

# Länsförsäkringar Hypotek

## Year-end report 2013

### The year in brief

- Net interest income rose 7% to SEK 852 M (796).
- Loan losses amounted to SEK 6.6 M (2.3), corresponding to loan losses of 0.01% (0.00).
- Operating profit declined 4% to SEK 305 M (319) and the return on equity was 4.8% (5.2).
- Lending increased 11% to SEK 112 billion (101).
- On December 31, 2013, the Core Tier 1 ratio according to transition rules amounted to 9.4% (9.4).
- The number of customers rose 6% to 188,000.

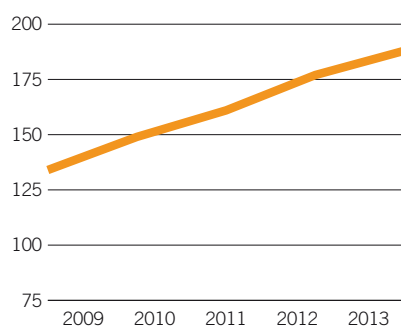
Figures in parentheses pertain to 2012.

**Anders Borgcrantz,**  
President Länsförsäkringar Hypotek:

*“Länsförsäkringar is strengthening its position in the mortgage market and the credit quality of the loan portfolio remains very high. We have very stable growth and the trend in net interest income was favourable during the year, while expenses remained unchanged.”*

#### CUSTOMER TREND

Number of customers, 000s



## Key figures

	Q 4 2013	Q 3 2013	Q 4 2012	Jan-Dec 2013	Jan-Dec 2012
Return on equity, %	3.5	5.0	4.1	4.8	5.2
Return on total capital, %	0.17	0.24	0.20	0.23	0.26
Investment margin, %	0.64	0.63	0.69	0.64	0.65
Cost/income ratio before loan losses	0.27	0.21	0.25	0.22	0.22
Cost/income ratio after loan losses	0.30	0.22	0.28	0.24	0.23
Core Tier 1 ratio according to Basel II, %	23.4	22.9	22.3	23.4	22.3
Capital adequacy ratio according to Basel II, %	25.3	24.9	24.2	25.3	24.2
Core Tier 1 ratio according to transition rules, %	9.4	9.0	9.4	9.4	9.4
Capital adequacy ratio according to transition rules, %	10.1	9.8	10.1	10.1	10.1
Percentage of impaired loans, gross, %	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
Loan losses, %	0.01	0.00	0.01	0.01	0.00

## Income statement, quarterly

SEK M	Q 4 2013	Q 3 2013	Q 2 2013	Q 1 2013	Q 4 2012
Net interest income	215.9	209.1	205.8	221.5	221.3
Net commission	-87.9	-90.6	-88.7	-78.9	-117.9
Net gains/losses from financial items	-46.3	-15.3	5.5	-49.3	-13.3
Other operating income	0.0	0.2	0.0	0.2	0.0
<b>Total operating income</b>	<b>81.7</b>	<b>103.4</b>	<b>122.6</b>	<b>93.5</b>	<b>90.1</b>
Staff costs	-3.4	-3.6	-3.9	-3.9	-3.6
Other administration expenses	-18.6	-18.7	-19.2	-18.2	-19.1
<b>Total operating expenses</b>	<b>-22.0</b>	<b>-22.3</b>	<b>-23.1</b>	<b>-22.1</b>	<b>-22.7</b>
<b>Profit before loan losses</b>	<b>59.7</b>	<b>81.1</b>	<b>99.5</b>	<b>71.4</b>	<b>67.4</b>
Loan losses, net	-2.9	-0.7	-1.9	-1.1	-2.4
<b>Operating profit</b>	<b>56.8</b>	<b>80.4</b>	<b>97.6</b>	<b>70.3</b>	<b>65.0</b>

## Market commentary

Both the stock markets and fixed-income markets experienced major fluctuations during the year. Performance was affected by the highly expansive monetary policies of several central banks, while economic trends remained weak. Global growth was hampered by debt reduction in both the public sector and among households. Several countries pursued an austere fiscal policy while private consumption was impeded by high savings. The purchase of government and mortgage bonds by the Federal Reserve continued to impact the market.

Bond interest rates were low at the start of the year and subsequently rose gradually, in line with, for example, expectations that the Federal Reserve would reduce its bond-buying stimulus. At the end of 2013, the Federal Reserve announced that it planned to reduce its bond buying from January 2014. Improved economic indicators from the US, and also from Europe, lent support to rising interest rates. However, short-term market interest rates remained low as a result of low key interest rates and also promises from central banks that monetary policy will be kept expansive for a long period of time.

The Swedish economy displayed a weaker performance during the year and unemployment was relatively high.

At the end of the year, the Riksbank lowered its key interest rate again to 0.75% due to the very low inflation. The difference between government bond rates and the interest rate for mortgage bonds and other loans declined during the year.

Loans to households in the Swedish market rose 5% during the year and 1% during the fourth quarter.

Housing prices in Sweden increased 7% during the year according to Valueguard's HOX index, which was largely due to rising prices for tenant-owned apartments. Prices of single-family homes rose 4%, while prices of tenant-owned apartments increased 13%.

## 2013 compared with 2012

### Growth and customer trend

Loans to the public rose 11%, or SEK 11 billion, to SEK 112 billion (101). The number of customers rose 6%, or 11,000, to 188,000 (177,000), and 84% (82) of mortgage customers had Länsförsäkringar as their primary bank.

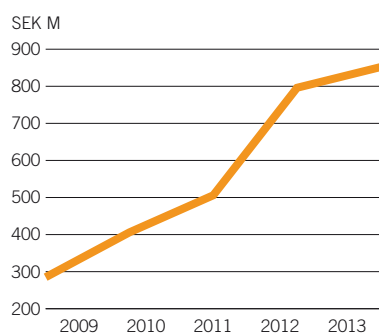
### Earnings and profitability

Profit before loan losses fell 3% to SEK 312 M (322) and operating profit declined 4% to SEK 305 M (319), which was due to net losses from financial items. Return on equity amounted to 4.8% (5.2).

### Income

Operating profit fell 3% to SEK 401 M (413), attributable to net losses from financial items. Higher lending volumes strengthened net interest income by 7% to SEK 852 M (796). The investment margin was 0.64% (0.65). Net gains from financial items declined to a loss of SEK 105 M (gain: 2) due to the negative effects of changes in fair value and the repurchase of own debt. Net commission amounted to an expense of SEK 346 M (385).

#### NET INTEREST INCOME



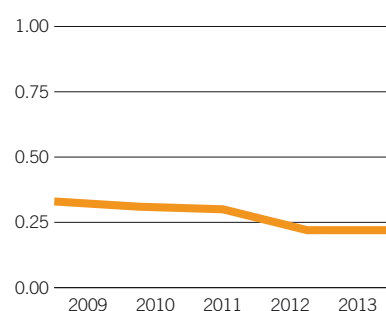
### Expenses

Operating expenses amounted to SEK 90 M (91) and the cost/income ratio before loan losses remained unchanged at 0.22. The cost/income ratio after loan losses amounted to 0.24 (0.23).

### Loan losses

Loan losses amounted to SEK 6.6 M (2.3), corresponding to loan losses of 0.006% (0.002). Reserves amounted to SEK 49 M (40), providing an unchanged reserve ratio in relation to loans of 0.04%. Impaired loans, gross, amounted to SEK 6 M (3), corresponding to a percentage of impaired loans of 0.005% (0.003). For more information regarding loan losses, reserves and impaired loans, see notes 8 and 10.

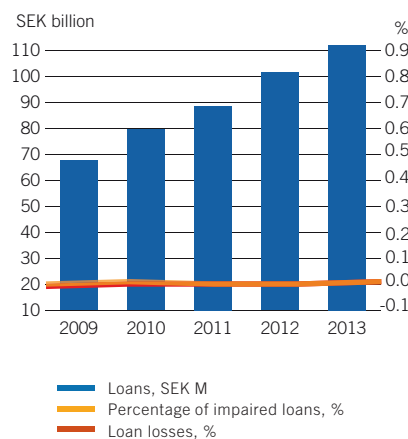
#### COST/INCOME RATIO BEFORE LOAN LOSSES



### Loans

Loans to the public rose 11%, or SEK 11 billion, to SEK 112 billion (101). On December 31, 2013, the market share for retail mortgages was 4.9% (4.8), according to data from Statistics Sweden. All loans are granted in Sweden and in SEK. The credit quality of the loan portfolio, comprising 74% (75) single-family homes, 20% (20) tenant-owned apartments, 5% (4) multi-family housing and 1% (1) other loans, continued to be favourable.

#### LOANS TO THE PUBLIC



### Cover pool

A total of 93% of the loan portfolio, corresponding to SEK 105 billion, is included in the cover pool. The collateral comprises private homes of which 77% (78) are single-family homes, 21% (20) tenant-owned apartments and 2% (2) vacation homes. The geographic distribution throughout Sweden is favourable and the average loan amount is SEK 414,000 (404,000). The weighted average loan-to-value ratio, LTV, was 62% (63) and the nominal, current OC amounted to 22% (25).

During a stress test of the cover pool based on a 20% price drop in the market value of collateral for the mortgages, the weighted average Max-LTV was 67% (68) on December 31, 2013. No impaired loans are included in the cover pool.

According to Moody's report from January 31, 2014, the assets in Länsförsäkringar Hypotek's cover pool continue to maintain the highest credit quality among all Swedish covered-bond issuers and are among the best in Europe.

Cover pool	Dec 31, 2013	Dec 31, 2012
Cover pool, SEK billion	121	114
OC <sup>1)</sup> , nominal, current level, %	22	25
Weighted average Max-LTV, %	62	63
Collateral	Private homes	Private homes
Seasoning, months	60	58
Number of loans	252,240	236,639
Number of borrowers	115,490	108,527
Number of properties	115,988	109,057
Average commitment, SEK 000s	901	875
Average loan, SEK 000s	414	404
Interest rate type, variable, %	55	52
Interest rate type, fixed, %	45	48
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 using the swap rate. Debt securities in issue include repurchase agreements.

### Funding

Debt securities in issue increased 9% to SEK 99 billion (91). Issuances, primarily of bonds with longer maturities, were launched during the year. At year-end, Länsförsäkringar Hypotek became the first Swedish institution to have a complete curve of Swedish benchmark loans with maturities of up to seven years. Issued covered bonds totalled a nominal

SEK 23.5 billion (28.5) and repurchases of a nominal SEK 7.2 billion (16.0) were executed during the year. Matured covered bonds amounted to a nominal of SEK 8.4 billion (6.6).

### Liquidity

On December 31, 2013, the liquidity reserve amounted to SEK 17.3 billion (20.3) according to the Swedish Bankers' Association's definition, of which 91% (92) is in Swedish covered bonds with an AAA/Aaa credit rating and 9% (8) in Swedish government bonds.

### Rating

Länsförsäkringar Hypotek is one of four 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 A3/stable from Moody's.

Agency	Institut	Long-term rating	Short-term rating
Länsförsäkringar Hypotek <sup>1)</sup>	Standard & Poor's	AAA/Stable	–
Länsförsäkringar Hypotek <sup>1)</sup>	Moody's	Aaa	–
Länsförsäkringar Bank	Standard & Poor's	A/Stable	A-1(K-1)
Länsförsäkringar Bank	Moody's	A3/Stable	P-2

<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 exposures and the

Standardised Approach is used for all other exposures. Core Tier 1 capital amounted to SEK 5,144 M (4,739) and Core Tier 1 ratio according to transition rules was 9.4% (9.4) on December 31, 2013. The capital base amounted to SEK 5,569 M (5,143) and the capital adequacy ratio was 10.1% (10.1). According to Basel II rules, Core Tier 1 ratio amounted to 23.4% (22.3) and the capital adequacy ratio amounted to 25.3% (24.2). For more information on the calculation of capital adequacy, see note 15.

### Interest-rate risk

On December 31, 2013, 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 40 M (64).

### 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. Loan losses remain low and the refinancing of business activities was highly satisfactory during the period. A detailed description of risks is available in the 2012 Annual Report. No significant changes in the allocation of risk have taken place compared with the description provided in the Annual Report.

### Fourth quarter of 2013 compared with third quarter of 2013

Operating profit fell 29% to SEK 57 M (80), mainly due to net losses from financial items. Return on equity amounted to 3.5% (5.0). Operating income declined 21% to SEK 82 M (103), mainly due to net losses from financial items. Net interest income increased 3% to SEK 216 M (209). Net losses from financial items amounted to SEK 46 M (15) due to the negative effects of changes in fair value. Net commission declined to an expense of SEK 88 M (91). Expenses remained unchanged at SEK 22 M and the cost/income ratio before loan losses was 0.27 (0.21). Loan losses, net, remained low at SEK 2.9 M (0.7).

### Events after year-end

No significant events took place after the close of the year.

### Annual Report

The Annual Report will be available on the website [lansforsakringar.se/financial-hypotek](http://lansforsakringar.se/financial-hypotek) from February week 8, 2014.

## Income statement

SEK M	Note	Q 4 2013	Q 3 2013	Change	Q 4 2012	Change	Jan-Dec 2013	Jan-Dec 2012	Change
Interest income	3	1,581.4	1,587.8	0%	1,679.3	-6%	6,337.4	7,205.9	-12%
Interest expense	4	-1,365.5	-1,378.7	-1%	-1,458.0	-6%	-5,485.1	-6,410.3	-14%
<b>Net interest income</b>		<b>215.9</b>	<b>209.1</b>	<b>3%</b>	<b>221.3</b>	<b>-2%</b>	<b>852.3</b>	<b>795.6</b>	<b>7%</b>
Commission income	5	0.4	0.5	-20%	0.6	-33%	2.1	2.4	-13%
Commission expense	6	-88.3	-91.1	-3%	-118.5	-25%	-348.2	-387.6	-10%
Net gains/losses from financial items	7	-46.3	-15.3	203%	-13.3	248%	-105.4	2.4	
Other operating income		0.0	0.2	-100%	0.0		0.4	0.1	300%
<b>Total operating income</b>		<b>81.7</b>	<b>103.4</b>	<b>-21%</b>	<b>90.1</b>	<b>-9%</b>	<b>401.2</b>	<b>412.9</b>	<b>-3%</b>
Staff costs		-3.4	-3.6	-6%	-3.6	-6%	-14.8	-12.9	15%
Other administration expenses		-18.6	-18.7	-1%	-19.1	-3%	-74.6	-78.2	-5%
Depreciation and impairment of tangible assets		-0.0	-0.0		0.0		-0.1	-0.1	0%
<b>Total operating expenses</b>		<b>-22.0</b>	<b>-22.3</b>	<b>-1%</b>	<b>-22.7</b>	<b>-3%</b>	<b>-89.5</b>	<b>-91.2</b>	<b>-2%</b>
<b>Profit before loan losses</b>		<b>59.7</b>	<b>81.1</b>	<b>-26%</b>	<b>67.4</b>	<b>-11%</b>	<b>311.7</b>	<b>321.7</b>	<b>-3%</b>
Loan losses, net	8	-2.9	-0.7	314%	-2.4	21%	-6.6	-2.3	187%
<b>Operating profit</b>		<b>56.8</b>	<b>80.4</b>	<b>-29%</b>	<b>65.0</b>	<b>-13%</b>	<b>305.1</b>	<b>319.4</b>	<b>-4%</b>
Allocation fund		-65.0	-	-	-		-	-	
Tax		-21.2	-22.4	-5%	4.9	-533%	-80.6	-62.1	30%
<b>Profit for the period</b>		<b>-29.4</b>	<b>58.0</b>	<b>-151%</b>	<b>69.9</b>	<b>-142%</b>	<b>159.5</b>	<b>257.3</b>	<b>-38%</b>

## Statement of comprehensive income

SEK M	Q 4 2013	Q 3 2013	Change	Q 4 2013	Change	Jan-Dec 2013	Jan-Dec 2012	Change
<b>Profit for the period</b>	<b>-29.4</b>	<b>58.0</b>		<b>69.9</b>		<b>159.5</b>	<b>257.3</b>	<b>-38%</b>
<b>Other comprehensive income</b>								
<i>Available-for-sale-financial assets</i>								
Fair value change	-15.7	10.6		-8.5	85%	-11.6	-48.0	-76%
Reclassification realised securities	-0.2	-12.8	-98%	-31.1	99%	-13.0	-38.4	-66%
Tax attributable to items that are rerouted or can be rerouted as income for the period	3.5	0.5	600%	10.2	-66%	5.4	22.5	-76%
<b>Total other comprehensive income for the period, net after tax</b>	<b>-12.4</b>	<b>-1.7</b>	<b>629%</b>	<b>-29.4</b>	<b>-58%</b>	<b>-19.2</b>	<b>-63.9</b>	<b>-70%</b>
<b>Total comprehensive income for the period</b>	<b>-41.8</b>	<b>56.3</b>	<b>-174%</b>	<b>40.5</b>		<b>140.3</b>	<b>193.4</b>	<b>-27%</b>

## Balance sheet

SEK M	Note	Dec 31, 2013	Dec 31, 2012
<b>Assets</b>			
Treasury bills and other eligible bills		1,491.9	1,544.9
Loans to credit institutions	9	4,710.0	1,696.2
Loans to the public	10	112,143.4	101,434.4
Bonds and other interest-bearing securities		15,375.9	18,218.7
Derivatives	11	605.3	1,746.4
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		486.0	781.1
Tangible assets		0.5	0.6
Deferred tax assets		–	3.3
Other assets		0.0	23.4
Prepaid expenses and accrued income		1,854.9	1,869.6
<b>Total assets</b>		<b>136,667.9</b>	<b>127,318.6</b>
<b>Liabilities, provisions and equity</b>			
Due to credit institutions	9	25,896.9	22,984.2
Debt securities in issue		98,989.5	90,962.4
Derivatives	11	2,538.0	2,824.3
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		599.7	2,067.7
Deferred tax liabilities		–	–
Other liabilities		51.7	256.0
Accrued expenses and deferred income		2,794.1	2,831.5
Provisions		0.7	0.5
Subordinated liabilities		501.0	501.0
<b>Total liabilities and provisions</b>		<b>131,371.6</b>	<b>122,427.6</b>
<b>Untaxed reserves</b>		<b>65.0</b>	<b>–</b>
<b>Equity</b>			
Share capital, 70,335 shares		70.3	70.3
Statutory reserve		14.1	14.1
Fair value reserve		62.5	81.7
Retained earnings		4,924.9	4,467.6
Profit for the year		159.5	257.3
<b>Total equity</b>		<b>5,231.3</b>	<b>4,891.0</b>
<b>Total liabilities, provisions and equity</b>		<b>136,667.9</b>	<b>127,318.6</b>
<b>Memorandum items</b>			
	12		
For own liabilities, pledged assets		120,780.3	114,865.2
Other pledged assets		None	None
Contingent liabilities		2,930.6	2,730.6
Other commitments		4,308.2	4,952.2
<b>Other notes</b>			
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## Cash-flow statement in summary, indirect method

SEK M	Jan-Dec 2013	Jan-Dec 2012
<b>Cash and cash equivalents, January 1</b>	<b>6.9</b>	<b>5.8</b>
Cash flow from operating activities	47.3	-189.1
Cash flow from investing activities	-	-0.3
Cash flow from financing activities	-47	190.5
<b>Cash flow for the period</b>	<b>0.3</b>	<b>1.1</b>
<b>Cash and cash equivalents, December 31</b>	<b>7.2</b>	<b>6.9</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 -10,720.8 M (-12,816.0), Debt securities in issue SEK 7,473.2 M (6,395.2) and to Loan to credit institutions SEK -3,013.3 M (216.9).

Changes in the cash flow from financing activities are share holder contribution SEK 200,0 M (538,0) and attributable to Group contribution paid SEK -247.0 M (-347.5).

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## 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, 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					257.3	257.3
Other comprehensive income for the period			-63.9			-63.9
<i>Comprehensive income for the period</i>			-63.9		257.3	193.4
Group contribution paid				-247.0		-247.0
Resolution by Annual General Meeting				149.5	-149.5	0.0
Tax on Group contribution paid				65.0		65.0
Conditional shareholders' contribution received				538.0		538.0
<b>Closing balance, December 31, 2012</b>	<b>70.3</b>	<b>14.1</b>	<b>81.7</b>	<b>4,467.6</b>	<b>257.3</b>	<b>4,891.0</b>
<b>Opening balance, January 1, 2013</b>	<b>70.3</b>	<b>14.1</b>	<b>81.7</b>	<b>4,467.6</b>	<b>257.3</b>	<b>4,891.0</b>
Profit for the period					159.5	159.5
Other comprehensive income for the period			-19.2			-19.2
<i>Comprehensive income for the period</i>			-19.2		159.5	140.3
Resolution by annual General Meeting				257.3	-257.3	0.0
Conditional shareholders' contribution received				200.0		200.0
<b>Closing balance, December 31, 2013</b>	<b>70.3</b>	<b>14.1</b>	<b>62.5</b>	<b>4,924.9</b>	<b>159.5</b>	<b>5,231.3</b>

## Notes

### NOTE 1 ACCOUNTING POLICIES

Länsförsäkringar Hypotek AB 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 year-end report was prepared in accordance with IAS 34 Interim Financial Reporting.

The company applies IFRS 13 Fair Value Measurement, a new accounting standard for the measurement of financial instruments, from January 1, 2013. The standard is a collection and development of the principles for the measurement of fair value from other IFRSs.

In all other respects, this interim report has been prepared in accordance with the same accounting policies and calculation methods that will be applied in the 2013 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 INTEREST INCOME

SEK M	Q 4 2013	Q 3 2013	Change	Q 4 2012	Change	Jan-Dec 2013	Jan-Dec 2012	Change
Loans to credit institutions	14.8	12.7	17%	3.9	279%	41.5	34.8	19%
Loans to the public	871.2	868.3	0%	909.1	-4%	3,479.3	3,687.0	-6%
Interest-bearing securities	111.2	115.6	-4%	138.2	-20%	474.7	576.5	-18%
<i>Derivatives</i>								
Hedge accounting	584.2	591.2	-1%	628.1	-7%	2,341.9	2,907.6	-19%
Non-hedge accounting	-	-	-	-	-	-	-	-
<b>Total interest income</b>	<b>1,581.4</b>	<b>1,587.8</b>	<b>0%</b>	<b>1,679.3</b>	<b>-6%</b>	<b>6,337.4</b>	<b>7,205.9</b>	<b>-12%</b>
of which interest income on impaired loans	-0.1	0.1		0.0		0.0	0.0	
of which interest income from financial items not measured at fair value	886.0	881.0	1%	913.0	-3%	3,520.8	3,721.8	-5%
Average interest rate on loans to the public during the period, %	3.1	3.2		3.7		3.3	3.9	

### NOTE 4 INTEREST EXPENSE

SEK M	Q 4 2013	Q 3 2013	Change	Q 4 2012	Change	Jan-Dec 2013	Jan-Dec 2012	Change
Due to credit institutions	-138.7	-131.4	6%	-125.3	11%	-519.6	-540.1	-4%
Interest-bearing securities	-678.7	-685.3	-1%	-693.5	-2%	-2,723.1	-2,833.4	-4%
Subordinated liabilities	-5.2	-5.1	2%	-5.1	2%	-19.9	-22.9	-13%
<i>Derivatives</i>								
Hedge accounting	-533.9	-547.2	-2%	-624.3	-14%	-2,185.8	-2,977.4	-27%
Non-hedge accounting	-	-	-	-	-	-	-	-
Other interest expense	-9.0	-9.7	-8%	-9.8	-9%	-36.7	-36.5	1%
<b>Total interest expense</b>	<b>-1,365.5</b>	<b>-1,378.7</b>	<b>-1%</b>	<b>-1,458.0</b>	<b>-6%</b>	<b>-5,485.1</b>	<b>-6,410.3</b>	<b>-14%</b>
of which interest expense from financial items not measured at fair value	-831.6	-831.6	0%	-833.7	0%	-3,299.3	-3,432.9	-4%

### NOTE 5 COMMISSION INCOME

SEK M	Q 4 2013	Q 3 2013	Change	Q 4 2012	Change	Jan-Dec 2013	Jan-Dec 2012	Change
Loans	0.4	0.5	-20%	0.6	-33%	2.1	2.4	-13%
<b>Total commission income</b>	<b>0.4</b>	<b>0.5</b>	<b>-20%</b>	<b>0.6</b>	<b>-33%</b>	<b>2.1</b>	<b>2.4</b>	<b>-13%</b>

### NOTE 6 COMMISSION EXPENSE

SEK M	Q 4 2013	Q 3 2013	Change	Q 4 2012	Change	Jan-Dec 2013	Jan-Dec 2012	Change
Remuneration to regional insurance companies	-88.0	-90.6	-3%	-118.3	-26%	-346.9	-386.3	-10%
Other commission	-0.2	-0.5	-60%	-0.2	0%	-1.3	-1.3	-8%
<b>Total commission expense</b>	<b>-88.3</b>	<b>-91.1</b>	<b>-3%</b>	<b>-118.5</b>	<b>-26%</b>	<b>-348.2</b>	<b>-387.6</b>	<b>-10%</b>



**NOTE 7 NET GAINS / LOSSES FROM FINANCIAL ITEMS**

SEK M	Q 4 2013	Q 3 2013	Change	Q 4 2012	Change	Jan-Dec 2013	Jan-Dec 2012	Change
<b>Change in fair value</b>								
Interest-related instruments	-25.2	30.3		94.6		-464.5	281.8	
Currency-related instruments	-40.5	-14.5	-179%	343.5		1,085.2	-783.9	
Change in fair value of hedged items	15.9	-33.0		-431.7		-728.0	478.2	
<b>Capital gains / losses</b>								
Interest-related instruments	-8.9	-10.1	-12%	-33.5	-73%	-44.2	-23.4	89%
Interest compensation	12.4	12.0	3%	13.8	-10%	46.1	49.7	-7%
<b>Total net gains / losses from financial items</b>	<b>-46.3</b>	<b>-15.3</b>	<b>203%</b>	<b>-13.3</b>	<b>248%</b>	<b>-105.4</b>	<b>2.4</b>	

**NOTE 8 LOAN LOSSES AND IMPAIRED LOANS**

SEK M	2013	2012
<b>Specific reserve for individually assessed loan receivables</b>		
Write-off of confirmed loan losses during the year	-8.2	-8.0
Reversed earlier impairment of loan losses recognised as confirmed losses	5.0	1.8
Impairment of loan losses during the year	-35.9	-4.6
Payment received for prior confirmed loan losses	11.1	11.6
Reversed impairment of loan losses no longer required	15.8	1.2
<b>Net expense for the year for individually assessed loan receivables</b>	<b>-12.2</b>	<b>2.0</b>
<b>Collective assessed homogenous groups of loan receivables with limited value and similar credit risk</b>		
Provision / reversal of impairment of loan losses	5.6	-4.3
<b>Net expense for the year for collectively loan receivables</b>	<b>5.6</b>	<b>-4.3</b>
Annual net expense for lived up of guarantees	-	-
<b>Net expense of loan losses for the year</b>	<b>-6.6</b>	<b>-2.3</b>

All information pertains to receivables from the public.

	Dec 31, 2013				Dec 31, 2012			
	Gross	Individual impairments	Collective impairments	Net	Grosso	Individual impairments	Collective impairments	Net
<b>Impaired loans, SEK M</b>								
Corporate sector	-	-	-	-	-	-	-3.2	-3.2
Retail sector	6.1	-17.0	-32.2	-43.1	3.1	-1.9	-34.6	-33.4
<b>Total</b>	<b>6.1</b>	<b>-17.0</b>	<b>-32.2</b>	<b>-43.1</b>	<b>3.1</b>	<b>-1.9</b>	<b>-37.8</b>	<b>-36.6</b>

Sector distribution according to the IRB-definition.

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

Loans to credit institutions include deposits with the Parent Company of SEK 4,480.8 M (1,683.8). Due to credit institutions includes borrowings from the Parent Company of SEK 25,872.7 M (22,972.9).

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

Mkr	Dec 31, 2013	Dec 31, 2012
<b>Loans to the public before reservations</b>		
Public sector		
Corporate sector	5,210.3	3,881.7
Retail sector	106,982.3	97,592.4
Other	–	–
<b>Total</b>	<b>112,192.6</b>	<b>101,474.1</b>
<b>Reservations</b>	<b>–49.2</b>	<b>–39.7</b>
<b>Loans to the public</b>	<b>112,143.4</b>	<b>101,434.4</b>
Remaining term of not more than 3 month	65,397.4	57,316.7
Remaining term of more than 3 months but not more than 1 year	9,565.5	14,021.9
Remaining term of more than 1 year but not more than 5 years	36,438.9	29,475.5
Remaining term of more than 5 years	741.6	620.3
<b>Total</b>	<b>112,143.4</b>	<b>101,434.4</b>

**Definition**

Remaining term is defined as the remaining fixed-interest period if the loan has periodically restricted conditions.

**NOTE 11 DERIVATIVES**

SEK M	Dec 31, 2013		Dec 31, 2012	
	Nominal value	Fair value	Nominal value	Fair value
<b>Derivatives with positive values</b>				
<i>Derivatives in hedge accounting</i>				
Interest-related	62,013.0	850.9	64,458.0	1,522.2
Currency-related	2,999.3	295.2	8,651.5	417.1
Collateral received, CSA	–	–540.8	–	–192.9
<i>Other derivatives</i>				
Currency-related	0.0	0.0	0.0	0.0
<b>Total derivatives with positive values</b>	<b>65,012.3</b>	<b>605.3</b>	<b>73,109.5</b>	<b>1,746.4</b>
<b>Derivatives with negative values</b>				
<i>Derivatives in hedge accounting</i>				
Interest-related	79,803.0	818.0	67,333.0	1,205.1
Currency-related	32,517.5	1,720.0	26,065.6	1,619.2
<b>Total derivatives with negative values</b>	<b>112,320.5</b>	<b>2,538.0</b>	<b>93,398.6</b>	<b>2,824.3</b>

**NOTE 12 MEMORANDUM ITEMS**

SEK M	Dec 31, 2013	Dec 31, 2012
<b>For own liabilities, pledged assets</b>		
Collateral pledged due to repurchase agreements	24.2	11.3
Loan receivables, covered bonds	104,506.1	95,529.8
Loan receivables, substitute collateral	16,250.0	19,324.1
<b>Total for own liabilities, pledged assets</b>	<b>120,506.1</b>	<b>114,865.2</b>
<b>Other pledged assets</b>	None	None
<b>Contingent liabilities</b>		
Conditional shareholders' contribution	2,930.6	2,730.6
<b>Total contingent liabilities</b>	<b>2,930.6</b>	<b>2,730.6</b>
<b>Commitments</b>		
Loans approved but not disbursed	4,308.2	4,952.2

**NOTE 13 FAIR VALUE VALUATION TECHNIQUES**

Determination of fair value through published price quotations or valuation techniques. Level 1 includes Instruments with published price quotations, Level 2 includes Valuation techniques based on observable market prices and Level 3 includes Valuation techniques based on unobservable market price.

Dec 31, 2013 SEK M	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Treasury bills and other eligible bills	1,491.9			1,491.9
Bonds and other interest-bearing securities	15,375.9			15,375.9
Derivatives		605.3		605.3
<b>Liabilities</b>				
Derivatives		2,538.0		2,538.0
Dec 31, 2012 SEK M	Level,1	Level,2	Level,3	Total
<b>Assets</b>				
Treasury bills and other eligible bills	1,544.9			1,544.9
Bonds and other interest-bearing securities	18,218.7			18,218.7
Derivatives		1,746.4		1,746.4
<b>Liabilities</b>				
Derivatives		2,824.3		2,824.3

**NOTE 13 FAIR VALUE VALUATION TECHNIQUES, CONTINUED**

SEK M	Dec 31, 2013		Dec 31, 2012	
	Book value	Fair value	Book value	Fair value
<b>Assets</b>				
Treasury bills and other eligible bills	1,491.9	1,491.9	1,544.9	1,544.9
Loans to credit institutions	4,710.0	4,710.0	1,696.2	1,696.2
Loans to the public	112,143.4	113,010.2	101,434.4	102,389.8
Bonds and other interest-bearing securities	15,375.9	15,375.9	18,218.7	18,218.7
Derivatives	605.3	605.3	1,746.4	1,746.4
Accounts receivable	0.0	0.0	0.0	0.0
<b>Total assets</b>	<b>134,326.5</b>	<b>135,193.3</b>	<b>124,640.7</b>	<b>125,596.1</b>
<b>Liabilities</b>				
Due to credit institutions	25,896.9	25,896.9	22,984.2	22,984.2
Debt securities in issue	98,989.5	102,707.6	90,962.4	96,094.7
Derivatives	2,538.0	2,538.0	2,824.3	2,824.3
Accounts payable	5.7	5.7	2.0	2.0
Subordinated liabilities	501.0		501.0	
<b>Total Liabilities</b>	<b>127,931.1</b>	<b>131,148.2</b>	<b>117,273.9</b>	<b>121,905.2</b>

Transfers between level 1 and level 2

There were no significant transfers between level 1 and level 2 during 2013 and no transfers during 2012.

Disclosures regarding the fair value of loans and debt securities in issue are provided in accordance with the valuation techniques based on unobservable Level 3 market data.

The fair value of cash and balances with central banks, loans, accounts receivable, due to credit institutions, accounts payable and refinancing city debts comprises a reasonable approximation of the fair value based on the cost of the assets and liabilities.

When calculating the fair value of lending, anticipated future cash flows have been discounted using a discount interest rate set at the current lending rates applied (including discounts).

The main principle for measuring the fair value of debt securities in issue is that the value is measured at prices from external parties at year-end or the most recent trading date. If external prices are not available or are deemed to deviate from market levels, a standard method or valuation technique based on the estimated or original issue spread is utilised.

**NOTE 14 INFORMATION ABOUT OFFSETTING**

Information per type of instrument. Financial assets and liabilities covered by a legally binding agreement regarding netting or a similar agreement but that are not off set in the balance sheet. Länsförsäkringar Hypotek has ISDA and CSA agreements with all derivative counterparties which means that all exposures shown below are covered by the two types of agreements.

SEK M Dec 31, 2013	Recognised financial assets, gross	Recognised financial liabilities, gross, offset in the balance sheet	Amount recognised in the balance sheet	Related amounts that are not offset in the balance sheet			Net amount
				Financial Instruments	Provided (+) Received (-) collateral – securities	Provided (+) Received (-) cash collateral	
<b>Assets</b>							
Derivatives	1,146.1	-540.8	605.3	-870.1			-264.8
Repos			0.0				0.0
<b>Liabilities</b>							
Derivatives	-2,538.0		-2,538.0	870.1			-1,667.9
Repos	-24.7		-24.7		24.7		0.0
<b>Total</b>	<b>-1,416.6</b>	<b>-540.8</b>	<b>-1,957.4</b>	<b>0.0</b>	<b>24.7</b>	<b>0.0</b>	<b>-1,932.7</b>

SEK M Dec 31, 2012	Recognised financial assets, gross	Recognised financial liabilities, gross, offset in the balance sheet	Amount recognised in the balance sheet	Related amounts that are not offset in the balance sheet			Net amount
				Financial Instruments	Provided (+) Received (-) collateral – securities	Provided (+) Received (-) cash collateral	
<b>Assets</b>							
Derivatives	1,939.3	-192.9	1,746.4	-1,485.9			260.5
Repos							
<b>Liabilities</b>							
Derivatives	-2,824.3		-2,824.3	1,485.9			-1,338.4
Repos	-11.3		-11.3		11.3		0.0
<b>Total</b>	<b>-896.3</b>	<b>-192.9</b>	<b>-1,089.2</b>	<b>0.0</b>	<b>11.3</b>	<b>-</b>	<b>-1,077.9</b>

**NOTE 15 CAPITAL-ADEQUACY ANALYSIS**

SEK M	Dec 31, 2013	Dec 31, 2012
<b>Capital base</b>		
Core Tier 1 capital and Tier 1 capital before deductions	5,219.5	4,809.3
Deduction deferred tax assets	0.0	-3.3
Special deduction for IRB-exposures	-75.9	-67.2
<b>Core Tier 1 capital and Tier 1 capital</b>	<b>5,143.6</b>	<b>4,738.8</b>
Tier 2 capital	501.0	471.0
Special deduction for IRB-exposures	-75.9	-67.2
<b>Total capital base</b>	<b>5,568.7</b>	<b>5,142.6</b>
<b>Risk-weighted assets according to Basel II</b>	<b>21,980.3</b>	<b>21,248.9</b>
<b>Risk-weighted assets according to transition rules</b>	<b>55,010.7</b>	<b>50,668.7</b>
<b>Capital requirement</b>		
Capital requirement for credit risk according to Standardised Approach	178.0	291.6
Capital requirement for credit risk according to IRB Approach	1,544.7	1,381.0
Capital requirement for operational risk	35.7	27.3
<b>Capital requirement according to Basel II</b>	<b>1,758.4</b>	<b>1,699.9</b>
Adjustment according to transition rules	2,642.4	2,353.6
<b>Total capital requirement</b>	<b>4,400.8</b>	<b>4,053.5</b>
<b>Capital adequacy</b>		
Core Tier 1 ratio and Tier 1 ratio according to Basel II, %	23.4	22.3
Capital-adequacy ratio according to Basel II, %	25.3	24.2
Capital ratio according to Basel II*	3.17	3.03
Core Tier 1 ratio and Tier 1 ratio according to transition rules, %	9.4	9.4
Capital-adequacy ratio according to transition rules, %	10.1	10.1
Capital ratio according to transition rules*	1.27	1.27
<b>Capital requirement</b>		
<b>Credit risk according to Standardised Approach</b>		
Exposures to institutions	49.2	80.6
Exposures to corporates	0	2.8
Retail exposures	0	57.3
Exposures secured on residential property	-	-
Past due items	-	-
Covered bonds	126.4	149.7
Other items	2.4	1.1
<b>Total capital requirement for credit risk according to Standardised Approach</b>	<b>178.0</b>	<b>291.6</b>
<b>Credit risk according to IRB Approach</b>		
<b>Retail exposures</b>		
Exposures secured by real estate collateral	1,271.8	1,122.9
Other retail exposures	3.4	1.2
<i>Total retail exposures</i>	<i>1,275.2</i>	<i>1,124.1</i>
Exposures to corporates	269.4	256.9
<b>Total capital requirement for credit risk according to IRB Approach</b>	<b>1,544.6</b>	<b>1,381.0</b>
<b>Operational risk</b>		
Standardised Approach	35.7	27.3
<b>Total capital requirement for operational risk</b>	<b>35.7</b>	<b>27.3</b>

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

**NOTE 16 DISCLOSURES ON RELATED PARTIES**

Normal business transactions between the related parties took place during 2013. Since December 31, 2012, no significant changes have occurred in the company's agreements with these related legal entities. The company's remuneration 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, 2012, no significant changes have occurred in the company's agreements with these persons.

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

Stockholm, February 6 2014

Rikard Josefson  
*Chairman of the Board*

Christian Bille  
*Board member*

Bengt Clemedtson  
*Board member*

Maria Jerhamre Engström  
*Board member*

Christer Malm  
*Board member*

Anders Borgerantz  
*President*

## Auditors' report on the review of the financial year-end information

To the board of directors of Länsförsäkringar Hypotek AB (publ)  
Org nr 556244-1781

### Introduction

I have conducted a review of the financial year-end report for Länsförsäkringar Hypotek AB (publ), Corporate Registration Number 556244-1781, at December 31, 2013 and for the twelve-month period that ended on that date. The Board of Directors and the President are responsible for preparing and presenting this year-end report in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies. My responsibility is to express an opinion on this year-end report based on my review.

### Focus and scope of the review

I conducted my review in accordance with the Standard on Review Engagements SÖG 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review consists of making inquiries, primarily with persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a different focus and substantially more limited scope than an audit conducted in accordance with International Standards on Auditing and other generally accepted auditing practices in Sweden. The procedures performed in a review do not enable me to obtain a level of assurance that would make me aware of all significant matters that might be identified in an audit. Therefore, a conclusion expressed on the basis of a review does not provide the same level of assurance as a conclusion expressed on the basis of an audit.

### Conclusion

Based on my review, nothing has come to my attention that causes me to believe that the year-end report has not, in all material aspects, been prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm, February 7, 2014

Stefan Holmström  
*Authorised Public Accountant*

## Appendix

### FUNDING PROGRAMMES

Programmes	Limit, Nominal	Issued 2013 Nominal, SEK billion	Issued 2012 Nominal, SEK billion	Outstanding Dec 31, 2013 Nominal, SEK billion	Outstanding Dec 31, 2012 Nominal, SEK billion	Remaining average term, Dec 31, 2013 Year	Remaining average term, Dec 31, 2012 Year
Swedish Covered Benchmark	Unlimited	17.0	22.7	64.2	58.8	3.1	2.4
Medium Term Covered Note	SEK 30 billion	–	3.3	4.9	8.7	1.4	1.5
Euro Medium Term Covered Note	EUR 5 billion	6.5	2.5	30.1	23.8	2.7	2.3
<b>Total</b>		<b>23.5</b>	<b>28.5</b>	<b>99.2</b>	<b>91.3</b>	<b>2.9</b>	<b>2.3</b>

### Funding by maturity December 31, 2013

Years	2014	2015	2016	2017	2018	2019	>=2020	Totalt
Nominal, SEK billion	19.1	17.6	19.7	14.9	10.4	7.4	10.1	99.2

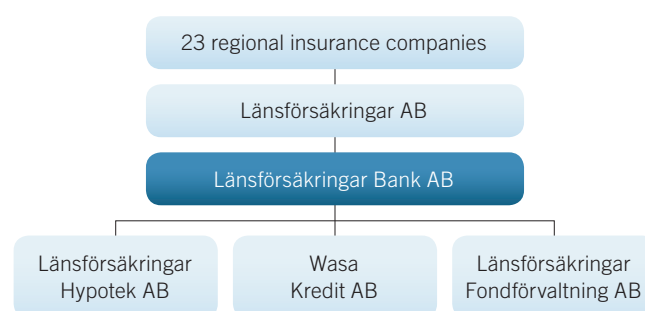


## Financial calendar

Interim report January-March..... **April 29, 2014**

Interim report April-June..... **July 18, 2014**

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 February 10, 2014 at 1:00 p.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 3.5 million and the Länsförsäkringar Alliance has a joint total of approximately 5,800 employees.

### Contact information

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