

Länsförsäkringar Hypotek

Interim Report January–March 2019

The period in brief

- Operating profit increased 26% to SEK 297.9 M (236.4) and the return on equity strengthened to 8.1% (6.9).
- Net interest income increased 8% to SEK 631.5 M (585.4).
- Credit losses amounted to SEK -0.4 M (-0.3), net, corresponding to a credit loss level of -0.00% (-0.00).
- Lending increased 11% to SEK 225.9 billion (203.9).
- The Common Equity Tier 1 capital ratio amounted to 18.1% (18.3*) on 31 March 2019.
- The number of customers rose 7% to 278,000 (260,000).
- According to the 2018 Swedish Quality Index customer satisfaction survey, Länsförsäkringar is the single player on the market with the most satisfied retail mortgage customers.

Figures in parentheses pertain to the same period in 2018.
* Refers to 31 December 2018.

President's comment

Länsförsäkringar Hypotek reported healthy growth for the quarter and we are further strengthening our position in the mortgage market by increasing our market share. Mortgage lending is continuing to grow while maintaining a high level of credit quality in the loan portfolio. Market growth has stalled slightly and we can see that the competitive situation is changing to a certain extent, mainly in the large cities. The housing market is now in a calmer period and the price trend is largely unchanged since the market stabilised at the end of last year. The underlying problem of a poorly functioning housing market and the imbalance between supply and demand for housing remain areas for which there are no clear initiatives. Stimulating turnover and simplifying the functionality of the housing market will require a political effort and a clear willingness to address the fundamental problems.

Anders Borgcrantz

President of Länsförsäkringar Hypotek

Loans to the public



● Loans, SEK billion ● Loan losses, %

Customer trend

Number of customers, 000s



Key figures

	Q1 2019	Q4 2018	Q1 2018	Full-year 2018
Return on equity, %	8.1	7.3	6.9	7.7
Return on total assets, %	0.36	0.35	0.33	0.36
Investment margin, %	1.00	1.01	1.06	1.04
Cost/income ratio before credit losses	0.09	0.09	0.10	0.09
Common Equity Tier 1 capital ratio, %	18.1	18.3	54.8*	18.3
Total capital ratio, %	19.2	19.4	58.2*	19.4
Share of credit-impaired loan receivables (stage 3), %	0.07	0.07	0.07	0.07
Reserve ratio for loan receivables stage 1, %	0.00	0.00	0.00	0.00
Reserve ratio for loan receivables stage 2, %	0.07	0.08	0.08	0.08
Reserve ratio for loan receivables stage 3, %	1.02	1.06	1.11	1.06
Reserve ratio for loan receivables stage 3, incl. withheld remuneration to regional insurance companies, %	5.09	5.29	5.53	5.29
Credit loss level, %	-0.00	-0.00	-0.00	-0.00

* The capital ratios for periods prior to 31 December 2018 were calculated using the risk weight floor for Swedish mortgages that was previously applied.

Income statement, quarterly

Mkr	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Net interest income	631.5	611.9	624.0	612.2	585.4
Net commission	-289.5	-327.7	-304.9	-285.4	-321.7
Net gains/losses from financial items	-15.7	8.7	-15.9	5.2	0.0
Total operating income	326.3	292.9	303.3	332.1	263.8
Staff costs	-3.3	-3.2	-3.4	-3.8	-4.5
Other administration expenses	-25.5	-24.5	-23.0	-23.4	-23.2
Total operating expenses	-28.8	-27.7	-26.3	-27.2	-27.7
Profit before credit losses	297.5	265.2	276.9	304.8	236.1
Credit losses, net	0.4	0.1	0.5	0.5	0.3
Operating profit	297.9	265.3	277.4	305.3	236.4

Market commentary

The global economy slowed in the first quarter of the year and future economic prospects have become less certain. Growth in both industry and global retail declined, while optimism among both companies and households has levelled off. The slowdown was particularly noticeable in Europe and was due in part to temporary factors, but also to a weaker economic performance in China and uncertainty related to the trade war between the US and China. The process of the UK withdrawing from the EU was also a negative contributing factor. However, domestic demand in the eurozone proved to be more resilient. The outlook for the US economy remains favourable even though economic statistics in the first quarter of the year were mixed. The Chinese government continued its stimulus measures, in both fiscal and monetary policy, for example by lowering taxes, which is expected to stabilise the situation.

Due to the slowdown in the global economy and the continuation of generally moderate pressure on inflation, central banks around the world have adopted a more cautious approach to austerity. The Fed signalled that there would be no further interest rate hikes in 2019 and also announced that it would end the reduction of its balance sheet during the year. It was only as recently as December 2018 that the Fed indicated that rates would be raised twice in 2019. The ECB also suggested that rates would not be increased this year and that it would continue to offer long-term financing to banks. Combined, these factors led to long-term government bond rates falling and the German ten-year rate was once again negative. Rates on covered bonds fell and credit spreads generally narrowed during the quarter. However, stock markets performed strongly during the quarter and recovered much of the slump in recent months. The Stockholm

Stock Exchange was up more than 13% in the quarter, including dividends.

The economic trend in Sweden was relatively positive and the labour market further strengthened. The Riksbank did not alter its monetary policy and the repo rate remained at -0.25% for the quarter. However, inflation was significantly weaker than the Riksbank had expected, which combined with the shakier performance of the global economy could make it more difficult for the Riksbank to continue to pursue the rate hikes it has announced. The housing market has now entered into a calmer period following the stabilisation phase it experienced at the end of last year, and the housing price trend was more or less unchanged in the quarter.

First quarter of 2019 compared with first quarter of 2018

Growth and customer trend

Loans to the public rose 11%, or SEK 22.0 billion, to SEK 225.9 billion (203.9), with continued very high credit quality. The number of customers rose 7%, or 18,000, to 278,000 (260,000), and 88% (88) of retail mortgage customers have Länsförsäkringar as their primary bank.

Earnings and profitability

Operating profit increased 26% to SEK 297.9 M (236.4), due to higher net interest income. The investment margin amounted to 1.00% (1.06). Profit before credit losses rose 26% to SEK 297.5 M (236.1). Return on equity strengthened to 8.1% (6.9).

Operating profit and return on equity



Income

Operating income increased 24% to SEK 326.3 M (263.8), due to higher net interest income. Net interest income increased 8% to SEK 631.5 M (585.4), attributable to higher volumes. Net losses from financial items amounted to SEK -15.7 M (0.0). Net commission amounted to SEK -289.5 M (-321.7).

Net interest income



Expenses

Operating expenses amounted to SEK 28.8 M (27.7). The cost/income ratio before credit losses amounted to 0.09 (0.10).

Credit losses

Credit losses amounted to SEK -0.4 M (-0.3), net, corresponding to a credit loss level of -0.00% (-0.00).

Credit-impaired loan receivables (stage 3) before provisions amounted to SEK 167.1 M, corresponding to a share of credit-impaired loan receivables of 0.07%. The total recognised loss allowance for loan receivables amounted to SEK 5.4 M, of which SEK 1.7 M pertained to credit-impaired loan receivables. The reserve ratio for credit-impaired loan receivables amounted to 1.02%. In addition to the recognised loss allowance, SEK 21.7 M of the remuneration to the regional insurance companies' credit-risk commitments for generated business is withheld in accordance with the settlement model, of which SEK 6.8 M pertains to credit-impaired loan receivables. Including the withheld remuneration to the regional insurance companies, the loss allowance for loan receivables totalled SEK 27.1 M. The reserve ratio for credit-impaired loan receivables, including withheld remuneration to regional insurance companies, amounted to 5.09%.

SEK M	31 Mar 2019	31 Mar 2018
Loans to the public	225,934	203,879
Credit-impaired loan receivables (stage 3)	167.1	154.2
Total loss allowance for credit-impaired loan receivables (stage 3), incl. withheld remuneration to regional insurance companies	8.5	8.5
of which loss allowance for credit-impaired loan receivables (stage 3)	1.7	1.7
of which withheld remuneration to regional insurance companies for credit-impaired loan receivables (stage 3)	6.8	6.8

For further information on credit losses and credit-impaired loan receivables, refer to notes 1, 6 and 8.

Loans

All loans are granted in Sweden, in SEK and have a well-diversified geographic distribution. Loans to the public increased 11%, or SEK 22.0 billion, to SEK 225.9 billion (203.9). The credit quality of the loan portfolio, whose collateral comprises 71% (71) single-family homes, 25% (25) tenant-owned apartments, 3.5% (3.5) first-lien mortgages for multi-family housing and 0.5% (0.5) industrial properties, remained favourable. On 28 February 2019, the market share of retail mortgages

strengthened to 6.8% (6.4) according to Statistics Sweden.

Cover pool

The cover pool, which forms the basis of issuance of covered bonds, contains mortgages of SEK 216.3 billion, corresponding to 96% of the loan portfolio. This collateral comprises only private homes, of which 76% (72) are single-family homes, 26% (26) tenant-owned apartments and 2% (2) vacation homes. The geographic spread throughout Sweden is favourable and the average loan commitment is low at SEK 1.26 M (1.21). The weighted average loan-to-value ratio, LTV, was 59% (57) and the nominal, current OC (overcollateralisation) amounted to 29% (32). Länsförsäkringar Hypotek's cover pool has a healthy buffer to manage any downturns in housing prices. In a stress test of the cover pool based on a 20% price drop in the market value of the mortgages' collateral, the weighted average LTV amounted to 66% (65) on 31 March 2019. No impaired loans are included in the cover pool. According to Moody's report (Global Covered Bonds Monitoring Overview, Q2 2018), Länsförsäkringar Hypotek's cover pool continues to have the highest collateral score among all Swedish covered-bond issuers, and is among the foremost in Europe.

Cover pool	31 Mar 2019	31 Mar 2018
Cover pool, SEK billion	227	205
OC ¹ , nominal, current level, %	29	32
Weighted average LTV, %	59	57
Collateral	Private homes	Private homes
Seasoning, months	59	58
Number of loans	388,225	364,842
Number of borrowers	171,382	160,994
Number of properties	171,250	160,841
Average commitment, SEK 000s	1,263	1,212
Average loan, SEK 000s	557	534
Interest rate type, variable, %	65	71
Interest rate type, fixed, %	35	29
Loans past due 60 days	None	None

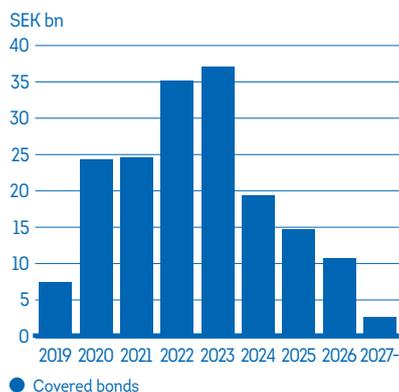
¹ OC is calculated using nominal values and excludes accrued interest rates. Debt securities in issue in other currencies than SEK are translated into SEK using the swap rate. Debt securities in issue include repurchase agreements.

Funding

Länsförsäkringar Hypotek continuously issues bonds to refinance future new loans and current funding falling due. The funding structure is favourable and the maturity profile is well diversified. Debt securities in issue increased 14% to SEK 185.1 billion (162.3). Issued covered bonds during the quarter to-

talled a nominal SEK 16.5 billion (12.4) and repurchases of a nominal SEK 4.1 billion (4.2) were executed. No covered bonds matured during the period. In January, Länsförsäkringar Hypotek issued a seven-year euro benchmark covered bond for a nominal EUR 500 M. In addition, Länsförsäkringar Hypotek issued a new Swedish covered bond (LFH519) during the quarter, which matures in September 2026.

Maturity profile



Liquidity

On 31 March 2019, liquidity assets totalled SEK 10.9 billion (10.6). The liquidity situation remains healthy and contractual undertakings can be met for more than two years without needing to secure new funding in the capital market. Liquidity assets comprised 100% (100) Swedish covered bonds with the credit rating of AAA/Aaa.

Rating

Länsförsäkringar Hypotek is one of three issuers in the Swedish market with the highest credit rating for covered bonds from both Standard & Poor's and Moody's. The Parent Company Länsförsäkringar Bank's credit rating is A/Stable from Standard & Poor's and A1/Stable from Moody's.

Capital ratio¹

Länsförsäkringar Hypotek AB (SEK M)	31 Mar 2019	31 Dec 2018
IRB Approach	17,504	17,170
retail exposures	14,073	13,741
exposures to corporates	3,431	3,429
Standardised Approach	1,631	1,480
Operational risks	1,430	1,131
Additional requirements according to Article 458 CRR	42,268	41,225
Total REA	63,387	61,556
Common Equity Tier 1 capital	11,494	11,291
Tier 1 capital	11,494	11,291
Total capital	12,155	11,952
Common Equity Tier 1 capital ratio	18.1%	18.3%
Tier 1 ratio	18.1%	18.3%
Total capital ratio	19.2%	19.4%

Total Risk Exposure Amount (REA) on 31 March 2019 amounted to SEK 63,387 M (61,556). REA increased by SEK 1,831 M during the quarter, which was mainly a result of the annual update of the capital requirement for operational risk and the increase in the additional requirement under the framework of Article 458 in CRR, introduced by the Swedish Financial Supervisory Authority at the start of the year, due to volume growth. The credit quality of lending remained favourable and did not have any material impact on REA for the quarter.

The Common Equity Tier 1 capital ratio amounted to 18.1% (18.3). Common Equity Tier 1 capital strengthened again this quarter, with continued profit generation. On 31 March 2019, total REA amounted to SEK 11,494 M (11,291).

For more information on capital adequacy, see note 12.

Internally assessed capital and buffer requirements

The internally assessed capital requirement for Länsförsäkringar Hypotek AB on 31 March 2019 amounted to SEK 6,308 M, comprising the minimum capital requirement under Pillar I and the capital requirement for risks managed under Pillar II. The internally assessed capital requirement is calculated based on the methods and models used to calculate the capital requirement under the framework of Pillar I. Internal models are used for Pillar II risks.

In addition to this, there are capital requirements for the countercyclical capital buffer and the capital conservation buffer. The countercyclical capital buffer of 2% of REA amounted to SEK 1,268 M (1,231) on 31 March 2019 and the capital conservation buffer of 2.5% of REA to SEK 1,585 M (1,539).

The capital used to meet the internal capital requirement including buffer, meaning own funds, amounted to SEK 12,155 M.

¹ The comparative period is 31 December 2018. Periodic information according to the Swedish Financial Supervisory Authority's regulations regarding prudential requirements and capital buffers, (FFFS 2014:12) and regarding management of liquidity risks in credit institutions and investment firms (FFFS 2010:7) is provided in this section, the section on funding and liquidity and in note 12.

Interest-rate risk

On 31 March 2019, an increase in market interest rates of 1 percentage point would have increased the value of interest-bearing assets and liabilities, including derivatives, by SEK 74.8 M (103.6).

Risks and uncertainties

Länsförsäkringar Hypotek is exposed to a number of risks, primarily credit risks, liquidity risks and market risks. The macroeconomic situation in Sweden is critical for credit risk, since all loans are granted in Sweden. Market risks primarily comprise interest-rate risks, which are restricted through narrow limits. The operations are characterised by a low risk profile. Credit losses remain low and the refinancing of business activities was highly satisfactory during the period. A more detailed description of risks is available in the 2018 Annual Report. No significant changes in the allocation of risk have taken place compared with the description provided in the Annual Report.

First quarter of 2019 compared with fourth quarter of 2018

Operating profit increased 12% to SEK 297.9 M (265.3) due to higher net interest income. Return on equity strengthened to 8.1% (7.3). Operating income increased 11% to SEK 326.3 M (292.9). Net interest income increased 3% to SEK 631.5 M (611.9). Net losses from financial items amounted to SEK -15.7 M (8.7) as a result of changes in fair value. Net commission amounted to SEK -289.5 M (-327.7). Operating expenses amounted to SEK 28.8 M (27.7) and the cost/income ratio before credit losses to 0.09% (0.09). Credit losses amounted to SEK -0.4 M (-0.1).

Events after the end of the period

No significant events took place after the end of the period.

Rating

Company	Agency	Long-term rating	Short-term rating
Länsförsäkringar Bank	Standard & Poor's	A/Stable	A-1(K-1)
Länsförsäkringar Bank	Moody's	A1/Stable	P-1
Länsförsäkringar Hypotek ¹⁾	Standard & Poor's	AAA/Stable	-
Länsförsäkringar Hypotek ¹⁾	Moody's	Aaa	-

¹⁾ Pertains to the company's covered bonds.

Income statement

SEK M	Note	Q1 2019	Q4 2018	Change	Q1 2018	Change	Full-Year 2018
Interest income		965.7	851.3	13%	772.2	25%	3,311.5
Interest expense		-334.1	-239.4	40%	-186.8	79%	-877.9
Net interest income	3	631.5	611.9	3%	585.4	8%	2,433.6
Commission income		0.6	0.6		0.6		2.5
Commission expense		-290.2	-328.3	-12%	-322.3	-10%	-1,242.1
Net commission	4	-289.5	-327.7	-12%	-321.7	-10%	-1,239.6
Net gains/losses from financial items	5	-15.7	8.7		0.0		-1.9
Total operating income		326.3	292.9	11%	263.8	24%	1,192.1
Staff costs		-3.3	-3.2	3%	-4.5	-27%	-14.9
Other administration expenses		-25.5	-24.5	4%	-23.2	10%	-94.0
Administration expenses		-28.8	-27.7	4%	-27.6	4%	-108.9
Depreciation and impairment of tangible assets		0.0	0.0		0.0		-0.2
Total operating expenses		-28.8	-27.7	4%	-27.7	4%	-109.0
Profit before credit losses		297.5	265.2	12%	236.1	26%	1,083.0
Credit losses, net	6	0.4	0.1		0.3	33%	1.3
Operating profit		297.9	265.3	12%	236.4	26%	1,084.4
Appropriations		-	-249.6		0.0		-249.5
Tax		-69.5	5.1		-52.0	34%	-176.4
Profit for the period		228.4	20.7		184.4	24%	658.5

Statement of comprehensive income

SEK M	Q1 2019	Q4 2018	Change	Q1 2018	Change	Full-Year 2018
Profit for the period	228.4	20.7		184.4	24%	658.5
Other comprehensive income						
Items that have been reclassified or may subsequently be reclassified to the income statement						
Cash-flow hedges	-20.4	3.6		-11.6	76%	-43.5
Change in fair value of debt instruments measured at FVOCI	6.2	-7.1		7.9	-22%	-8.2
Tax attributable to items that have been transferred or can be transferred to profit for the period	2.0	0.8		0.8		11.4
Total other comprehensive income for the period, net after tax	-12.2	-2.7		-2.9		-40.3
Total comprehensive income for the period	216.2	18.0		181.5	19%	618.2

Balance sheet

SEK M	Note	31 March 2019	31 December 2018	31 March 2018
Assets				
Loans to credit institutions	7	17,949.3	4,631.0	5,855.0
Loans to the public	8	225,933.5	221,107.9	203,878.9
Bonds and other interest-bearing securities		10,949.3	9,916.6	10,584.3
Derivatives	9	7,512.8	5,540.2	6,161.0
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		114.2	103.5	207.5
Tangible assets		0.6	0.6	0.5
Deferred tax assets		40.6	37.2	30.2
Other assets		3.6	3.1	2.2
Prepaid expenses and accrued income		22.2	27.8	22.9
Total assets		262,526.0	241,368.0	226,742.4
Liabilities, provisions and equity				
Due to credit institutions	7	60,607.3	54,426.9	48,492.6
Debt securities in issue		185,059.5	171,195.1	162,328.0
Derivatives	9	349.0	430.7	465.7
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		1,472.2	1,019.8	1,188.6
Other liabilities		115.5	137.9	126.1
Accrued expenses and deferred income		2,546.7	1,997.9	2,667.9
Provisions		1.4	1.5	1.3
Subordinated liabilities		661.0	661.0	661.0
Total liabilities and provisions		250,812.5	229,870.7	215,931.3
Untaxed reserves		908.3	908.3	658.8
Equity				
Share capital		3,129.9	3,129.9	3,129.9
Statutory reserve		14.1	14.1	14.1
Fair value reserve		-121.7	-109.5	-72.0
Retained earnings		7,554.5	6,896.1	6,896.0
Profit for the period		228.4	658.5	184.4
Total equity		10,805.3	10,589.1	10,152.4
Total liabilities, provisions and equity		262,526.0	241,368.0	226,742.4
Other notes				
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Cash-flow statement in summary, indirect method

SEK M	Jan-Mar 2019	Jan-Mar 2018
Cash and cash equivalents, 1 January	4,614.4	2,858.7
Operating activities		
Operating profit	297.9	236.4
Adjustment of non-cash items	1,231.7	1,014.8
Change in assets of operating activities		
Change in interest-bearing securities	-1,020.9	-718.7
Change in loans to the public	-4,825.4	-6,201.7
Change in other assets	-4,899.2	-759.9
Change in liabilities of operating activities		
Change in deposits and funding from the public	-	-
Change in debt securities in issue	11,547.1	7,458.7
Change in other liabilities	6,088.4	1,165.1
Cash flow from operating activities	8,419.6	2,194.7
Investing activities		
Acquisition of property and equipment	-	-
Change in intangible assets	-	-
Shareholders' contributions paid	-	-
Cash flow from investing activities	-	-
Financing activities		
Amortisation of subordinated debt	-	-
Change in subordinated debt	-	-
Shareholders' contributions received	-	-
Cash flow from financing activities	-	-
Net cash flow for the period	8,419.6	2,194.7
Cash and cash equivalents, 31 March	13,034.0	5,053.4

Cash and cash equivalents are defined as loans to credit institutions and payable on demand as well as overnight loans and investments with the Swedish central bank that fall due on the following banking day.

Statement of changes in Shareholders' equity

SEK M	Restricted equity		Non-restricted equity				Total
	Share capital	Statutory reserve	Fair value reserve		Retained earnings	Profit for the period	
			Fair value reserve	Hedge reserve			
Opening balance, 1 January 2018	70.3	14.1	28.9	-98.0	9,461.1	477.1	9,953.4
Effect due to change in accounting policy ¹⁾			0.1		17.4		17.5
Opening balance, 1 January 2018 after adjustment for change in accounting policy	70.3	14.1	29.0	-98.0	9,478.5	477.1	9,970.9
Profit for the period						184.4	184.4
Other comprehensive income for the period			6.2	-9.1			-2.9
Comprehensive income for the period			6.2	-9.1		184.4	181.5
According to Board's proposal for resolution by Annual General Meeting					477.1	-477.1	-
Bonus issue	3,059.6				-3,059.6		-
Closing balance, 31 March 2018	3,129.9	14.1	35.1	-107.1	6,896.0	184.4	10,152.4
Opening balance, 1 April 2018	3,129.9	14.1	35.1	-107.1	6,896.0	184.4	10,152.4
Profit for the period						474.1	474.1
Other comprehensive income for the period			-12.6	-24.8			-37.4
Comprehensive income for the period			-12.6	-24.8		474.1	436.7
According to Board's proposal for resolution by Annual General Meeting							-
Closing balance, 31 December 2018	3,129.9	14.1	22.6	-131.9	6,896.0	658.5	10,589.1
Opening balance, 1 January 2019	3,129.9	14.1	22.6	-131.9	6,896.0	658.5	10,589.1
Profit for the period						228.4	228.4
Other comprehensive income for the period			4.9	-17.1			-12.2
Comprehensive income for the period			4.9	-17.1		228.4	216.2
According to Board's proposal for resolution by Annual General Meeting					658.5	-658.5	-
Closing balance, 31 March 2019	3,129.9	14.1	27.4	-149.0	7,554.5	228.4	10,805.3

¹⁾ Effect due to change in accounting policy from IAS 39 - Financial Instruments: Recognition and measurement to IFRS 9 - Financial Instruments. However, hedge accounting takes place in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

Notes

Amounts in SEK million if not otherwise stated. Comparative figures in parentheses: income-statement items are compared with the immediately preceding quarter, balance-sheet items are compared with the immediately preceding year-end, unless otherwise stated.

Note 1 Accounting policies

Länsförsäkringar Hypotek AB prepares its accounts in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), the Swedish Securities Market Act (2007:528) and Swedish Financial Supervisory Authority's regulations and general guidelines (FFFS 2008:25). The company also applies the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities and statements issued pertaining to listed companies. The regulations in RFR 2 stipulate that the company, in the annual accounts for the legal entity, is to apply all IFRS adopted by the EU and statements to the extent that this is possible within the framework of the Swedish Annual Accounts Act and the Pension Obligations Vesting Act, and with consideration to the relationship between accounting and taxation. The recommendation stipulates the permissible exceptions from and additions to IFRS. This interim report was prepared in accordance with IAS 34 Interim Financial Reporting.

AMENDED ACCOUNTING POLICIES APPLIED FROM 1 JANUARY 2019

The company applies IFRS 16 Leases and IFRIC 23 Uncertainty over Income Tax Treatments from 1 January 2019.

IFRS 16 Leases

IFRS 16 replaced IAS 17 Leases on 1 January 2019. The standard primarily entailed that instead of being classified as operating leases as previously, leases where a company in the Group is the lessee are recognised in the balance sheet. IFRS 16 is applied only at Group level.

IFRIC 23 Uncertainty over Income Tax Treatments

The Company applies IFRIC 23 Uncertainty over Income Tax Treatments from 1 January 2019. IFRIC 23 clarifies how IAS 12 is to be applied if there are uncertainties about how tax legislation is to be applied to a certain transaction or under certain circumstances.

The interpretation did not entail any impact on the consolidated financial statements.

In all other respects, the report has been prepared in accordance with the same accounting policies and calculation methods applied in the 2018 Annual Report.

Note 2 Segment reporting

The business of the company represents one operating segment and reporting to the chief operating decision maker thus agrees with the interim report.

Note 3		Net interest income					
SEK M	Q1 2019	Q4 2018	Change	Q1 2018	Change	Full-Year 2018	
Interest income							
Loans to credit institutions	23.1 ¹⁾	0.5		4.8		29.5	
Loans to the public	991.8	923.8	7%	871.5	14%	3,593.9	
Interest-bearing securities	15.2 ¹⁾	18.3	-17%	18.5	-18%	76.6	
Derivatives	-64.4	-91.4	-30%	-122.5	-47%	-388.5	
Other interest income	-	-		-		-	
Total interest income	965.7	851.3	13%	772.2	25%	3,311.5	
Interest Expense							
Due to credit institutions	-140.0 ¹⁾	-131.4	7%	-120.2	16%	-494.7	
Dept securities in issue	-484.5	-447.7	8%	-481.7	1%	-1,888.6	
Subordinated liabilities	-2.7	-2.4	13%	-2.0	35%	-9.2	
Derivatives	337.1	380.5	-11%	462.2	-27%	1,675.0	
Other interest expense	-44.0	-38.4	15%	-45.0	-2%	-160.5	
Total interest expense	-334.1	-239.4	40%	-186.8	79%	-877.9	
Total net interest income	631.5	611.9	3%	585.4	8%	2,433.6	
Average interest rate on loans to the public during the period, %	1.8	1.7		1.7		1.7	

¹⁾ Of which negative interest of Loans to credit institutions SEK -1.0 M (-3.8), Interest-bearing securities SEK -0.5 M (-0.4) and Due to credit institutions SEK 1.1 M (4.3).

Interest income calculated according to the effective interest method amounts to SEK 965.7 M (851.8).

Note 4		Net commission					
SEK M	Q1 2019	Q4 2018	Change	Q1 2018	Change	Full-Year 2018	
Commission income							
Loans	0.6	0.6		0.6		2.5	
Total commission income	0.6	0.6		0.6		2.5	
Commission Expense							
Remuneration to regional insurance companies	-290.1	-328.2	-12%	-322.2	-10%	-1,241.6	
Other commission	-0.1	0.0	-50%	-0.1		-0.4	
Total commission expense	-290.2	-328.3	-12%	-322.3	-10%	-1,242.1	
Total net commission	-289.5	-327.7	-12%	-321.7	-10%	-1,239.6	

Note 5		Net gains / losses from financial items					
SEK M	Q1 2019	Q4 2018	Change	Q1 2018	Change	Full-Year 2018	
Interest-bearing assets and liabilities and related derivatives	-21.0	2.8		0.0		-26.6	
Other financial assets and liabilities	0.0	0.0		0.0		0.1	
Interest compensation (refer to items measured at amortised cost)	5.3	5.9	-10%	0.0		24.6	
Total net gains / losses from financial items	-15.7	8.7		0.0		-1.9	

Note 6		Credit losses				
		Q1	Q4		Q1	Full-Year
Net credit losses, SEK M		2019	2018	Change	2018	2018
Change in loss allowance for loan receivables						
Stage 1 (not credit-impaired)		0.2	-0.4		-0.2	-0.4
Stage 2 (not credit-impaired)		0.0	-0.1		-0.3	-0.2
Stage 3 (credit-impaired)		-0.1	0.3		0.3	0.3
Total change in loss allowance for loan receivables		0.1	-0.2		-0.2	-0.3
Expense for confirmed credit losses		-0.1	-0.1		-0.1	-0.6
Payment received for prior confirmed credit losses		0.3	0.5	-40%	0.6	2.3
Net expense for the period for credit losses for loan receivables		0.4	0.1		0.3	33%
Change in loss allowance for commitments		0.0	-		0.0	-
Net expense for other credit losses for the period		0.0	0.0		0.0	0.0
Net expense of the modification result for the period		0.0	0.0		0.0	0.0
Net expense for credit losses for the period		0.4	0.1		0.3	33%

The settlement model regarding the commitment that the regional insurance companies have for credit losses entails that the regional insurance companies cover 80 percent of the loss allowance requirement on the date when an impairment is identified for Länsförsäkringar Hypotek AB. Off-setting takes place against, and can amount to a maximum of, accrued commission. Remuneration corresponding to 80 percent of the loss allowance requirement is withheld on every occasion until the lending mediated by the regional insurance company has been regulated. During the first quarter of 2019, total credit losses amounted to SEK 2.1 M (0.5), of which Länsförsäkringar Hypotek recognised credit losses amounted to SEK 0.4 M (0.1) and the remainder of SEK 1.7 M (0.4) was settled against remuneration to the regional insurance companies.

Note 7		Loans / due to credit institutions
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On 31 March 2019, Loans to credit institutions amounted to SEK 17,949.3 M (4,631.0) and was included in Stage 1. Loss allowance for credit losses amounted to SEK 0 M (0). Loans to credit institutions include deposits with the Parent Company of SEK 13,045.3 M (4,602.9). Balances in the Parent Company's bank accounts pertaining to the covered bond operations are recognised as Loans to credit institutions.

Due to credit institutions amounted to SEK 60,607.3 M (54,426.9) on 31 March. Due to credit institutions includes borrowings from the Parent Company of SEK 55,165.5 M (54,251.7).

Note 8		Loans to the public		
		Loan receivables are geographically attributable in their entirety to Sweden		
SEK M		31 March 2019	31 December 2018	31 March 2018
Corporate sector		6,600.1	6,603.0	6,589.5
Retail sector		219,338.8	214,510.5	197,294.9
Loans to the public before loss allowance		225,938.9	221,113.5	203,884.4
Loss allowance		-5.4	-5.6	-5.5
Loans to the public		225,933.5	221,107.9	203,878.9

Loans to the public				
Reconciliation of loss allowance				
SEK M	Not credit-impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Opening balance, 1 January 2019	-2.3	-1.6	-1.6	-5.6
Increase due to new or acquired loans	-0.2	0.0	-0.1	-0.4
Change in loss allowance model or method	0.0	0.0	-	0.0
Decrease due to repayment	0.1	0.1	0.1	0.3
Change due to changed credit risk	0.3	0.0	-0.1	0.2
Other adjustments	0.0	0.0	-	0.0
Decrease due to write-off	-	-	0.0	0.0
Closing balance, 31 March 2019	-2.2	-1.6	-1.7	-5.4
Allocation of loss allowance requirement				
	Not credit-impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Loans to the public before loss allowances	223,533.5	2,238.3	167.1	225,938.9
Credit reserve requirement	-10.8	-7.8	-8.5	-27.1
Withheld remuneration to the regional insurance companies	8.6	6.2	6.8	21.6
Recognised loss allowance	-2.2	-1.6	-1.7	-5.4
Loans to the public	223,531.4	2,236.8	165.4	225,933.5

Loans to the public				
Reconciliation of loss allowance				
SEK M	Not credit-impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Opening balance, 1 January 2018	-1.9	-1.4	-1.9	-5.3
Increase due to new or acquired loans	-0.3	0.0	0.0	-0.3
Change in loss allowance model or method	-0.1	0.0	0.0	-0.2
Decrease due to repayment	0.1	0.0	0.1	0.2
Change due to changed credit risk	0.1	-0.3	0.1	-0.1
Other adjustments	0.0	0.0	-	0.0
Decrease due to write-off	-	-	0.1	0.1
Closing balance, 31 March 2018	-2.1	-1.6	-1.7	-5.5
Allocation of loss allowance requirement				
	Not credit-impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Loans to the public before loss allowances	201,688.4	2,041.7	154.2	203,884.4
Credit reserve requirement	-10.6	-8.2	-8.5	-27.4
Withheld remuneration to the regional insurance companies	8.5	6.6	6.8	21.9
Recognised loss allowance	-2.1	-1.6	-1.7	-5.5
Loans to the public	201,686.3	2,040.1	152.5	203,878.9

The settlement model regarding the commitment that the regional insurance companies have for credit losses entails that the regional insurance companies cover 80 percent of the loss allowance requirement on the date when an impairment is identified for Länsförsäkringar Hypotek AB. Off-setting takes place against, and can amount to a maximum of, accrued commission. Remuneration corresponding to 80 percent of the loss allowance requirement is withheld on every occasion until the lending mediated by the regional insurance company has been regulated.

Note 9 Derivatives						
SEK M	31 March 2019		31 December 2018		31 March 2018	
	Nominal value	Fair value	Nominal value	Fair value	Nominal value	Fair value
Derivatives with positive values						
<i>Derivatives in hedge accounting</i>						
Interest-related	157,542.0	1,981.8	144,777.0	1,369.7	108,472.0	1,823.5
Currency-related	40,566.8	5,531.0	34,118.9	4,170.6	33,318.0	4,337.5
Total derivatives with positive values	198,108.8	7,512.8	178,895.9	5,540.2	141,790.0	6,161.0
Derivatives with negative values						
<i>Derivatives in hedge accounting</i>						
Interest-related	51,645.0	269.5	41,595.0	249.8	61,180.0	444.5
Currency-related	1,394.2	79.5	2,717.8	180.9	2,036.7	21.2
Total derivatives with negative values	53,039.2	349.0	44,312.8	430.7	63,216.7	465.7

Financial hedging agreements were signed to hedge against interest-rate risks and currency risks stemming from the Group's operations. Hedge accounting is applied to funding, lending, deposits, bonds and other securities. Hedging instruments primarily comprise interest and currency interest-rate swaps.

Note 10 Pledged assets, contingent liabilities and commitments			
SEK M	31 March 2019	31 December 2018	31 March 2018
For own liabilities, pledged assets	230,444.2	221,070.8	205,735.8
Commitments ¹⁾	11,320.2	10,117.9	11,002.0

¹⁾ On 31 March 2019 there are no commitments to related parties.

Commitments comprise approved but not disbursed loans. For more information regarding loss allowance for commitments, see note 6.

SEK M	31 March 2019		31 December 2018		31 March 2018	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Financial assets						
Loans to credit institutions	17,949.3	17,949.3	4,631.0	4,631.0	5,855.0	5,855.0
Loans to the public	225,933.5	226,547.3	221,107.9	221,580.0	203,878.9	204,364.7
Bonds and other interest-bearing securities	10,949.3	10,949.3	9,916.6	9,916.6	10,584.3	10,584.3
Derivatives	7,512.8	7,512.8	5,540.2	5,540.2	6,161.0	6,161.0
Other assets	-	-	0.0	0.0	-	-
Total	262,344.9	262,958.7	241,195.7	241,667.8	226,479.2	226,965.0
Financial Liabilities						
Due to credit institutions	60,607.3	60,607.3	54,426.9	54,426.9	48,492.6	48,492.6
Debt securities in issue	185,059.5	190,148.3	171,195.1	174,878.3	162,328.0	166,723.6
Derivatives	349.0	349.0	430.7	430.7	465.7	465.7
Other liabilities	0.2	0.2	1.2	1.2	7.0	7.0
Subordinated liabilities	661.0	662.7	661.0	663.2	661.0	683.1
Total	246,677.0	251,767.5	226,714.9	230,400.4	211,954.3	216,372.0

The carrying amount of loans to credit institutions, other assets, due to credit institutions and other liabilities comprises a reasonable approximation of the fair value based on the cost of the assets and liabilities.

Determination of fair value through published price quotations or valuation techniques where				
Level 1 includes Instruments with published price quotations				
Level 2 includes Valuation techniques based on observable market prices				
Level 3 includes Valuation techniques based on unobservable market price				
Financial instruments measured at fair value in the balance sheet				
31 March 2019, SEK M	Level 1	Level 2	Level 3	Total
Assets				
Bonds and other interest-bearing securities	10,949.3			10,949.3
Derivatives		7,512.8		7,512.8
Liabilities				
Derivatives		349.0		349.0
31 December 2018, SEK M				
Assets				
Bonds and other interest-bearing securities	9,916.6			9,916.6
Derivatives		5,540.2		5,540.2
Liabilities				
Derivatives		430.7		430.7
31 March 2018, SEK M				
Assets				
Bonds and other interest-bearing securities	10,584.3			10,584.3
Derivatives		6,161.0		6,161.0
Liabilities				
Derivatives		465.7		465.7

Note 12 Capital-adequacy

Presentation of own funds in accordance with Article 5 of the European Commission Implementing Regulation (EU) No 1423/2013. Rows that are empty in the presentation in accordance with the Regulation have been excluded in the table below to provide a better overview. There are no items encompassed by the provisions applied before Regulation (EU) No 575/2013 or any prescribed residual amounts under the Regulation.

SEK M	31 Mar 2019	31 Dec 2018	31 Mar 2018
Common Equity Tier 1 capital: instruments and reserves			
Capital instruments and associated share premium reserves	3,129.9	3,129.9	3,129.9
<i>Of which: share capital</i>	3,129.9	3,129.9	3,129.9
Non-distributed earnings (Retained earnings)	7,554.5	6,896.0	6,896.0
Accumulated Other comprehensive income	602.1	614.3	455.9
Interim profits, net, after deductions for foreseeable charge and dividends that have been verified by persons independent of the institution	228.4	658.5	184.4
Common Equity Tier 1 capital before legislative adjustments	11,514.8	11,298.6	10,666.2
Common Equity Tier 1 capital: legislative adjustments			
Additional value adjustments	-18.0	-15.3	-16.4
Fair value reserves related to gains or losses on cash-flow hedges	149.1	132.0	107.1
Negative amounts resulting from the calculation of expected loss amounts	-151.6	-124.3	-120.2
Total legislative adjustments of Common Equity Tier 1 capital	-20.5	-7.5	-29.4
Common Equity Tier 1 capital and additional Tier 1 instruments	11,494.3	11,291.1	10,636.9
Tier 2 capital: instruments and provisions			
Capital instruments and associated share premium reserves	661.0	661.0	661.0
Tier 2 capital	661.0	661.0	661.0
Total capital (total capital = Tier 1 capital + Tier 2 capital)	12,155.3	11,952.1	11,297.9
Total risk-weighted assets	63,386.9	61,556.4	19,408.8
Capital ratios and buffers			
Common Equity Tier 1 capital (as a percentage of the total risk-weighted exposure amount)	18.1%	18.3%	54.8%
Tier 1 capital (as a percentage of the total risk-weighted exposure amount)	18.1%	18.3%	54.8%
Total capital (as a percentage of the total risk-weighted exposure amount)	19.2%	19.4%	58.2%
Institution-specific buffer requirements	9.0%	9.0%	9.0%
<i>Of which: capital conservation buffer requirement</i>	2.5%	2.5%	2.5%
<i>Of which: countercyclical capital buffer requirement</i>	2.0%	2.0%	2.0%
<i>Of which: systemic risk buffer requirement</i>	-	-	-
<i>Of which: buffer for globally systemically important institution or for another systemically important institution</i>	-	-	-
Common Equity Tier 1 capital available for use as a buffer (as a percentage of the risk weighted exposure amount)	11.2%	11.4%	48.8% ¹⁾

¹⁾ Comparative figure has been adjusted.

Note 12		Capital-adequacy analysis, continued					
SEK M	31 March 2019		31 December 2018		31 March 2018		
	Risk exposure amount	Capital requirement	Risk exposure amount	Capital requirement	Risk exposure amount	Capital requirement	
Credit risk according to Standardised Approach							
Exposures to institutions	433.5	34.7	390.5	31.2	452.2	36.2	
Covered bonds	1,094.9	87.6	991.7	79.3	1,058.4	84.7	
Other items	102.3	8.2	98.0	7.8	83.8	6.7	
Total capital requirement and risk exposure amount	1,630.7	130.5	1,480.2	118.4	1,594.5	127.6	
Credit risk according to IRB Approach							
<i>Retail exposures</i>							
Exposures secured by real estate collateral	343.6	27.5	341.4	27.3	435.4	34.8	
Other retail exposures	13,726.9	1,098.2	13,387.0	1,071.0	12,263.1	981.1	
Other retail exposures, small and medium-sized businesses	0.8	0.1	1.3	0.1	1.5	0.1	
Other retail exposures	1.7	0.1	11.5	0.9	29.6	2.4	
Total retail exposures	14,073.0	1,125.8	13,741.2	1,099.3	12,729.6	1,018.4	
Exposures to corporates	3,430.7	274.5	3,428.8	274.3	3,197.9	255.8	
Total capital requirement and risk exposure amount	17,503.7	1,400.3	17,170.0	1,373.6	15,927.5	1,274.2	
Operational risk							
Standardised Approach	1,429.7	114.4	1,130.6	90.4	1,130.6	90.4	
Total capital requirement for operational risk	1,429.7	114.4	1,130.6	90.4	1,130.6	90.4	
Total capital requirement for credit valuation adjustments	554.9	44.4	550.6	44.0	756.2	60.5	
Additional Risk Exposure Amounts according to Article 458 CRR	42,268.0	3,381.4	41,225.0	3,298.0	-	-	
Total capital requirement and risk exposure amount	63,386.9	5,071.0	61,556.4	4,924.5	19,408.8	1,552.7	

Note 13	Disclosures on related parties
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Significant agreements for Länsförsäkringar Hypotek AB are primarily outsourcing agreements with the 23 regional insurance companies and outsourcing agreements with Länsförsäkringar AB regarding development, service, finance and IT. Normal business transactions took place between Group companies as part of the outsourced operations.

This interim report is a translation of the Swedish interim report that has been reviewed by the company's auditors.

The President affirm that this interim report provides a true and fair view of the company's operations, financial position and earnings and describes the significant risks and uncertainties to which the company is exposed.

Stockholm, 26 April 2019

Anders Borgcrantz
President

Auditor's report on review of interim report prepared in accordance with Chapter 9 of the Annual Accounts Act

To the Board of Directors of Länsförsäkringar Hypotek AB (publ)

Corp. id. 556244-1781

Introduction

I have reviewed the attached interim report of Länsförsäkringar Hypotek AB (publ) as per 31 March 2019 and the three-month period then ended. The Board of Directors and the Managing Director are responsible for the preparation and presentation of this interim report in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. My responsibility is to express a conclusion on this interim financial information report based on my review.

Scope of review

I conducted my review in accordance with International Standard on Review Engagements ISRE 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and other generally accepted auditing practices and consequently does not enable me to obtain assurance that I would become aware of all significant matters that might be identified in an audit. Accordingly, I do not express an audit opinion.

Conclusion

Based on my review, nothing has come to my attention that causes me to believe that the attached interim report is not prepared, in all material respects, in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm, 26 April 2019

Dan Beitner
Authorized Public Accountant

Definitions

Glossary

Return on total assets

Profit for the year, after tax, in relation to average total assets.

Own funds

Own funds comprises the sum of Tier 1 capital and Tier 2 capital, less items indicated in the capital adequacy rules. Own funds in relation to capital requirements.

Credit-impaired loan receivables

Loan receivables that have fallen due, have defaulted on issue or acquisition and thus are in stage 3 of the rules on expected credit losses under IFRS 9.

Common Equity Tier 1 capital

Common Equity Tier 1 capital comprises equity less intangible assets, goodwill, prudent valuation, investments in financial companies and IRB deficit.

Common Equity Tier 1 capital ratio

Common Equity Tier 1 capital in relation to the total risk exposure amount.

Tier 1 capital

The sum of Common Equity Tier 1 capital and Additional Tier 1 instruments.

Tier 1 ratio

Tier 1 capital in relation to the total risk exposure amount.

Risk Exposure Amount (REA)

The Risk Exposure Amount comprises assets in the balance sheet and off-balance sheet commitments valued in accordance with credit risk, market risk, operational risk and credit valuation adjustment risk in accordance with the capital adequacy rules.

Loan receivables

Comprises loans to the public and loans to credit institutions.

Fixed-interest period

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

Tier 2 capital

Primarily comprises fixed-term subordinated debt.

Total capital ratio

Total own funds in relation to the total risk exposure amount.

Alternative performance measures

The European Securities and Markets Authority's (ESMA) Guidelines on Alternative Performance Measures came into effect on 3 July 2016. In accordance with these guidelines, disclosures on financial performance measures that are not defined by IFRS have been provided. Investment margin and return on equity show the organisation's earnings in relation to various investment measures. The share of credit-impaired loan receivables, credit losses and performance measures concerning loss allowance are presented to provide an understanding of lending, collateral and credit risk. The common factor for all of the alternative performance measures is that they describe the development of the operations and aim to improve comparability between different periods. The measures may differ from similar performance measures presented by other organisations.

Share of credit-impaired loan receivables

Credit-impaired loan receivables (stage 3) after loss allowance in relation to loans to the public and credit institutions before loss allowance.

Credit loss level

Credit losses, net, for loan receivables in relation to loans to the public and credit institutions after loss allowance.

Investment margin

Net interest income in relation to average total assets.

Reserve ratio for loan receivables

Recognised loss allowance for loan receivables in relation to loan receivables before loss allowance.

Return on equity

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

Financial calendar

Interim report January - June Länsförsäkringar Bank	18 July 2019
Interim report January - June Länsförsäkringar Hypotek	18 July 2019

This report contains such information that Länsförsäkringar Hypotek AB (publ) must publish in accordance with the EU Market Abuse Regulation. The information was submitted for publication on 26 April 2019 at 12:00 a.m. CET.

For further information, please contact:

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