

# Länsförsäkringar Hypotek

## January–September 2012

### The period in brief

- Operating profit rose to SEK 254 M (137) and return on equity strengthened to 5.7% (3.5).
- Net interest income increased 60% to SEK 574 M (359).
- Loan losses amounted to SEK -0.1 M (-5.3), net, corresponding to loan losses of 0.00 (-0.01).
- Loans rose 13% to SEK 98 billion (87).
- The Core Tier 1 ratio and Tier 1 ratio amounted to 20.9% (21.2) and the capital adequacy ratio to 22.9% (23.5).
- The number of customers rose 9% to 173,000 (158,000).

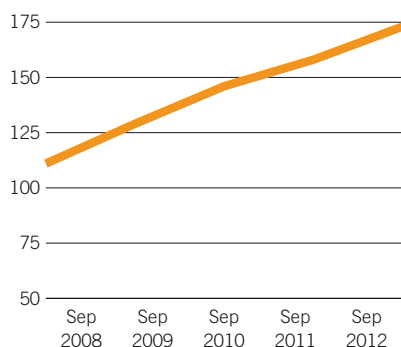
Figures in parentheses pertain to the same period in 2011.

**Anders Borgcrantz,**  
President of Länsförsäkringar Hypotek:

*“Länsförsäkringar continued to strengthen its position in the mortgage market and sustained a very high level of credit quality in new lending. Volumes rose, which contributed to higher net interest income. It is also highly gratifying that Länsförsäkringar has Sweden’s most satisfied retail bank customers according to the 2011 Swedish Quality Index. More than eight of ten retail mortgage customers have Länsförsäkringar as their primary bank and the number of customers is steadily increasing.”*

### CUSTOMER TREND

Number of customers, 000s



## Key figures

	Q 3 2012	Q 3 2011	Q 2 2012	Jan-Sep 2012	Jan-Sep 2011	Full-year 2011
Return on equity, %	4.4	3.4	6.9	5.7	3.5	3.6
Return on total capital, %	0.22	0.15	0.35	0.28	0.17	0.17
Investment margin, %	0.22	0.41	0.68	0.63	0.43	0.45
Cost/income ratio before loan losses	0.25	0.30	0.21	0.21	0.29	0.30
Cost/income ratio after loan losses	0.25	0.31	0.19	0.21	0.26	0.28
Core Tier 1 ratio according to Basel II, %	20.9	21.2	21.4	20.9	21.2	20.6
Tier 1 ratio according to Basel II, %	20.9	21.2	21.4	20.9	21.2	20.6
Tier 1 ratio according to transition rules, %	9.4	9.4	9.4	9.4	9.4	9.4
Capital adequacy ratio according to Basel II, %	22.9	23.5	23.5	22.9	23.5	22.8
Capital adequacy ratio according to transition rules, %	10.2	10.5	10.3	10.2	10.5	10.5
Percentage of impaired loans, %	0.00	0.01	0.00	0.00	0.01	0.00
Reserve ratio in relation to loans, %	0.04	0.04	0.04	0.04	0.04	0.04
Loan losses, %	0.00	0.01	-0.01	0.00	-0.01	0.00

## Income statement, quarterly

SEK M	Q 3 2012	Q 2 2012	Q 1 2012	Q 4 2011	Q 3 2011
Net interest income	198.6	204.0	171.7	147.0	121.2
Net commission	-92.2	-96.0	-79.1	-66.7	-59.0
Net gains/losses from financial items	-14.7	21.0	9.4	-2.5	3.5
Other operating income	0.0	0.0	0.1	0.0	0.0
<b>Total operating income</b>	<b>91.7</b>	<b>129.0</b>	<b>102.1</b>	<b>77.8</b>	<b>65.7</b>
Staff costs	-3.3	-3.3	-2.7	-3.1	-3.8
Other administration expenses	-19.8	-23.5	-15.9	-21.6	-15.8
<b>Total operating expenses</b>	<b>-23.0</b>	<b>-26.8</b>	<b>-18.6</b>	<b>-24.7</b>	<b>-19.6</b>
<b>Profit before loan losses</b>	<b>68.6</b>	<b>102.2</b>	<b>83.5</b>	<b>53.1</b>	<b>46.1</b>
Loan losses, net	-0.2	2.7	-2.4	-1.3	-1.1
<b>Operating profit</b>	<b>68.4</b>	<b>104.9</b>	<b>81.1</b>	<b>51.8</b>	<b>45.0</b>

## Market commentary

The third quarter remained characterised by uncertainty concerning trends in the eurozone and in the US. Unemployment in Europe is at a record-high level and low growth will probably mean that unemployment will not recede in the near future. Spanish and Italian government bonds were highly volatile during the summer. Since the European Central Bank (ECB) launched its latest programme for the purchase of government bonds issued by the crisis-hit countries, (OMT), at the start of September, risk appetite has increased and borrowing costs for Spain and Italy have fallen. The FED also announced additional large-scale stimulus plans in September, including the purchase of USD 40 billion a month in mortgage-backed securities. The FED's measures will remain in place until the labour market has made a significant improvement. Intense discussions continued on a European banking union, but many countries, including Sweden, needed more time for negotiations. At its monetary policy meeting in September, Sweden's central bank, the Riksbank, lowered the repo rate by 25 points due to slower Swedish growth.

Credit spreads in both the senior and covered bond borrowing markets narrowed significantly during the third quarter, although activity was low. Swap rates in Sweden fell by slightly more than 40 points and by more than 25 points for government bonds.

The Swedish housing market remained stable in the third quarter with essentially unchanged prices for both tenant-owned apartments and single-family homes compared with the preceding quarter. The rate of increase in household and retail mortgages was just under 1% for July-August, according to data from Statistics Sweden.

## January-September 2012 compared with January-September 2011

### Growth and customer trend

Loans to the public rose 13%, or SEK 11 billion, to SEK 98 billion (87). The number of customers rose 9%, or 15,000, to

173,000 (158,000), and 83% (81) of mortgage customers have Länsförsäkringar as their primary bank. On October 1, the Swedish Quality Index published its customer satisfaction survey which revealed that Länsförsäkringar has Sweden's most satisfied retail mortgage customers for the sixth consecutive year.

### Earnings and profitability

Profit before loan losses increased 93% to SEK 254 M (132) and operating profit rose 86% to SEK 254 M (137) due primarily to higher net interest income. Return on equity strengthened to 5.7% (3.5).

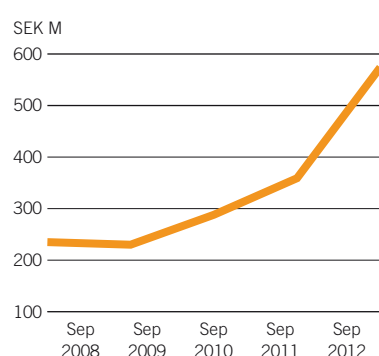
### Income

Net interest income rose 60%, or SEK 215 M, to SEK 574 M (359). This rise was attributable to increased volumes and margins. The investment margin strengthened to 0.63% (0.43). Net interest income was charged with a provision totalling SEK 26.8 M (26.6) for stability fund fees.

Net gains from financial items rose to SEK 16 M (7), primarily the result of higher interest compensation associated with the premature redemption of customers' fixed loans. Operating income rose a total of 75% to SEK 323 M (185).

Net commission fell to an expense of SEK 267 M (182) attributable to higher compensation to the regional insurance companies.

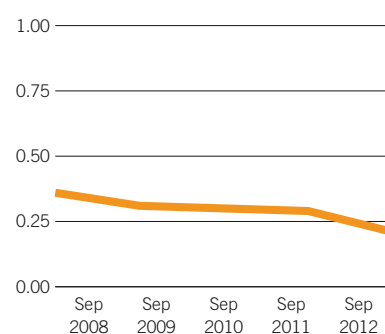
### NET INTEREST INCOME



### Expenses

Operating expenses rose 29% to SEK 69 M (53) as a result of the greater use of the Parent Company's services due to higher volumes. The cost/income ratio strengthened to 0.21 (0.29) before loan losses and to 0.21 (0.26) after loan losses.

### COST/INCOME RATIO



### Loan losses

Loan losses amounted to SEK -0.1 M (-5.3), net, corresponding to loan losses of 0.00% (-0.01). Reserves amounted to SEK 37 M (40), providing a reserve ratio in relation to loans of 0.04% (0.04). Impaired loans fell to SEK 2 M (9), corresponding to a percentage of impaired loans of 0.00% (0.01).

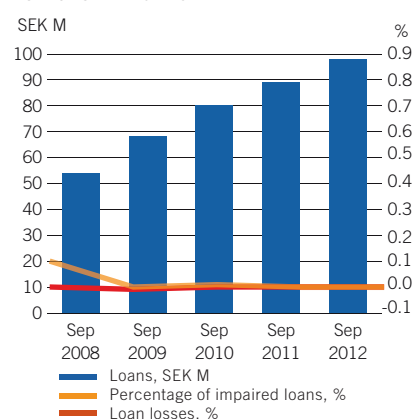
For more information regarding loan losses, reserves and impaired loans, see Notes 8 and 10.

### Loans

Loans to the public rose 13%, or SEK 11 billion, to SEK 98 billion (87) and the increase from year-end was 11%, or SEK 9 billion.

The loan portfolio, comprising the following: 77% single-family homes, 20% tenant-owned apartments and 3% multi-family homes, continued to have favourable credit quality.

### LOANS TO THE PUBLIC



### Cover pool

Essentially all lending that occurs in Länsförsäkringar Hypotek qualifies for inclusion in the covered-bond operations, known as the cover pool, in accordance

with the Swedish Covered Bond (Issuance) Act (2003:1223). Lending is conducted solely in SEK and in Sweden. Collateral comprises only private homes, including single-family homes, tenant-owned apartments and, to a marginal extent, vacation homes, and the geographic distribution in Sweden is favourable. The weighted average loan-to-value ratio, LTV, was 62% (60) and the average loan amount was SEK 401,000 (390,000) on September 30, 2012. The current OC totalled a nominal amount of 25.8% (22.1). Credit quality is high, which is also confirmed by Moody's key figure of collateral score which indicates that Länsförsäkringar Hypotek's assets in the cover pool continues to have the highest credit quality of all Swedish covered bond issuers and is among the top issuers in Europe.

Cover pool	Sep 31, 2012	Sep 31, 2011
Cover pool, SEK billion	111	106
OC <sup>1)</sup> , nominal, current level, %	25.8	22.1
Weighted average Max-LTV, %	62	60
Collateral	Private homes	Private homes
Seasoning, months	58	56
Number of loans	230,160	212,176
Number of borrowers	105,535	95,592
Number of properties	106,005	97,067
Average commitment, SEK 000s	875	857
Average loan, SEK 000s	401	390
Interest-rate type, variable, %	52	60
Interest-rate type, fixed,	48	40
Impaired loans	None	None

<sup>1)</sup> OC is calculated using nominal values and excludes accrued interest rates. Debt securities in issue in other currencies than SEK are translated into SEK with the swap rate. Debt securities in issue include repurchase agreements. From June 1, 2012, OC is reported excluding the separate deposit account.

During 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 increased to 68% (67) compared with a current weighted average Max-LTV of 62% (60) on September 30, 2012. No impaired loans are included in the cover pool.

### Borrowing

Debt securities in issue remained unchanged at SEK 87 billion. Borrowing was successful during the January-September period and the maturity structure for borrowing was highly diversified. Covered bonds in the nominal amount of SEK 19.9 billion (25.6) were issued. Repurchases to-

talled a nominal amount of SEK 10.7 billion (11.6) and matured securities a nominal amount of SEK 6.5 billion (6.2).

For more information about the borrowing programmes, see the Appendix on page 13.

### Liquidity

The liquidity reserve totalled a nominal amount of SEK 19.4 billion (22.5), of which 80% is in Swedish covered bonds with an AAA/Aaa credit rating, 17% is Swedish government bonds and 3% is in deposits in the separate deposit account. The level of liquidity reserve matches the refinancing requirement for all debt securities in issue falling due until April 2014.

### Rating

Länsförsäkringar Hypotek is one of four issuers in the Swedish market for covered bonds with the highest rating from both Standard & Poor's and Moody's. The Parent Company Länsförsäkringar Bank's credit rating is A/stable from Standard & Poor's, which was confirmed in July, and A2/negative from Moody's.

Company	Agency	Long-term rating	Short-term rating
Länsförsäkringar Hypotek <sup>1)</sup>	Standard & Poor's	AAA/stable	A-1+
Länsförsäkringar Hypotek <sup>1)</sup>	Moody's	Aaa/stable	-
Länsförsäkringar Bank	Standard & Poor's	A/stable	A-1(K-1)
Länsförsäkringar Bank	Moody's	A2/negative	P-1

<sup>1)</sup> Pertains to the company's covered bonds.

### Capital adequacy

Länsförsäkringar Hypotek applies the Internal Ratings-based Approach (IRB Approach). The advanced IRB Approach is applied to all retail exposure and to counterparty exposures to corporates and the agricultural sector up to SEK 5 M. The fundamental IRB Approach is used for counterparty exposures to corporates and the agricultural sector above of SEK 5 M. The Standardised Approach continues to be applied to exposures to central governments, local governments, county councils, institutions and off-balance sheet items. Tier 1 and Core Tier 1 capital

amounted to SEK 4,563 M (4,057) and the Tier 1 and Core Tier 1 ratio was 20.9% (21.2) on September 30, 2012. The capital base amounted to SEK 4,994 M (4,504) and the capital adequacy ratio was 22.9% (23.5).

For more information on the calculation of capital adequacy, see Note 13.

### Interest-rate risk

On September 30, 2012, 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 35 M (66).

### Risker och osäkerhetsfaktorer

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. Loan losses remain low and the refinancing of business activities was highly satisfactory during the January-September period.

A detailed description of risks is available in the 2011 Annual Report. No significant changes in the allocation of risk have taken place compared with the description provided in the Annual Report.

### Third quarter of 2012 compared with third quarter of 2011

Operating profit rose 52% to SEK 68 M (45), attributable to a higher net interest income. Net interest income increased 64%, or SEK 78 M, to SEK 199 M (121) and the return on equity strengthened to 4.4% (3.4). The investment margin amounted to 0.22% (0.41). Net losses from financial items declined to SEK 15 M (gain: 4), which was mainly attributable to realised losses from repurchases of bonds in the debt portfolio. Operating income rose a total of 39%, or SEK 26 M, to SEK 92 M (66). Net commission fell to an expense of SEK 92 M (59) attributable to higher com-

pensation to the regional insurance companies. Expenses increased to SEK 23 M (20) and the cost/income ratio strengthened to 0.25% (0.30). Loan losses totalled SEK 0.2 M (1.1), net.

### Third quarter of 2012 compared with second quarter of 2012

Operating profit fell 35% to SEK 68 M (105), attributable to lower net gains from financial items. Net interest income declined 3%, or SEK 5 M, to SEK 199 M (204), mainly as a result of lower returns on equity due to lower market interest rates. Return on equity amounted to 4.4% (6.9). The investment margin amounted to 0.22% (0.68). Net losses from financial items declined to SEK 15 M (gain: 21), which was mainly attributable to realised losses from repurchases of bonds in the debt portfolio. Operating income declined a total of 29%, or SEK 37 M, to SEK 92 M (129). Net commission amounted to an expense of SEK 92 M (96). Expenses fell to SEK 23 M (27). The cost/income ratio was 0.25 (0.21) due to lower net gains from financial items. Loan losses totalled SEK 0.2 M (-2.7), net.

### Events after the end of the period

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

## Income statement

SEK M	Note	Q 3 2012	Q 3 2011	Change	Q 2 2012	Change	Jan-Sep 2012	Jan-Sep 2011	Change	Full-year 2011
Interest income	3	1,818.5	1,874.3	-3%	1,808.7	1%	5,526.6	5,032.6	10%	6,891.7
Interest expense	4	-1,619.9	-1,753.1	-8%	-1,604.7	1%	-4,952.3	-4,673.2	6%	-6,385.3
<b>Net interest income</b>		<b>198.6</b>	<b>121.2</b>	<b>64%</b>	<b>204.0</b>	<b>-3%</b>	<b>574.3</b>	<b>359.4</b>	<b>60%</b>	<b>506.4</b>
Commission income	5	0.6	0.6	6%	0.6	-5%	1.8	1.6	13%	2.2
Commission expense	6	-92.8	-59.6	56%	-96.6	-4%	-269.1	-183.5	47%	-250.8
Net gains from financial items	7	-14.7	3.5	-520%	21.0	-170%	15.7	6.9	128%	4.5
Other operating income		0.0	0.0	114%	0.0	-42%	0.1	0.3	-67%	0.4
<b>Total operating income</b>		<b>91.7</b>	<b>65.7</b>	<b>40%</b>	<b>129.0</b>	<b>-29%</b>	<b>322.8</b>	<b>184.7</b>	<b>75%</b>	<b>262.7</b>
Staff costs		-3.3	-3.8	-13%	-3.3	-1%	-9.3	-10.4	-11%	-13.6
Other administration expenses		-19.8	-15.8	25%	-23.5	-16%	-59.2	-42.7	39%	-64.4
Depreciation and impairment of tangible assets		0.0	0.0		0.0	61%	-0.1	0.0		0.0
<b>Total operating expenses</b>		<b>-23.1</b>	<b>-19.6</b>	<b>18%</b>	<b>-26.8</b>	<b>-14%</b>	<b>-68.6</b>	<b>-53.1</b>	<b>29%</b>	<b>-78.0</b>
<b>Profit before loan losses</b>		<b>68.6</b>	<b>46.1</b>	<b>49%</b>	<b>102.2</b>	<b>-33%</b>	<b>254.2</b>	<b>131.6</b>	<b>93%</b>	<b>184.7</b>
Loan losses, net	8	-0.2	-1.1	-82%	2.7	-107%	0.1	5.3	98%	4.0
<b>Operating profit</b>		<b>68.4</b>	<b>45.0</b>	<b>52%</b>	<b>104.9</b>	<b>-35%</b>	<b>254.3</b>	<b>136.9</b>	<b>86%</b>	<b>188.7</b>
Tax		-18.0	-11.8	53%	-27.6	-35%	-66.9	-36.0	86%	-39.2
<b>Profit for the period</b>		<b>50.4</b>	<b>33.2</b>	<b>52%</b>	<b>77.3</b>	<b>-35%</b>	<b>187.4</b>	<b>100.9</b>	<b>86%</b>	<b>149.5</b>

## Statement of comprehensive income

SEK M	Q 3 2012	Q 3 2011	Change	Q 2 2012	Change	Jan-Sep 2012	Jan-Sep 2011	Change	Full-year 2011
<b>Profit for the period</b>	<b>50.4</b>	<b>33.2</b>	<b>52%</b>	<b>77.3</b>	<b>-35%</b>	<b>187.4</b>	<b>100.9</b>	<b>86%</b>	<b>149.5</b>
<b>Other comprehensive income</b>									
<i>Available-for-sale-financial assets</i>									
Fair value change	-43.8	2.6		-48.0	9%	-39.6	100.2	-140%	161.0
Reclassification realised securities	-	-		-		-7.3	-2.2	-232%	-3.6
Tax	11.5	-0.7		12.6	9%	12.4	-25.7	-148%	-41.4
<b>Total other comprehensive income for the period, net after tax</b>	<b>-32.3</b>	<b>1.9</b>		<b>-35.4</b>	<b>9%</b>	<b>-34.5</b>	<b>72.3</b>	<b>-148%</b>	<b>116.0</b>
<b>Total comprehensive income for the period</b>	<b>18.1</b>	<b>35.1</b>	<b>-48%</b>	<b>41.9</b>	<b>-57%</b>	<b>152.9</b>	<b>173.2</b>	<b>-12%</b>	<b>265.5</b>

## Balance sheet

SEK M	Note	Sep 30, 2012	Dec 31, 2011	Sep 30, 2011
<b>Assets</b>				
Treasury bills and other eligible bills		3,701.7	8,341.5	8,293.1
Loans to credit institutions	9	2,637.2	1,912.1	2,017.0
Loans to the public	10	98,008.5	88,625.0	86,588.7
Bonds and other interest-bearing securities		16,382.2	14,504.5	16,370.0
Derivatives	11	1,764.6	1,470.3	1,837.3
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		756.3	640.5	636.1
Tangible assets		0.7	0.3	–
Deferred tax assets		0.3	0.3	–
Other assets		0.2	1.2	1.6
Prepaid expenses and accrued income		1,178.0	1,916.1	1,222.7
<b>Total assets</b>		<b>124,429.7</b>	<b>117,411.8</b>	<b>116,966.5</b>
<b>Liabilities, provisions and equity</b>				
Due to credit institutions	9	24,500.4	19,985.7	19,350.8
Debt securities in issue		87,186.0	85,396.2	87,451.1
Derivatives	11	3,269.9	2,237.8	1,887.6
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		2,083.2	1,755.8	1,458.5
Deferred tax liabilities		–	–	36.3
Other liabilities		73.5	355.4	45.2
Accrued expenses and deferred income		2,021.2	2,838.3	1,990.4
Provisions		–	–	0.2
Subordinated liabilities		501.0	501.0	501.0
<b>Total liabilities and provisions</b>		<b>119,635.2</b>	<b>113,070.2</b>	<b>112,721.0</b>
<b>Equity</b>				
Share capital, 70,335 shares		70.3	70.3	70.3
Statutory reserve		14.1	14.1	14.1
Fair value reserve		111.1	145.6	101.9
Retained earnings		4,411.6	3,962.1	3,958.3
Profit for the year		187.4	149.5	100.9
<b>Total equity</b>		<b>4,794.5</b>	<b>4,341.6</b>	<b>4,245.5</b>
<b>Total liabilities, provisions and equity</b>		<b>124,429.7</b>	<b>117,411.8</b>	<b>116,966.5</b>
<b>Memorandum items</b>				
	12			
For own liabilities, pledged assets		93,325.9	86,366.1	84,046.9
Other pledged assets		None	None	None
Contingent liabilities		2,492.6	2,192.6	1,933.3
Other commitments		5,369.4	3,893.7	4,052.1
<b>Other notes</b>				
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## Cash-flow statement in summary, indirect method

SEK M	Jan-Sep 2012	Jan-Sep 2011
<b>Cash and cash equivalents, January 1</b>	<b>5.8</b>	<b>22.9</b>
Cash flow from operating activities	51.9	-289.4
Cash flow from financing activities	-47.8	272.2
<b>Cash flow for the period</b>	<b>4.1</b>	<b>-17.2</b>
<b>Cash and cash equivalents, September 30</b>	<b>9.9</b>	<b>5.7</b>

Cash and cash equivalents are defined as loans and liabilities due to credit institutions that are payable on demand.

Changes in the cash flow from operating activities are largely attributable to Loans to the public SEK -9,386.4 M (-6,921.0), Treasury bills and other eligible bills SEK 4,367.3 M (-5,091.7) and to Due to credit institutions SEK 4,567.4 M (1,544.0).

Changes in the cash flow from financing activities are attributable to Shareholders' contribution received SEK 300.0 M (450.0) and to Group contribution paid SEK -347.5 M (-177.8).

## Statement of changes in Shareholders' equity

SEK M	Share capital	Statutory reserve	Fair value reserve	Retained earnings	Profit for the period	Total
<b>Opening balance, January 1, 2011</b>	<b>70.3</b>	<b>14.1</b>	<b>29.6</b>	<b>3,403.5</b>	<b>104.8</b>	<b>3,622.3</b>
Profit for the period					100.9	100.9
Other comprehensive income for the period			72.3			72.3
<i>Comprehensive income for the period</i>			<i>72.3</i>		<i>100.9</i>	<i>173.2</i>
According to the Board's proposal				104.8	-104.8	0.0
Conditional shareholders' contribution received				450.0		450.0
<b>Closing balance, September 30, 2011</b>	<b>70.3</b>	<b>14.1</b>	<b>101.9</b>	<b>3,958.3</b>	<b>100.9</b>	<b>4,245.5</b>
<b>Opening balance, October 1, 2011</b>	<b>70.3</b>	<b>14.1</b>	<b>101.9</b>	<b>3,958.3</b>	<b>100.9</b>	<b>4,245.5</b>
Profit for the period					48.6	48.6
Other comprehensive income for the period			43.7			43.7
<i>Comprehensive income for the period</i>			<i>43.7</i>		<i>48.6</i>	<i>92.3</i>
According to the Board's proposal				-347.6		-347.6
Tax on Group contribution paid				91.4		91.4
Conditional shareholders' contribution received				260.0		260.0
<b>Closing balance, December 31, 2011</b>	<b>70.3</b>	<b>14.1</b>	<b>145.6</b>	<b>3,962.1</b>	<b>149.5</b>	<b>4,341.6</b>
<b>Opening balance, January 1, 2012</b>	<b>70.3</b>	<b>14.1</b>	<b>145.6</b>	<b>3,962.1</b>	<b>149.5</b>	<b>4,341.6</b>
Profit for the period					187.4	187.4
Other comprehensive income for the period			-34.5			-34.5
<i>Comprehensive income for the period</i>			<i>-34.5</i>		<i>187.4</i>	<i>152.9</i>
Resolution by Annual General Meeting				149.5	-149.5	0.0
Conditional shareholders' contribution received				300.0		300.0
<b>Closing balance, September 30, 2012</b>	<b>70.3</b>	<b>14.1</b>	<b>111.1</b>	<b>4,411.6</b>	<b>187.4</b>	<b>4,794.5</b>

## Noter

### NOTE 1 ACCOUNTING POLICIES

Länsförsäkringar Hypotek prepares its report in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), the Swedish Securities Market Act (2007:528), the regulations and general guidelines of the Swedish Financial Supervisory Authority (FFFS 2008:25, including amendment regulations). The company also applies the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities and statements issued by the Swedish Financial Reporting Board pertaining to listed companies. The regulations in RFR 2 stipulate that the company, in the annual accounts for the legal entity, shall apply all IFRS

and statements adopted by the EU 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 link between accounting and taxation. The recommendation stipulates the permissible exceptions from and supplements to IFRS. This interim report was prepared in accordance with IAS 34 Interim Financial Reporting.

The accounting policies applied in the interim report comply with the accounting policies and basis of calculation that were applied in the 2011 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 year's income statement and balance sheet.

### NOTE 3 INTEREST INCOME

SEK M	Q 3 2012	Q 3 2011	Change	Q 2 2012	Change	Jan-Sep 2012	Jan-Sep 2011	Change	Full-year 2011
Loans to credit institutions	6.1	12.4	-51%	8.3	-27%	30.9	79.2	-61%	86.5
Loans to the public	930.4	831.7	12%	923.3	1%	2,777.9	2,272.6	22%	3,149.7
Interest-bearing securities	141.4	171.9	-18%	141.5	0%	438.4	406.3	8%	568.5
<i>Derivatives</i>									
Hedge accounting	740.6	858.3	-14%	735.6	1%	2,279.4	2,143.0	6%	2,955.5
Non-hedge accounting	-	-	-	-	-	-	131.5	-	131.5
<b>Total interest income</b>	<b>1,818.5</b>	<b>1,874.3</b>	<b>-3%</b>	<b>1,808.7</b>	<b>1%</b>	<b>5,526.6</b>	<b>5,032.6</b>	<b>10%</b>	<b>6,891.7</b>
of which interest income on impaired loans	0.0	-0.9	101%	0.0	-29%	0.0	-1.3	97%	-2.7
of which interest income from financial items not measured at fair value	936.5	844.1	11%	931.6	1%	2,808.8	2,351.7	19%	3,236.1
Average interest rate on loans to the public during the period, %	3.9	3.9		4.0		4.0	3.6		3.7

### NOTE 4 INTEREST EXPENSE

SEK M	Q 3 2012	Q 3 2011	Change	Q 2 2012	Change	Jan-Sep 2012	Jan-Sep 2011	Change	Full-year 2011
Due to credit institutions	-145.2	-115.2	26%	-138.6	5%	-414.9	-273.1	52%	-400.5
Interest-bearing securities	-723.4	-720.7	0%	-695.5	4%	-2,139.7	-2,034.3	5%	-2,729.9
Subordinated liabilities	-5.7	-6.1	-7%	-5.9	-3%	-17.8	-17.6	1%	-23.7
<i>Derivatives</i>									
Hedge accounting	-736.0	-900.7	-18%	-756.3	-3%	2,353.1	-2,196.5	7%	-3,072.1
Non-hedge accounting	-	-	-	-	-	-	-125.1	-	-125.1
Other interest expense	-9.6	-10.4	-8%	-8.4	14%	-26.8	-26.6	1%	-34.0
<b>Total interest expense</b>	<b>-1,619.9</b>	<b>-1,753.1</b>	<b>-8%</b>	<b>-1,604.7</b>	<b>1%</b>	<b>-4,952.3</b>	<b>-4,673.2</b>	<b>6%</b>	<b>-6,385.3</b>
of which interest expense from financial items not measured at fair value	-883.9	-852.3	4%	-848.4	4%	-2,599.2	-2,351.5	11%	-3,188.1

### NOTE 5 COMMISSION INCOME

SEK M	Q 3 2012	Q 3 2011	Change	Q 2 2012	Change	Jan-Sep 2012	Jan-Sep 2011	Change	Full-year 2011
Lending	0.6	0.6	6%	0.6	-5%	1.8	1.6	13%	2.2
<b>Total commission income</b>	<b>0.6</b>	<b>0.6</b>	<b>6%</b>	<b>0.6</b>	<b>-5%</b>	<b>1.8</b>	<b>1.6</b>	<b>13%</b>	<b>2.2</b>
of which commission income from financial items not measured at fair value	0.6	0.6	6%	0.6	-5%	1.8	1.6	13%	2.2



#### NOTE 6 COMMISSION EXPENSE

SEK M	Q 3 2012	Q 3 2011	Change	Q 2 2012	Change	Jan-Sep 2012	Jan-Sep 2011	Change	Full-year 2011
Remuneration to regional insurance companies	-92.4	-59.2	56%	-96.3	-4%	-268.0	-182.3	47%	-249.2
Other commission	-0.4	-0.4	7%	-0.3	33%	-1.1	-1.2	-8%	-1.6
<b>Total commission expense</b>	<b>-92.8</b>	<b>-59.6</b>	<b>56%</b>	<b>-96.6</b>	<b>-4%</b>	<b>-269.1</b>	<b>-183.5</b>	<b>47%</b>	<b>-250.8</b>
of which commission expense from financial items not measured at fair value	-92.4	-59.2	56%	-96.3	-4%	-268.0	-182.3	47%	-249.1

#### NOTE 7 NET GAINS FROM FINANCIAL ITEMS

SEK M	Q 3 2012	Q 3 2011	Change	Q 2 2012	Change	Jan-Sep 2012	Jan-Sep 2011	Change	Full-year 2011
<b>Change in fair value</b>									
Interest-related instruments	124.4	290.6	-57%	101.4	23%	187.2	322.0	-42%	469.2
Currency-related instruments	-803.9	481.2	-267%	-271.6	-196%	-1,127.4	641.3	-276%	15.6
Change in fair value of hedged items	677.2	-775.1	187%	166.2	307%	909.9	-972.6	194%	-506.5
<b>Capital gain / loss</b>									
Interest-related instruments	-25.4	-1.2		10.8	-335%	10.1	1.1	818%	1.4
Interest compensation	13.0	8.0	63%	14.2	-8%	35.9	15.1	138%	24.8
<b>Total net gains from financial items</b>	<b>-14.7</b>	<b>3.5</b>	<b>-520%</b>	<b>21.0</b>	<b>-170%</b>	<b>15.7</b>	<b>6.9</b>	<b>128%</b>	<b>4.5</b>

#### NOTE 8 LOAN LOSSES, NET

SEK M	Q 3 2012	Q 3 2011	Change	Q 2 2012	Change	Jan-Sep 2012	Jan-Sep 2011	Change	Full-year 2011
<b>Specific reserve for individually assessed loan receivables</b>									
Write-off of confirmed loan losses during the period	-0.8	-0.2	300%	-3.0	-73%	-4.6	-0.8	475%	-17.5
Reversed earlier impairment of loan losses recognised as confirmed losses	0.3	0.1	-200%	0.3	7%	0.6	0.4	-50%	4.8
Impairment of loan losses during the period	-0.7	-2.7	-75%	-0.2	250%	-2.7	-7.8	-65%	-8.4
Payment received for prior confirmed loan losses	1.7	1.6	-6%	3.8	55%	7.5	3.3	-127%	13.1
Reversed impairment of loan losses no longer required	0.4	3.1	87%	0.2	-100%	1.1	5.5	80%	6.7
<b>Net income / expense for the period for individually assessed loan receivables</b>	<b>0.9</b>	<b>1.9</b>	<b>53%</b>	<b>1.1</b>	<b>18%</b>	<b>1.8</b>	<b>0.6</b>	<b>-200%</b>	<b>-1.3</b>
<b>Collective reserves for individually assessed receivables</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Collectively assessed homogenous groups of loan receivables with limited value and similar credit risk</b>									
Provision / reversal of impairment of loan losses	-1.1	-3.0	-63%	1.6	169%	-1.7	4.7	136%	5.3
<b>Net income / expense for the period for collectively assessed homogenous loan receivables</b>	<b>-1.1</b>	<b>-3.0</b>	<b>-63%</b>	<b>1.6</b>	<b>169%</b>	<b>-1.7</b>	<b>4.7</b>	<b>136%</b>	<b>5.3</b>
<b>Net income / expense of loan losses for the period</b>	<b>-0.2</b>	<b>-1.1</b>	<b>-82%</b>	<b>2.7</b>	<b>107%</b>	<b>0.1</b>	<b>5.3</b>	<b>98%</b>	<b>4.0</b>

All information pertains to receivables from the public.

#### NOTE 9 LOANS / DUE TO CREDIT INSTITUTIONS

Loans to credit institutions include deposits with the parent company of SEK 2,360.6 M (4,687.1).

Due to credit institutions includes borrowings of SEK 20,319.9 M (17,091.7).

Balances in the Parent Company's bank accounts pertaining to the covered bond operations are recognised as Loans to credit institutions.

**NOTE 10 LOANS TO THE PUBLIC**

Loan receivables are geographically attributable in their entirety to Sweden

SEK M	Sep 30, 2012	Dec 31, 2011	Sep 30, 2011
<b>Loan receivables, gross</b>			
Corporate sector	3,136.2	1,733.8	1,671.9
Retail sector	94,908.8	86,925.0	84,956.3
<b>Total loan receivables, gross</b>	<b>98,045.0</b>	<b>88,658.8</b>	<b>86,628.2</b>
<b>Impairment of individually assessed loan receivables</b>			
Corporate sector	0.0	–	–
Retail sector	–1.3	–0.3	–5.4
<b>Total individual reserves</b>	<b>–1.3</b>	<b>–0.3</b>	<b>–5.4</b>
<b>Impairment of collectively assessed loan receivables</b>			
Corporate sector	–3.7	–2.5	–1.1
Retail sector	–31.5	–31.0	–33.0
<b>Total collective reserves</b>	<b>–35.2</b>	<b>–33.5</b>	<b>–34.1</b>
<b>Total reserves</b>	<b>–36.5</b>	<b>–33.8</b>	<b>–39.5</b>
<b>Loan receivables, net</b>			
Corporate sector	3,132.5	1,731.3	1,670.8
Retail sector	94,876.0	86,893.7	84,917.9
<b>Total loans to the public</b>	<b>98,008.5</b>	<b>88,625.0</b>	<b>86,588.7</b>
<b>Impaired loans</b>			
Retail sector	2.5	0.8	9.1
<b>Total impaired loans</b>	<b>2.5</b>	<b>0.8</b>	<b>9.1</b>

**Definition**

A loan receivable is considered impaired if a payment is more than 60 days past due or if there are other reasons to expect that the counterparty cannot meet its undertaking. The loan receivable is considered impaired to the extent that its not covered by collateral in an adequate amount.

**NOTE 11 DERIVATIVES**

SEK M	Sep 30, 2012		Dec 31, 2011		Sep 30, 2011	
	Nominal value	Fair value	Nominal value	Fair value	Nominal value	Fair value
<b>Derivatives with positive values</b>						
<i>Derivatives in hedge accounting</i>						
Interest	57,403.0	1,498.9	59,395.0	1,292.2	58,300.0	1,109.4
Currency	9,498.7	441.6	10,576.6	454.2	10,576.6	760.8
Collateral received, CSA	–	–175.9	–	–276.1	–	–32.9
<i>Other derivatives</i>						
Interest	–	–	0.0	0.0	–	–
<b>Total derivatives with positive values</b>	<b>66,901.7</b>	<b>1,764.6</b>	<b>69,971.6</b>	<b>1,470.3</b>	<b>68,876.6</b>	<b>1,837.3</b>
<b>Derivatives with negative values</b>						
<i>Derivatives in hedge accounting</i>						
Interest	67,701.0	1,276.4	61,169.0	1,350.6	65,574.0	1,313.6
Currency	26,065.6	1,993.4	11,852.1	887.2	11,852.1	574.0
<i>Other derivatives</i>						
Currency	–	–	–	–	–	–
<b>Total derivatives with negative values</b>	<b>93,766.6</b>	<b>3,269.9</b>	<b>73,021.1</b>	<b>2,237.8</b>	<b>77,426.1</b>	<b>1,887.6</b>

**NOTE 12 MEMORANDUM ITEMS**

SEK M	Sep 30, 2012	Dec 31, 2011	Sep 30, 2011
<b>For own liabilities, pledged assets</b>			
Collateral pledged due to repurchase agreements	1,014.9	1,938.0	1,240.7
Loan receivables, covered bonds	92,311.0	84,428.1	82,806.2
<b>Total for own liabilities, pledged assets</b>	<b>93,325.9</b>	<b>86,366.1</b>	<b>84,046.9</b>
<b>Other pledged assets</b>	None	None	None
<b>Contingent liabilities</b>			
Conditional shareholders' contribution	2,492.6	2,192.6	1,932.6
Early retirement at age 62 in accordance with pension agreement, 80%	–	–	0.7
<b>Total contingent liabilities</b>	<b>2,492.6</b>	<b>2,192.6</b>	<b>1,933.3</b>
<b>Commitments</b>			
Loans approved but not disbursed	5,369.4	3,893.7	4,052.1

**NOTE 13 CAPITAL-ADEQUACY ANALYSIS**

SEK M	Sep 30, 2012	Dec 31, 2011	Sep 30, 2011
<b>Capital base</b>			
Tier 1 capital and Core Tier 1 capital before deductions	4,633.0	4,196.0	4,110.4
Deduction deferred tax assets	0.0	–0.3	0.0
Less IRB deficit	–69.9	–56.2	–53.6
<b>Tier 1 capital and Core Tier 1 capital</b>	<b>4,562.9</b>	<b>4,139.5</b>	<b>4,056.8</b>
Tier 2 capital	501.0	501.0	501.0
Deductions for Tier 2 capital	–69.9	–56.2	–53.6
<b>Total capital base</b>	<b>4,994.0</b>	<b>4,584.3</b>	<b>4,504.2</b>
<b>Risk-weighted assets according to Basel II</b>	<b>21,837.3</b>	<b>20,130.8</b>	<b>19,158.5</b>
<b>Risk-weighted assets according to transition rules</b>	<b>48,757.3</b>	<b>43,844.0</b>	<b>43,047.9</b>
<b>Capital requirement</b>			
Capital requirement for credit risk according to Standardised Approach	279.2	355.0	360.0
Capital requirement for credit risk according to IRB Approach	1,440.5	1,230.9	1,148.1
Capital requirement for operational risk	27.3	24.6	24.6
<b>Capital requirement according to Basel II</b>	<b>1,747.0</b>	<b>1,610.5</b>	<b>1,532.7</b>
Adjustment according to transition rules	2,153.6	1,897.0	1,911.2
<b>Total capital requirement</b>	<b>3,900.6</b>	<b>3,507.5</b>	<b>3,443.8</b>
<b>Capital adequacy</b>			
Tier 1 ratio and Core Tier 1 ratio according to Basel II, %	20.9	20.6	21.2
Capital-adequacy ratio according to Basel II, %	22.9	22.8	23.5
Capital ratio according to Basel II*	2.86	2.85	2.94
Tier 1 ratio and core Tier 1 ratio according to transition rules, %	9.4	9.4	9.4
Capital-adequacy ratio according to transition rules, %	10.2	10.5	10.5
Capital ratio according to transition rules*	1.28	1.31	1.31
<b>Special disclosures</b>			
<b>IRB Provisions surplus (+) / deficit (-)</b>	<b>-139.8</b>	<b>-112.4</b>	<b>-107.2</b>
– Total provisions (+)	36.5	31.2	37.0
– Anticipated loss (-)	-176.3	-143.6	-144.3
<b>Capital requirement</b>			
<b>Credit risk according to Standardised Approach</b>			
Exposures to institutions	73.7	69.5	67.6
Exposures to corporates	7.0	1.1	0.6
Retail exposures	64.2	46.1	48.2
Exposures secured on residential property	0.0	117.7	108.3
Past due items	0.0	0.2	0.9
Covered bonds	133.4	119.2	133.2
Other items	1.0	1.2	1.3
<b>Total capital requirement for credit risk according to Standardised Approach</b>	<b>279.2</b>	<b>355.0</b>	<b>360.0</b>

**NOTE 13 CAPITAL-ADEQUACY ANALYSIS, CONTINUED**

SEK M	Sep 30, 2012	Dec 31, 2011	Sep 30, 2011
<b>Credit risk according to IRB Approach</b>			
<b>Retail exposures</b>			
Exposures secured by real estate collateral	1,226.6	1,150.3	1,067.8
Other retail exposures	1.5	0.6	2.3
<i>Total retail exposures</i>	<i>1,228.1</i>	<i>1,150.9</i>	<i>1,070.1</i>
Exposures to corporates	212.4	80.0	78.0
<b>Total capital requirement for credit risk according to IRB Approach</b>	<b>1,440.5</b>	<b>1,230.9</b>	<b>1,148.1</b>
<b>Operational risk</b>			
Standardised Approach	27.3	24.6	24.6
<b>Total capital requirement for operational risk</b>	<b>27.3</b>	<b>24.6</b>	<b>24.6</b>

\*Capital ratio = total capital base / total capital requirement

**NOTE 14 DISCLOSED ON RELATED PARTIES**

Related legal entities include the Länsförsäkringar AB Group's and the Länsförsäkringar Liv Group's companies, all associated companies, Länsförsäkringar Mäklarservice AB, Länsförsäkringar Fastighetsförmedling AB, the 23 regional insurance companies with subsidiaries, as well as the local insurance companies that hold shares in Länsförsäkringar AB.

Normal business transactions between the related parties took place during January-September 2012.

Since December 31, 2011, no significant changes have occurred in the company's agreements with these related legal entities. The company's compensation to the regional insurance companies in accordance with prevailing outsourcing agreements is presented in note 6 Commission expense.

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

Since December 31, 2011, no significant changes have occurred in the company's agreements with these persons.

This interim report has not been reviewed by the company's auditors.

Stockholm, October 23, 2012

Anders Borgcrantz  
President

## Appendix

### BORROWING PROGRAMMES

Programmes	Limit, Nominal	Issued	Issued	Outstanding	Outstanding	Remaining	Remaining
		Jan-Sep 2012	Jan-Sep 2011	Sep 30, 2012	Sep 30, 2011	average term, Sep 30, 2012	average term, Sep 30, 2011
	Nominal, SEK billion	Nominal, SEK billion	Nominal, SEK billion	Nominal, SEK billion	Nominal, SEK billion	Year	Year
Benchmark	Unlimited	14.3	10.8	55.7	53.3	2.7	2.8
Medium Term Covered Note	SEK 30 billion	3.1	4.5	8.5	12.0	1.6	1.3
Euro Medium Term Covered Note	EUR 4 billion	2.5	10.3	23.8	21.5	2.5	3.1
<b>Totalt</b>		<b>19.9</b>	<b>25.6</b>	<b>88.0</b>	<b>86.8</b>	<b>2.6</b>	<b>2.7</b>

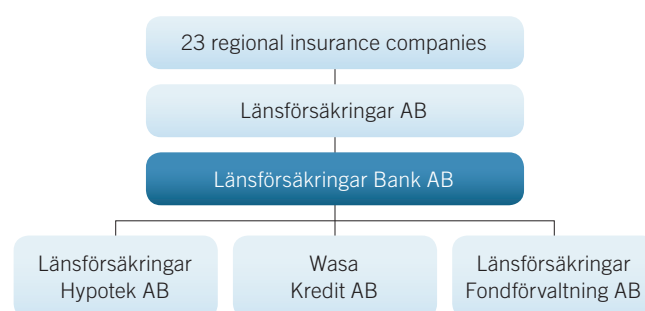
### Borrowing by maturity September 30, 2012

Years	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Nominal, SEK billion	0.1	11.9	28.1	14.8	19.4	12.0	0.3	1.3	0.1	88.0

# Financial calendar

Year-end report 2012 ..... **February 6, 2013**

This report contains such information that Länsförsäkringar Hypotek AB (publ) must publish in accordance with the Securities Market Act. The information was submitted for publication on October 25, 2012 at 12:00 a.m. Swedish time



The Länsförsäkringar Alliance comprises 23 local and customer-owned regional insurance companies and the jointly owned Länsförsäkringar AB. The Länsförsäkringar Alliance is based on a strong belief in local presence and customer contacts are made at the regional insurance companies. The regional insurance companies offer a wide range of insurance, banking services and other financial solutions for private individuals, corporate customers and agricultural customers. The number of customers amounts to nearly 3.4 million and the Länsförsäkringar Alliance has a joint total of approximately 5,800 employees.

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