rate swaps and cross-currency interest-rate swaps are used for this purpose.

Cash-flow hedges

The Group hedges part of its exposure to interest-rate risk, in fixed-interest financial liabilities, against changes in future cash flows due to movements in interest rates. Interest-rate swaps and cross-currency interest-rate swaps are used for this purpose.

Note 26 Derivatives

SEK thousand	Group and Parent Company			
	2016		2015	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Derivatives not included in hedge accounting				
Negative closing value of interest-rate swaps	3,575,000	145,251	9,225,000	370,141
Negative closing value of cross-currency interest-rate swaps	699,508	10,557	901,433	42,354
Total	4,274,508	155,807	10,126,433	412,495
Derivatives included in hedge accounting				
Negative closing value of interest-rate swaps	20,179,000	423,878	18,159,000	198,793
Negative closing value of cross-currency interest-rate swaps	2,418,803	150,809	2,978,072	447,956
Total	22,597,803	574,686	21,137,072	646,749
Total	26,872,310	730,494	31,263,506	1,059,244

Carrying amounts pertain to market values excluding accrued interest on derivative contracts. Accrued interest is included under prepaid expenses and accrued income.

Note 27 Other liabilities

SEK thousand	Group		Parent Company	
	2016	2015	2016	2015
Tax liabilities	6 190		6 192	
Liabilities to Group companies	217,790	241,185	217,790	513,994
Accounts payable	11,809	17,943	11,809	17,943
Other liabilities	46,578	38,233	46,056	37,720
Total	282,367	297,361	281,846	569,657

Note 28 Accrued expenses and deferred income

SEK thousand	Group		Parent Company	
	2016	2015	2016	2015
Accrued interest on borrowing from the public	0	40	0	40
Accrued interest on debt securities in issue	277,694	330,814	277,694	330,814
Accrued interest on derivatives	126,265	201,540	126,265	201,540
Other accrued expenses	29,274	53,010	29,274	53,010
Deferred income	1,513	1,420	1,513	1,420
Total	434,746	586,824	434,746	586,824

Note 29 Provisions

SEK thousand

Defined-benefit pension plans are recognised in the balance sheet as a provision and are recognised in profit or loss as pension costs under personnel costs. Remeasurement of defined-benefit pension plans is recognised in other comprehensive income. The balance-sheet provision is the net of liabilities for pension obligations and the fair value of assets set aside to secure those pension obligations, known as plan assets.

A defined-benefit pension plan means that the employee is guaranteed a lifelong pension corresponding to a specified percentage of the employee's final salary and mainly comprises retirement pension, disability pension and survivors' pension. The Group's provision is affected by employees' life expectancy, anticipated final salary and the expected income base amount.

The plan is secured through the purchase of occupational pension insurance with the insurance company SPK (Sparinstitutens PensionsKassa). SPK administers pensions and manages assets for pension purposes both for Landshypotek Bank and other employers. Therefore, the Group must establish its share of the plan assets held at SPK.

Landshypotek Bank's share of SPK is 1.4 percent. The share is calculated using the ratio SPK would probably have used at the balance sheet date to distribute the assets if the plan were to be immediately phased out or if a situation had arisen whereby an extra payment would have been needed from employers because of insufficient assets. The employers are responsible for ensuring that SPK has sufficient assets to meet obligations under the pension plan pursuant to the legislation governing SPK. Therein lies Landshypotek Bank's risk. No such deficit exists at present. SPK's management of the assets is carried out in compliance with the regulations governing SPK. Accordingly, the Group's provision and pension cost is impacted by the result of SPK's asset management.

The scope of the saving and risk premiums that SPK will invoice for are determined by the premium assumptions applied by SPK. These include assumptions pertaining to mortality, interest rates, operating and safety supplements, etc. Landshypotek Bank does not itself apply any matching strategy between the assets and liabilities since its ownership of the assets is indirect through its share in the collective investment assets in SPK.

The table shows where in the financial statements the Group's post-employment benefits are recognised.

	Group		Parent Company	
	2016	2015	2016	2015
Balance-sheet obligations pertaining to:				
Defined-benefit pension plans	4,193	-30,115	1,324	1,361
Asset (-)/liability (+) in the balance sheet¹⁾	4,193	-30,115	1,324	1,361
Recognitions in operating profit pertaining to:²⁾				
Defined-benefit pension plans	4,457	2,400		
Total	4,457	2,400		
Remeasurement of actuarial gain/loss in other comprehensive income pertaining to:				
Defined-benefit pension plans	38,811	-40,989		
Total	38,811	-40,989		

¹⁾ Surpluses are recognised under other assets; refer to Note 20.

²⁾ Recognitions in operating profit include service costs for the current year, interest expense, fees/premiums and payroll tax.

The amounts recognised in the balance sheet were calculated as follows:

	2016	2015
Present value of funded obligations	353,168	361,726
Fair value of plan assets	-348,975	-391,841
Shortfall in funded plans	4,193	-30,115
Present value of unfunded obligations		
Total shortfall in defined-benefit pension plans	4,193	-30,115
Effect of minimum funding requirement/asset ceiling	-	-
Asset (-)/liability (+) in the balance sheet	4,193	-30,115

Cont. **Note 29** Provisions

SEK thousand

The change in the defined-benefit obligation during the year was as follows:	Present value of the obligation	Fair value of plan assets	Total
Opening balance, 1 January 2015	351,603	-337,509	14,094
Service costs for 2015	6,664	0	6,664
Interest expense/(income)	8,242	-8,014	228
Service costs for previous years and gains and losses from settlements			0
Total Costs	366,509	-345,523	20,986
Remeasurements:			
- Return on plan assets	5,739	-46,728	-40,989
Total remeasurements	5,739	-46,728	-40,989
Fees:			
- Employer		-8,138	-8,138
- Employees covered by the plan			
Payments from the plan:			
- Benefits paid	-10,522	8,548	-1,974
Closing balance, 31 December 2015	361,726	-391,841	-30,115
Opening balance, 1 January 2016	361,726	-391,841	-30,115
Service costs for 2016	4,916	0	4,916
Interest expense/(income)	11,221	-12,333	-1,112
Service costs for previous years and gains and losses from settlements			0
Total Costs	377,863	-404,174	-26,311
Remeasurements:			
- Return on plan assets	-2,766	41,577	38,811
Total remeasurements	-2,766	41,577	38,811
Fees:			
- Employer		-6,685	-6,685
- Employees covered by the plan			
Payments from the plan:			
- Benefits paid	-21,929	20,307	-1,622
Closing balance, 31 December 2016	353,168	-348,975	4,193

Budgeted fees under the plan for 2017 amount to MSEK 4,888.

	2016	2015
Actuarial gain (-) / loss (+) during the period	-38,811	40,989
Total gain/loss (+/-), obligation	2,766	-5,739
of which; gain/loss (+/-), experience-based effects, obligation	39,259	-22,692
of which; gain/loss (+/-), changed financial assumptions, obligation	-4,447	-5,999
of which; gain/loss (+/-), changed demographic assumptions, obligation	-32,046	22,952
Gain/loss (+/-), Plan assets	-41,577	46,728

The key actuarial assumptions were as follows:

	2016	2015
Discount rate	2.7%	3.2%
Salary increases	3.2%	3.1%
Pension increases	1.7%	1.6%

Cont. Note 29 Provisions

SEK thousand

Mortality assumptions are based on official statistics and experience from mortality studies, and are set in consultation with actuarial expertise. These assumptions mean the following average remaining life expectancies for individuals retiring at 65.

Retirement at the end of the reporting period:	2016	2015
Men	22	22
Women	24	24
Retirement 20 years after the end of the reporting period:		
Men	22	22
Women	24	24

The sensitivity of the defined-benefit obligation to changes in significant weighted assumptions is:

A change of one percentage point assuming all other factors are unchanged.

Assumptions	Present value of the obligation, 2016	Increase
Baseline scenario	353,168	
A 0.5-percentage point decrease in the discount rate	381,437	8.0%
A 0.5-percentage point increase in expected indexing of benefits	380,669	7.8%
A 0.5-percentage point increase in expected future salary increases	359,429	1.8%
A 20-percent decrease in mortality intensity	378,079	7.1%
Increase in the expected utilization rate for early retirement under the pension agreement from 20 to 40 percent.	355,316	0.6%

Distribution of the present value of the obligation, SEK thousand

	2016	2015
Active members	64,158	75,879
Deferred members	65,797	57,104
Retired plan members	223,213	228,743
Total	353,168	361,726

Number of individuals included in the valuation

	2016	2015
Active members	45	56
Deferred members	139	142
Retired plan members	120	107
Total	304	305

Maturity analysis undiscounted cash flows

Pension payments and payment of special payroll tax pertaining to the latent payroll tax liability, SEK thousand. Pertaining to pension entitlement earned as per the balance sheet date under IAS 19.

	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Later than 5 years	Total
At 31 December 2016					
Pension payments	18,443	16,350	45,048	474,200	554,041
Special payroll tax (only pertaining to the latent payroll tax liability)	1,186	766	1,022	377	3,351
Total	19,629	17,116	46,070	474,577	557,392

	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Later than 5 years	Total
At 31 December 2015					
Pension payments	20,307	19,180	52,697	515,477	607,661
Special payroll tax (only pertaining to the latent payroll tax liability)	1,810	1,163	1,538	555	5,066
Total	22,117	20,343	54,235	516,032	612,727

Weighted average duration of pension obligations, years

	31 Dec 2016	31 Dec 2015
Weighted average duration of pension obligations	17.6	16.9

The plan assets are comprised solely of the value of the insurance taken out with the SPK benevolent society to fund the defined-benefit BTP plan. Pension payments are made from this insurance.

Cont. Note 29 Provisions

SEK thousand

Allocation of plan assets

Note that Landshypotek owns the assets in SPK indirectly through insurance agreements. The allocation of investment assets in SPK follow, below.

Share by asset class	31 Dec 2016 ¹⁾	31 Dec 2015
Shares	28.0%	29.6%
Interest-bearing, incl. cash funds	31.9%	43.2%
Alternative investments, real assets and derivatives	40.1%	27.2%

¹⁾ As per most recent breakdown of assets at 31 August 2016

Note 30 Subordinated liabilities

SEK thousand			Group		Parent Company	
Due date	Nominal amount	Interest	2016	2015	2016	2015
2017/2022	70,000,000	Fixed interest 5.82%	69,972	69,972	69,972	69,972
2017/2022	430,000,000	3M STIBOR + 3.85%	430,000	430,000	430,000	430,000
2021/2026	1,200,000,000	3M STIBOR + 2.70%	1,200,000		1,200,000	
Total			1,699,972	499,972	1,699,972	499,972

Note 31 Changes in Equity

SEK thousand			Group		Parent Company	
			2016	2015	2016	2015
Change in hedging reserve						
Hedging reserve, opening balance			-15,936	-38,888	-15,936	-38,888
Change in fair value over the year			3,857	19,684	3,857	19,684
Transfer to profit or loss			7,954	9,741	7,954	9,741
Change in deferred tax			-2,599	-6,473	-2,599	-6,473
Hedging reserve, closing balance			-6,724	-15,937	-6,724	-15,937
Change in fair-value reserve						
Fair-value reserve, opening balance			-26,714	9,228	-26,714	9,228
Change in fair value over the year			61,988	-22,436	61,988	-22,436
Transfer to profit or loss			99	-23,643	99	-23,643
Tax on change in value for the year			-13,659	10,137	-13,659	10,137
Adjusted tax on preceding year's change			-	-	-	-
Fair-value reserve, closing balance			21,714	-26,714	21,714	-26,714
Actuarial differences						
Actuarial differences at beginning of year			13,914	-18,057		
Change for the year			-38,811	40,989		
Tax on change for the year			8,538	-9,018		
Actuarial differences at year end			-16,359	13,914	-	-
Total reserves at year end			-1,368	-28,736	14,991	-42,650

Note 32 Pledged assets, contingent liabilities and obligations

SEK thousand			Group		Parent Company	
			2016	2015	2016	2015
Pledged assets						
			None	None	None	None
Contingent liabilities						
Försäkringsbolaget Pensionsgaranti, FPG			26	27	26	27
Swedbank, overdraft facility			108,131	124,414	108,131	124,414
Total			108,157	124,441	108,157	124,441
Obligations						
Flexible first lien mortgage loans, granted unutilised amount			597,830	519,505	597,830	519,505
Total			597,830	519,505	597,830	519,505

Note 33 Financial assets and liabilities by category

Group

SEK thousand	Measured at FVTPL	Available-for-sale financial assets	Loans and receivables	Other financial liabilities	Liabilities in fair-value hedges adjusted for the fair value of hedged risk	Derivatives identified as hedging instruments
2016						
Assets						
Cash and balances with central banks						
Treasury bills and other eligible bills						
Loans to credit institutions			592,071			
Loans to the public			66,518,468			
Bonds and other interest-bearing securities	2,613,652	10,000,885				
Derivatives	38,796					2,521,977
Total financial assets	2,652,448	10,000,885	67,110,539	-	-	2,521,977
Financial liabilities						
Liabilities to credit institutions				1,002,399		
Borrowing from the public				11,731,390		
Debt securities in issue, etc.				36,148,939	25,411,672	
Derivatives	155,807					574,686
Subordinated liabilities				1,699,972		
Total financial liabilities	155,807	-	-	50,582,701	25,411,672	574,686

	Measured at FVTPL	Available-for-sale financial assets	Loans and receivables	Other financial liabilities	Liabilities in fair-value hedges adjusted for the fair value of hedged risk	Derivatives identified as hedging instruments
2015						
Assets						
Cash and balances with central banks			237			
Treasury bills and other eligible bills						
Loans to credit institutions			396,214			
Loans to the public			64,501,262			
Bonds and other interest-bearing securities	7,712,032	5,539,557				
Derivatives	323,038					1,551,833
Total financial assets	8,035,070	5,539,557	64,897,713	-	-	1,551,833
Financial liabilities						
Liabilities to credit institutions				393,227		
Borrowing from the public				10,309,718		
Debt securities in issue, etc.				32,943,085	30,069,566	
Derivatives	412,495					646,749
Subordinated liabilities				499,972		
Total financial liabilities	412,495	-	-	44,146,002	30,069,566	646,749

SEK thousand	Measured at FVTPL	Available-for-sale financial assets	Loans and receivables	Other financial liabilities	Liabilities in fair-value hedges adjusted for the fair value of hedged risk	Derivatives identified as hedging instruments
2016						
Assets						
Cash and balances with central banks						
Treasury bills and other eligible bills						
Loans to credit institutions			591,839			
Loans to the public			66,518,468			
Bonds and other interest-bearing securities	2,613,652	10,000,885				
Derivatives	38,796					2,521,977
Total financial assets	2,652,448	10,000,885	67,110,307	-	-	2,521,977
Financial liabilities						
Liabilities to credit institutions				1,002,399		
Borrowing from the public				11,731,390		
Debt securities in issue, etc.				36,148,939	25,411,672	
Derivatives	155,807					574,686
Subordinated liabilities				1,699,972		
Total financial liabilities	155,807	-	-	50,582,701	25,411,672	574,686

2015	Measured at FVTPL	Available-for-sale financial assets	Loans and receivables	Other financial liabilities	Liabilities in fair-value hedges adjusted for the fair value of hedged risk	Derivatives identified as hedging instruments
Assets						
Cash and balances with central banks			237			
Treasury bills and other eligible bills						
Loans to credit institutions			392,262			
Loans to the public			64,501,262			
Bonds and other interest-bearing securities	7,712,032	5,539,557				
Derivatives	323,038					1,551,833
Total financial assets	8,035,070	5,539,557	64,893,761	-	-	1,551,833
Financial liabilities						
Liabilities to credit institutions				393,262		
Borrowing from the public				10,309,718		
Debt securities in issue, etc.				32,943,085	30,069,566	
Derivatives	412,495					646,749
Subordinated liabilities				499,972		
Total financial liabilities	412,495	-	-	44,146,037	30,069,566	646,749

Note 34 Fair value disclosures

Group

SEK thousand	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
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
Total assets	81,565,849	82,456,612	80,024,173	79,734,661
Liabilities and provisions				
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
Total liabilities	76,736,394	77,841,973	75,274,812	75,595,380

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

Parent Company

SEK thousand	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
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
Total assets	81,565,617	82,456,380	80,020,221	79,730,708
Liabilities and provisions				
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
Total liabilities	76,736,394	77,841,973	75,274,847	75,595,415

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

Note 35 Fair-value hierarchy for financial instruments

Group

SEK thousand	2016				2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Loans and receivables								
Cash and balances with central banks				0		237		237
Loans to credit institutions		592,071		592,071		396,214		396,214
Loans to the public			67,409,231	67,409,231			64,211,750	64,211,750
Financial assets at FVTPL								
Bonds and other interest-bearing securities	2,613,652			2,613,652	7,712,032			7,712,032
Interest-rate swaps		0		-		-		-
Cross-currency interest-rate swaps		38,796		38,796		323,038		323,038
Derivatives identified as hedging instruments								
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
Available-for-sale financial assets								
Bonds and other interest-bearing securities	10,000,885			10,000,885	5,539,557			5,539,557
Total assets — fair value	12,614,537	2,432,844	67,409,231	82,456,612	13,251,589	2,271,322	64,211,750	79,734,661
Financial liabilities at FVTPL								
Interest-rate swaps		145,251		145,251		370,141		370,141
Cross-currency interest-rate swaps		10,557		10,557		42,354		42,354
Derivatives identified as hedging instruments								
Interest-rate swaps		423,878		423,878		198,793		198,793
Cross-currency interest-rate swaps		150,809		150,809		447,956		447,956
Other financial liabilities								
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.		62,632,533		62,632,533		63,303,591		63,303,591
Subordinated liabilities		1,745,157		1,745,157		529,600		529,600
Total liabilities — fair value	-	77,841,973	-	77,841,973	-	75,595,380	-	75,595,380

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 listed bonds issued by municipalities and county councils. Level 2 comprises derivative instruments for which there are well-established measuring models based on observable market data and financial liabilities.

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.

SEK thousand	2016				2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Loans and receivables								
Cash and balances with central banks				0		237		237
Loans to credit institutions		591,839		591,839		392,262		392,262
Loans to the public			67,409,231	67,409,231			64,211,750	64,211,750
Financial assets at FVTPL								
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		323,038		323,038
Derivatives identified as hedging instruments								
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
Available-for-sale financial assets								
Bonds and other interest-bearing securities	10,000,885			10,000,885	5,539,557			5,539,557
Total assets — fair value	12,614,537	2,432,612	67,409,231	82,456,380	13,251,589	2,267,370	64,211,750	79,730,709
Financial liabilities at FVTPL								
Interest-rate swaps		145,251		145,251		370,141		370,141
Cross-currency interest-rate swaps		10,557		10,557		42,354		42,354
Derivatives identified as hedging instruments								
Interest-rate swaps		423,878		423,878		198,793		198,793
Cross-currency interest-rate swaps		150,809		150,809		447,956		447,956
Other financial liabilities								
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.		62,632,533		62,632,533		63,303,591		63,303,591
Subordinated liabilities		1,745,157		1,745,157		529,600		529,600
Total liabilities — fair value	0	77,841,973	0	77,841,973	-	75,595,415	-	75,595,415

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 listed bonds issued by municipalities and county councils. Level 2 comprises derivative instruments for which there are well-established measuring models based on observable market data and financial liabilities.

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 36 Assets and liabilities by significant currencies

SEK thousand	Group		Parent Company	
	2016	2015	2016	2015
Assets				
EUR	443,955	393,603	443,955	393,603
Loans to credit institutions	443,955	393,603	443,955	393,603
Total assets	443,955	393,603	443,955	393,603
Liabilities				
EUR	443,955	393,227	443,955	393,227
Liabilities to credit institutions	443,955	393,227	443,955	393,227
CHF	1,828,545	3,480,380	1,828,545	3,480,380
EUR	3,703,975	3,536,137	3,703,975	3,536,137
NOK	2,532,195	3,060,656	2,532,195	3,060,656
Debt securities in issue	8,064,716	10,077,173	8,064,716	10,077,173
Total liabilities	8,508,671	10,470,400	8,508,671	10,470,400

Other assets and liabilities arise in SEK.

Most assets and liabilities in foreign currency are hedged against exchange-rate fluctuations using derivative contracts and the majority are reported using hedge accounting.

Note 37 Change in cash and cash equivalents

SEK thousand	Group		Parent Company	
	2016	2015	2016	2015
Cash and balances at beginning of year	237	242,001	237	242,001
Loans to credit institutions at beginning of year	396,214	478,332	392,262	571,557
Cash and balances at year end	0	237	0	237
Loans to credit institutions at year end	592,071	396,214	591,839	392,262
Total change in cash and cash equivalents	195,620	-323,882	199,340	-421,059

SEK thousand

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

	Amount recognised in the balance sheet 31 Dec 2016	Related amounts not offset in the balance sheet			Net amounts 31 Dec 2016
		Financial instruments subject to ISDA agreements	Paid (+) Received (-) collateral — securities	Paid (+) Received (-) collateral — securities	
Assets					
Derivatives, fair value	1,840,773	-581,547			
Derivatives, accrued interest	244,006	-120,157			
Derivatives, total value including accrued interest	2,084,779	-701,705		-421,237	961,838
Reverse repos	-				-
Liabilities					
Derivatives, fair value	-730,494	581,547			
Derivatives, accrued interest	-126,265	120,157			
Derivatives, total value including accrued interest	-856,758	701,705			-155,054
Reverse repos	-558,444				-558,444

	Amount recognised in the balance sheet 31 Dec 2015	Related amounts not offset in the balance sheet			Net amounts 31 Dec 2015
		Financial instruments subject to ISDA agreements	Paid (+) Received (-) collateral — securities	Paid (+) Received (-) collateral — securities	
Assets					
Derivatives, fair value	1,874,871	-668,713			
Derivatives, accrued interest	276,556	-169,443			
Derivatives, total value including accrued interest	2,151,427	-838,157		-361,074	952,197
Reverse repos	-				-
Liabilities					
Derivatives, fair value	-1,059,244	668,713			
Derivatives, accrued interest	-201,540	169,443			
Derivatives, total value including accrued interest	-1,260,784	838,157			-422,627
Reverse repos	-				-

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 subject to ISDA agreements

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.

Note 39 Related-party disclosures

Group

SEK thousand	2016		2015	
	Lending	Interest income	Lending	Interest income
Lending to key personnel				
CEO and senior executives	4,188	16	8,935	70
Board of Directors	115,606	2,659	116,125	3,094
Total	119,794	2,675	125,060	3,164

Permanent employees

Permanent employees of Landshypotek are able to borrow money at advantageous terms. The types of loans include both secured and unsecured loans. All lending is subject to customary credit approval processes. Credit information is obtained from Upplysningscentralen (UC). These loans may be subject to taxation as benefits. Unsecured loans with a ceiling of SEK 200,000 are granted with straight-line capital repayments over a maximum of ten years. The interest rate is 0.24% for 2016. Loans of up to 75% of the LTV ratio are granted against collateral in agricultural properties, houses, tenant-owned apartments and holiday homes. Straight-line capital repayment applies for these loans over a maximum period of 40 years. The fixed-rate periods are one, two, three, four, five and eight years. The applicable interest rates are:

1 year	0.38%
2 years	0.50%
3 years	0.70%
4 years	0.94%
5 years	1.14%
8 years	1.82%

Loans to key personnel are managed under the conflict of interest rules.

Group

SEK thousand	2016		2015	
	Deposits	Interest expense	Deposits	Interest expense
Deposits from key personnel				
CEO and senior executives	2,505	26	4,901	36
Board of Directors	11,602	40	6,510	30
Total	14,107	66	11,411	66

Parent Company

SEK thousand	2016		2015	
	Lending	Interest income	Lending	Interest income
Lending to key personnel				
CEO and senior executives	4,188	16	-	-
Board of Directors	115,606	2,659	116,125	3,094
Total	119,794	2,675	125,060	3,164

Permanent employees

Permanent employees of Landshypotek are able to borrow money at advantageous terms. The types of loans include both secured and unsecured loans. All lending is subject to customary credit approval processes. Credit information is obtained from Upplysningscentralen (UC). These loans may be subject to taxation as benefits. Unsecured loans with a ceiling of SEK 200,000 are granted with straight-line capital repayments over a maximum of ten years. The interest rate is 0.24% for 2016. Loans of up to 75% of the LTV ratio are granted against collateral in agricultural properties, houses, tenant-owned apartments and holiday homes. Straight-line capital repayment applies for these loans over a maximum period of 40 years. The fixed-rate periods are one, two, three, four, five and eight years. The applicable interest rates are:

1 year	0.38%
2 years	0.50%
3 years	0.70%
4 years	0.94%
5 years	1.14%
8 years	1.82%

Loans to key personnel are managed under the conflict of interest rules.

Parent Company

SEK thousand	2016		2015	
	Deposits	Interest expense	Deposits	Interest expense
Deposits from key personnel				
CEO and senior executives	2,505	26	4,901	36
Board of Directors	11,602	40	6,510	30
Total	14,107	66	11,411	66

Deposits from key personnel are subject to the same terms and conditions as other equivalent deposits with the company.

Note 40 Appropriation of earnings

SEK

Retained earnings	SEK 1,321,708,797
Group contribution	SEK -175,600,000
Tax effect of Group contribution	SEK 38,632,000
Total	SEK 1,184,740,797

Net loss for 2016	SEK 271,646,957
At the disposal of the Annual General Meeting	SEK 1,456,387,754

Conditional on the approval of the Annual General Meeting, a Group contribution has been paid in the amount of SEK 175,600,000, which has reduced unrestricted equity as of the balance sheet date by SEK 136,968,000 after taking the tax effect into account. The proposed transfer of value in the form of a Group contribution reduces the company's capital quotient to 1.45, calculated in accordance with Finansinspektionen's transitional rules. Unrealised changes in the value of assets and liabilities measured at fair value had a net negative impact on equity of MSEK 145.8.

The Board of Directors is of the opinion that the proposed dividend, in the form of a Group contribution, does not compromise the company's or the Group's ability to discharge its obligations in the short and long term, nor to make any necessary investments. The proposed transfer of value can therefore be justified considering that stated in Chapter 17, Section 3, paragraphs 2–3 of the Swedish Companies Act. The Board of Directors proposes that the year's funds at the disposal of the Annual General Meeting, SEK 1,456,387,754, be carried forward.

The Board of Directors and the CEO hereby certify 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 annual accounts have been prepared in accordance with generally accepted accounting principles and provide a fair representation of the Parent Company's position and performance.

Stockholm, 16 March 2017

Henrik Toll
Chairman

Anna-Karin Eliasson Celsing
Member

Hans Heuman
Member

Nils-Fredrik Nyblæus
Member

Johan Trolle-Löwen
Member

Synnöve Trygg
Member

Charlotte Önnstedt
Member

Helena Andersson
Member/Employee Representative

Hans Broberg
Member/Employee Representative

Liza Nyberg
CEO

Our audit report was submitted on 16 March 2016

Ulf Westerberg
*Authorised Public Accountant
Auditor-in-charge*

Helena Kaiser de Carolis
Authorised Public Accountant

Auditor's report (for translation purposes only)

To the general meeting of the shareholders of Landshypotek Bank AB (publ), corporate identity number 556500-2762

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of Landshypotek Bank AB (publ) for the year 2016, except for the corporate governance statement on pages 27-35. The audited annual accounts and consolidated accounts of the company are included on pages 19-85 in the printed Swedish version of the annual report.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The consolidated accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies. Our opinions do not cover the corporate governance statement on pages 27-35. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

We have, amongst other things, executed an audit of the parent company, consolidation, annual accounts and significant assumptions and judgments. Based on the executed audit activities mentioned above, we deem that we have obtained sufficient audit evidence to provide an opinion on the financial reports in their entirety. The operations within Landshypotek Bank are comprised primarily of lending against security in real property, largely to agricultural and forestry businesses. Landshypotek Bank utilises derivatives with the aim of managing the difference in interest rates and currency risks arising between assets and liabilities. The audit covers the assessment and testing of controls of key business processes regarding financial reporting and the processes for determining credit provisions, as well as the processes for the valuation of derivatives. We have also executed tests of the bookkeeping combined with analytical procedures.

The audit was undertaken on an ongoing basis during the year. We reported the results of the audit to the company's management, Audit Committee and Board of Directors.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Key audit matters

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

Provision for loan losses

The value of Landshypotek Bank's loan receivables are tested on an ongoing basis at individual and collective levels. If necessary, receivables are impaired to the assessed recoverable amount. In order to estimate the recoverable amount, a number of assessments are carried out, including an assessment of the counterparty's repayment capacity and the realisation value of any collateral.

In order to estimate the recoverable value, Landshypotek Bank makes a number of judgments on, amongst other things, the borrowers' financial repayment capacity and the realisation value of the security. These judgments and assumptions always contain a degree of subjectivity and the actual outcome can deviate from these judgments and assumptions.

As per 31 December 2016, the reported value of Lending to the public amounted to MSEK 66,518 of which specific provisions amounted to MSEK -54.7 and collective provisions amounted to MSEK -4.7.

Refer to the Annual Report, Note 1 Accounting principles, Note 2 regarding Credit risks, Note 11 Net loan losses and Note 14 Loans to the public.

Our audit included both tests of internal controls of the loan loss provisioning process and substantive procedures regarding the loan loss provisions.

In our examination of internal controls in the credit provision process the following key controls implemented by the company have been tested:

- Identification of loan receivables where an impairment test is to be undertaken
- Execution and documentation of the impairment test
- Calculation of the write-downs based on the discounted expected future cash flow
- Recording of the provisions in the general ledger

In our substantive procedures performed on specific loan loss provisions we have selected a sample of loan receivables where a loss event was identified. For these loan receivables, we have obtained Landshypotek's documented impairment test, assessed the position taken by Landshypotek regarding the realisation value of the security based on available information, checked the calculation of the write-down amount and reconciled this amount with the accounts.

We have examined and assessed the collective impairment tests executed by Landshypotek and, as applicable, reconciled the calculated provisions with the accounts.

We have also evaluated the disclosures in the Notes in relations to the regulations found in IFRS 7.

Valuation of financial instruments - derivatives

Landshypotek Bank's derivative portfolio is comprised of interest and currency rate swaps traded on the OTC market.

The derivatives are valued with the help of established valuation models based on observable market data. The valuation includes a certain degree of subjectivity regarding, primarily, the valuation of the credit risk component and the interpolation of market data with longer tenors.

As per 31 December 2016, the reported value of Derivatives amounted to MSEK 1,841 Assets and MSEK 730 Liabilities.

Refer to the Annual Report, Note 1 Accounting principles, Note 16 and 26 Derivatives and Note 2 regarding Market Risk.

Our audit has included both tests of the internal control of the valuation process regarding derivatives and substantive procedures regarding the valuation.

In our audit of internal controls in the valuation process, the following key controls applied by the company have been tested:

- Price validation against counterparty prices
- Validation of market data
- Model validation
- General IT controls in the finance system

In our substantive procedures, we have recalculated a sample of derivative positions as of year-end where our own valuation models and market data were applied. We have also examined the valuation of the credit risk component.

We have also evaluated the disclosures in the Notes in relation to the regulations in IFRS 7 and IFRS 13.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-18. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

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

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor's report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Landshypotek Bank AB (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

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

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the on-going administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

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

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

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

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

A further description of our responsibility for the audit of the administration is available on Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor's report.

The auditors' examination of the corporate governance report

The Board of Directors is responsible for that the Corporate Governance Report on pages 27–35 of the printed Swedish version of the annual report have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

Our examination of the corporate governance report is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance report. This means that our examination of the corporate governance report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance report has been prepared. Disclosures in accordance with Chapter 6, Section 6, the second paragraph, points 2-6 of the Annual Accounts Act and Chapter 7, Section 31, the second paragraph of the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm 16 March 2017
Öhrlings PricewaterhouseCoopers AB

Ulf Westerberg
Authorised Public Accountant
Auditor-in-charge

Helena Kaiser de Carolis
Authorised Public Accountant

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Till ryggen!