

Länsförsäkringar Hypotek

Interim report January-June 2014

THE PERIOD IN BRIEF

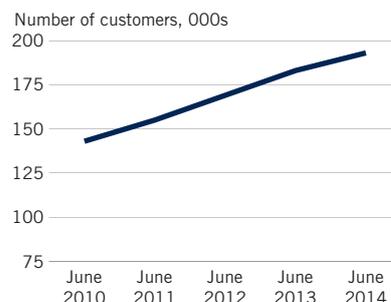
- Net interest income rose 9% to SEK 464 M (427).
- Loan losses amounted to SEK -7.9 M (3.0), corresponding to loan losses of -0.01% (0.01). See comments on the settlement method for loan losses.
- Operating profit rose 15% to SEK 194 M (168) and the return on equity was 5.2% (5.4).
- Lending increased 9% to SEK 117 billion (108).
- The Core Tier 1 ratio according to Basel III was 22.6% on June 30, 2014.
- The number of customers rose 5% to 193,000.

Figures in parentheses pertain to the comparative period in 2013.

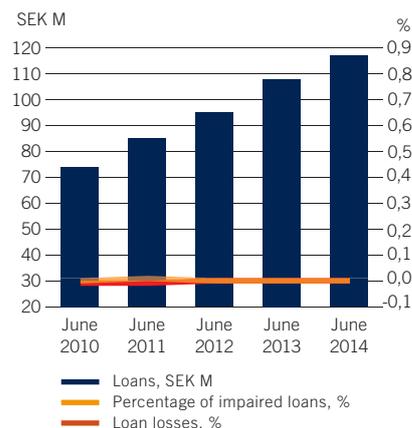
ANDERS BORGCRANTZ, PRESIDENT OF LÄNSFÖRSÄKRINGAR HYPOTEK:

“ At the end of the quarter, Länsförsäkringar was the first in the bank market to certify all of its mortgage advisors, which confirms our ambition levels regarding quality, service and security for our customers. We reported healthy mortgage growth and the credit quality of the loan portfolio is very high. Financing of the retail mortgage lending operations continued successfully and the maturity structure improved during the quarter.

CUSTOMER TREND



LOANS TO THE PUBLIC



KEY FIGURES

	Q 2 2014	Q 1 2014	Q 2 2013	Jan-Jun 2014	Jan-Jun 2013	Full-year 2013
Return on equity, %	5.9	4.6	6.2	5.2	5.4	4.8
Return on total capital, %	0.31	0.22	0.29	0.27	0.26	0.23
Investment margin, %	0.69	0.64	0.62	0.66	0.65	0.64
Cost/income ratio before loan losses	0.18	0.23	0.19	0.20	0.21	0.22
Cost/income ratio after loan losses	0.13	0.21	0.20	0.16	0.22	0.24
Core Tier 1 ratio according to Basel III, %	22.6	22.1	–	22.6	–	–
Capital adequacy ratio according to Basel III, %	24.6	24.0	–	24.6	–	–
Percentage of impaired loans, gross, %	0.00	0.01	0.00	0.00	0.00	0.01
Reserve ratio in relation to loans, %	0.03	0.04	0.04	0.03	0.04	0.04
Loan losses, %	-0.02	0.00	0.01	-0.01	0.01	0.01

INCOME STATEMENT, QUARTERLY

	Q 2 2014	Q 1 2014	Q 4 2013	Q 3 2013	Q 2 2013
Net interest income	242.2	221.6	215.9	209.1	205.8
Net commission	-137.8	-115.5	-87.9	-90.6	-88.7
Net gains/losses from financial items	28.9	-7.4	-46.3	-15.3	5.5
Other operating income	0.0	0.2	0.0	0.2	0.0
Total operating income	133.3	98.9	81.7	103.4	122.6
Staff costs	-3.9	-3.7	-3.4	-3.6	-3.9
Other administration expenses	-19.7	-18.8	-18.6	-18.7	-19.2
Total operating expenses	-23.7	-22.5	-22.0	-22.3	-23.1
Profit before loan losses	109.6	76.4	59.7	81.1	99.5
Loan losses, net	6.6	1.3	-2.9	-0.7	-1.9
Operating profit	116.2	77.7	56.8	80.4	97.6

Market commentary

Economic statistics in the US improved significantly during the second quarter following a weak first quarter, primarily driven by weather effects, and the Federal Reserve continuing to reduce its bond buying programme. Despite the strengthening of the US economy in the second quarter, long-term interest rates remained low. General geo-political concerns in Ukraine, for example, speculation on the heightened interest-rate sensitivity of the economy and increased expectations of further measures from the ECB put downward pressure on interest rates.

Continued low inflation in Europe led to the ECB reducing its key interest rate to 0.15% and deposit rate to -0.1 % at its June meeting. Meanwhile, extraordinary measures were announced with the underlying aim of stimulating inflation via the banking system. As a result, interest rates in the eurozone continued to fall.

In Sweden, economic recovery continued. Domestic demand in the form of consumption and investments performed at a healthy pace and employment continued to grow. However, inflation remained low, which led to interest rates falling based on high expectations of further cuts from the Riksbank.

In the credit market, spreads continued to narrow during the quarter. The effect could also be seen in the spreads between Swedish covered bonds and the government bond curve, which continued to shrink during the period, primarily for longer maturities.

Housing prices in Sweden increased 1.5% during the second quarter, which was largely due to high demand combined with limited supply of residential properties and low interest rates. According to Valueguard's HOX index, prices of single-family homes rose 2%, while prices of tenant-owned apartments increased 0.8%.

Growth and customer trend

Loans to the public rose 9%, or SEK 9 billion, to SEK 117 billion (108). The number of customers rose 5%, or 10,000, to 193,000 (183,000), and 84% (83) of retail mortgage customers have Länsförsäkringar as their primary bank.

Earnings and profitability

Profit before loan losses rose 9% to SEK 186 M (171) and operating profit increased 15% to SEK 194 M (168), due to improved net gains from financial items and higher net interest income. The return on equity amounted to 5.2% (5.4).

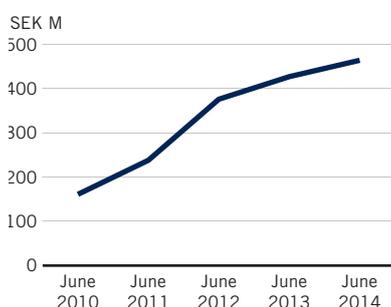
OPERATING PROFIT AND RETURN ON EQUITY



Income

Operating income increased a total of 7% to SEK 232 M (216), due to improved net gains from financial items and higher net interest income. Net interest income rose 9% to SEK 464 M (427). The investment margin strengthened to 0.66% (0.65). Net gains from financial items improved to SEK 22 M (-44), primarily as a result of negative effects of changes in fair value being reported for the preceding year, combined with the repurchase of own bonds. Net commission amounted to an expense of SEK 253 M (168), attributable to higher remuneration to the regional insurance companies.

NET INTEREST INCOME



Expenses

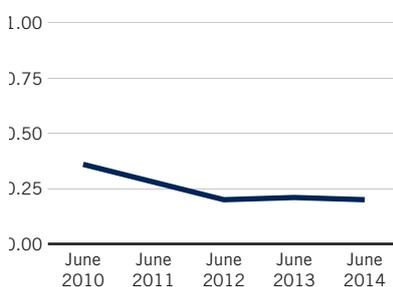
Operating expenses amounted to SEK 46 M (45). The cost/income ratio before loan losses strengthened to 0.20 (0.21) and the cost/income ratio after loan losses strengthened to 0.16 (0.22).

Loan losses

The new settlement model, which was introduced on January 1, 2014, regarding the commitment that the regional insurance companies have regarding loan losses related to business they have originated entails that the regional insurance companies cover 80% of the provision requirement on the date when an impairment is identified, by an off-set against accrued commissions. The transition to the new model means that the credit reserves on the date of introduction will be gradually reversed by SEK 21 M. During the period SEK 7 M was reversed.

Loan losses amounted to SEK -8 M (3), corresponding to loan losses of -0.01% (0.01). Reserves amounted to SEK 42 M (44), corresponding to a reserve ratio in relation to loans of 0.03% (0.04). Impaired loans, gross, amounted to SEK 2 M (4), corresponding to an unchanged percentage of impaired loans, gross, of 0.00%. For more information regarding loan losses, reserves and impaired loans, see notes 8 and 10.

COST/INCOME RATIO BEFORE LOAN LOSSES



Loans

All loans are granted in Sweden and in SEK. Loans to the public rose 9% to SEK 117 billion (108), up 4% from year-end 2013. On May 31, 2014, the market share for retail mortgages was unchanged at 4.9%, according to data from Statistics Sweden. The credit quality of the loan portfolio, comprising 74.5% (75) single-family homes, 20% (20) tenant-owned apartments, 5% (4) multi-family housing and 0.5% (1) other loans, remained favourable.

Cover pool

The cover pool contains 93% of the loan portfolio, corresponding to SEK 109 billion. The collateral comprises private ho-

mes, of which 77% (77) are single-family homes, 21% (21) tenant-owned apartments and 2% (2) vacation homes. The geographic distribution throughout Sweden is favourable and the average loan amount is only SEK 419,000 (408,000). The weighted average loan-to-value ratio, LTV, amounted to an unchanged 63% and the nominal, current OC amounted to 29% (24).

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 LTV was an unchanged 68% on June 30, 2014. 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	Jun 30, 2014	Jun 30, 2013
Cover pool, SEK billion	120	118
OC ¹⁾ , nominal, current level, %	29%	24%
Weighted average LTV, %	63%	63%
Collateral	Private homes	Private homes
Seasoning, months	61	59
Number of loans	259,057	245,947
Number of borrowers	118,252	112,720
Number of properties	118,607	113,236
Average commitment, SEK 000s	918	891
Average loan, SEK 000s	419	408
Interest rate type, variable, %	60%	51%
Interest rate type, fixed, %	40%	49%
Impaired loans	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

The funding structure is strong and the maturity structure is highly diversified. Debt securities in issue declined 1% to SEK 94 billion (95). During the quarter a Swedisch Covered Benchmark, Länsförsäkringar Hypotek 506, and a EUR 1 billion three-year Euro benchmark covered bond matured. After handling this maturity concentration, the maturity structure of the funding improved. For more information see Appendix.

Issued covered bonds during the quarter totalled a nominal SEK 13.5 billion

(7.1) and repurchases of a nominal SEK 4.6 billion (4.5) were executed. Matured covered bonds amounted to a nominal SEK 15.3 billion (3.2).

Liquidity

On June 30, 2014, the liquidity reserve amounted to SEK 11.7 billion (18.5), according to the Swedish Bankers' Association's definition. The decrease in the liquidity reserve was due to large maturities during the period. A total of 79% (92) of the reserve comprised Swedish covered bonds with the credit rating of AAA/Aaa and 21% (8) comprised 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.

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

¹⁾ 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 was SEK 5,646 M and the Core Tier 1 ratio amounted to 22.6% on June 30, 2014. The capital base was SEK 6,154 M and the capital adequacy ratio amounted to 24.6%.

For more information on the calculation of capital adequacy, see note 14.

Interest-rate risk

On June 30, 2014, 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 7 M (38).

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 more detailed description of risks is available in the 2013 Annual Report. No significant changes in the allocation of risk have taken place compared with the description provided in the Annual Report.

SECOND QUARTER OF 2014 COMPARED WITH FIRST QUARTER OF 2014

Operating profit rose 50% to SEK 116 M (78) due to increased operating income. The return on equity strengthened to 5.9% (4.6). Operating income rose 35% to SEK 133 M (99), due to improved net gains from financial items and higher net interest income. Net interest income increased 9% to SEK 242 M (222). Net gains from financial items improved to SEK 29 M (–7), due to repurchases of own bonds affecting the preceding quarter. Net commission fell to an expense of SEK 138 M (116). Expenses amounted to SEK 24 M (22) and the cost/income ratio before loan losses improved to 0.18 (0.23). Loan losses remained low and amounted to SEK –7 M (1).

Events after the end of the period

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