

# Länsförsäkringar Hypotek

*Year-end report 2014*

## THE YEAR IN BRIEF

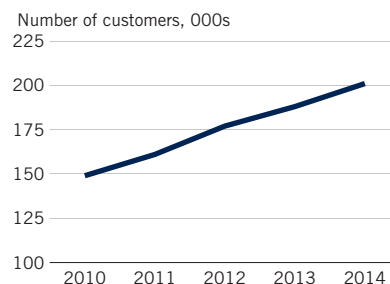
- Net interest income increased 17 percent to SEK 1,001 M (852).
- Loan losses amounted to SEK -11 M (7), net, corresponding to loan losses of -0.01 percent (0.01).
- Operating profit increased 33 percent to SEK 405 M (305) and return on equity was 5.5 percent (4.8).
- Lending increased 12 percent to SEK 126 bn (112).
- On 31 December 2014, the Core Tier 1 ratio amounted to 21.9 percent.
- The number of customers increased 7 percent to 201,000.

Figures in parentheses refers to 2013.

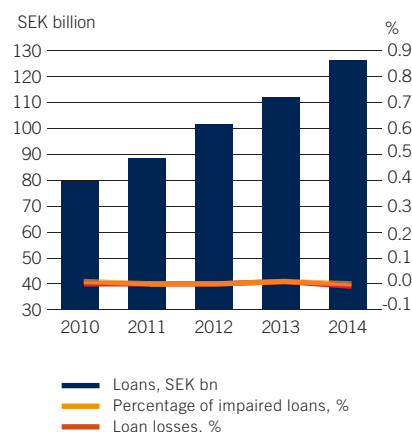
**ANDERS BORGCRANTZ**, PRESIDENT OF LÄNSFÖRSÄKRINGAR HYPOTEK:

“Länsförsäkringar’s stable and profitable growth in retail mortgages continued during the year. Our volume growth was high and the position in the mortgage market strengthened, which shows that our local business model and personal customer meetings are successful. Net interest income strengthened, as did operating profit. We continue to have favourable credit quality with a very low percentage of impaired loans.

## CUSTOMER TREND



## LOANS TO THE PUBLIC



## KEY FIGURES

	Q 4 2014	Q 4 2013	Q 4 2014	Jan-Dec 2014	Jan-Dec 2013
Return on equity, %	6.4	5.2	3.5	5.5	4.8
Return on total capital, %	0.34	0.28	0.17	0.29	0.23
Investment margin, %	0.78	0.73	0.64	0.71	0.64
Cost/income ratio before loan losses	0.15	0.21	0.27	0.19	0.22
Cost/income ratio after loan losses	0.15	0.19	0.30	0.17	0.24
Core Tier 1 ratio, %	21.9	22.1	23.4*	21.9	23.4*
Capital adequacy ratio, %	23.8	24.0	24.9*	23.8	25.3*
Percentage of impaired loans, gross, %	0.00	0.00	0.01	0.00	0.01
Reserve ratio in relation to loans, %	0.03	0.03	0.04	0.03	0.04
Loan losses, %	0.00	-0.01	0.01	-0.01	0.01

\* According to Basel II

## INCOME STATEMENT, QUARTERLY

	Q 4 2014	Q 3 2014	Q 2 2014	Q 1 2014	Q 4 2013
Net interest income	281.6	255.5	242.2	221.6	215.9
Net commission	-171.9	-139.5	-137.8	-115.5	-87.9
Net gains/losses from financial items	33.6	-6.5	28.9	-7.4	-46.3
Other operating income	0.3	0.1	0.0	0.2	0.0
<b>Total operating income</b>	<b>143.9</b>	<b>109.6</b>	<b>133.3</b>	<b>98.9</b>	<b>81.7</b>
Staff costs	-3.2	-3.9	-3.9	-3.7	-3.4
Other administration expenses	-18.7	-19.4	-19.7	-18.8	-18.6
<b>Total operating expenses</b>	<b>-21.9</b>	<b>-23.3</b>	<b>-23.7</b>	<b>-22.5</b>	<b>-22.0</b>
<b>Profit before loan losses</b>	<b>122.0</b>	<b>86.3</b>	<b>109.6</b>	<b>76.4</b>	<b>59.7</b>
Loan losses, net	0.0	2.8	6.6	1.3	-2.9
<b>Operating profit</b>	<b>122.0</b>	<b>89.1</b>	<b>116.2</b>	<b>77.7</b>	<b>56.8</b>

## Market commentary

Global growth in 2014 was mainly driven by the positive performance of the US economy. The US labour market improved at a healthy rate, which meant that the Federal Reserve was able to discontinue its bond buying programme in October as planned.

The eurozone continued to suffer in the wake of the financial crisis and a weak demand driven by an austere fiscal policy and debt absorption led to a very weak trend in both growth and inflation. Accordingly, the ECB lowered its key interest rate to 0.05% and introduced a negative Deposit Facility Rate, while starting to rigorously bolster its balance sheet, on the basis of targeted lending to banks and asset purchase programmes in the form of, for example, covered bonds. The ECB also announced that it was prepared to implement further quantitative easing. China continued to grapple with the core problem of the Chinese economy, namely the transition from export-based to domestically driven demand and substantial economic imbalances. The risks related to bad loans in China's aggregated credit stock proved to be manageable during the year.

The Swedish economy continued to perform well in relation to the eurozone. The growth and employment trends were relatively positive. Similar to the preceding year, continued relatively high unemployment was largely due to the sharp increase in the labour force. Inflation again continued to surprise negatively and was negative for the full-year 2014. As a result, the Riksbank (Sweden's central bank) was once again forced to take action and lower its repo rate/official bank rate to zero, and it also announced that it expected to maintain a zero interest rate until 2016.

Global stock markets rose during the year, with US in the front. The Swedish stock market was strong, while the performance of emerging markets was more mixed, with India at the top end of the scale and Brazil at the bottom. The difference between government bond rates and interest rates on covered bonds, and also other credit bonds, continued to shrink in both Sweden and Europe. However, the sharp decline in the price of oil resulted in rising interest-rate differences in the US due to the increasing credit risk in the energy sector.

In the credit market, the spreads for both Swedish covered bonds and uncovered bank funding continued to narrow.

Housing prices in Sweden increased 15% for the full-year 2014, according to Valueguard's HOX Index, which was largely due to high demand combined with a limited supply of residential properties and low interest rates.

## 2014 COMPARED WITH 2013

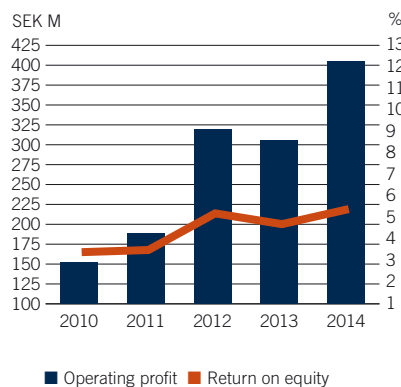
### Growth and customer trend

Loans to the public increased 12%, or SEK 14 bn to SEK 126 bn (112), with continued very high credit quality. The number of customers increased 7%, or 13,000, to 201,000 (188,000), and 85% (84) of retail mortgage customers have Länsförsäkringar as their primary bank.

### Earnings and profitability

Profit before loan losses increased 27% to SEK 394 M (312) and operating profit increased 33% to SEK 405 M (305), due to higher net interest income and improved net gains from financial items and loan losses. Return on equity amounted to 5.5% (4.8).

#### OPERATING PROFIT AND RETURN ON EQUITY

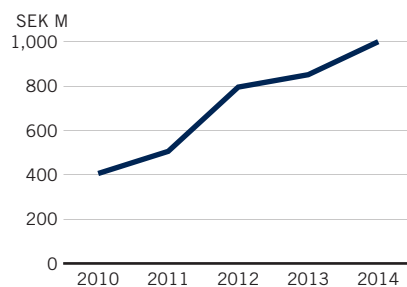


### Income

Operating income increased 21% to SEK 486 M (401), due to higher net interest income and improved net gains from financial items. Net interest income increased 17% to SEK 1,001 M (852). The investment margin strengthened to 0.71% (0.64). Net gains from financial items improved to SEK 49 M (-105), primarily due to

negative effects of changes in fair value being recognised in the preceding year, combined with the repurchase of own bonds. Net commission amounted to an expense of SEK -564 M (-346), due to higher remuneration to the regional insurance companies.

#### NET INTEREST INCOME



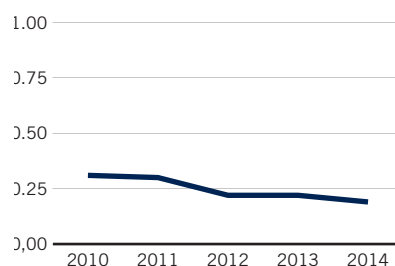
### Expenses

Operating expenses amounted to SEK 91 M (90). The cost/income ratio amounted to 0.19 (0.22) before loan losses and to 0.17 (0.24) after loan losses.

### Loan losses

The new settlement model, which was introduced on 1 January 2014, regarding the commitment that the regional insurance companies have regarding loan losses related to the 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 off-setting this against a buffer of accrued commission. The transition to the settlement model means that the credit reserves on the date of introduction will be gradually reversed by SEK 21 M. SEK 10 M was reversed during the year. Loan losses amounted to SEK -11 M (7), net, corresponding to loan losses of -0.01% (0.01). Loan losses before reversal remained low and amounted to SEK -1 M (7), net. Reserves amounted to SEK 39 M (49), corresponding to a reserve ratio in relation to loans of 0.03% (0.04). Impaired loans, gross, amounted to SEK 0.3 M (6), corresponding to a percentage of impaired loans, gross, of 0.00% (0.01). 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 increased 12% during the year to SEK 126 bn (112). On 31 December 2014, the market share for retail mortgages was x% (4.9), according to data from Statistics Sweden. The credit quality of the loan portfolio, comprising 74% (74) single-family homes, 20% (20) tenant-owned apartments and 6% (5) multi-family housing, remained favourable.

### Cover pool

The cover pool contains 93% of the loan portfolio, corresponding to SEK 117 bn. The collateral comprises private homes, of which 76% (77) are single-family homes, 21% (21) tenant-owned apartments and 2% (2) vacation homes. The geographic spread throughout Sweden is favourable and the average loan amount is only SEK 433,000 (414,000). The weighted average loan-to-value ratio, LTV, was 62% (62) and the nominal, current OC amounted to 30% (22).

A stress test of the cover pool based on a 20% price drop in the market value of the mortgages' collateral, resulted in an unchanged weighted average LTV of 67% on 31 December 2014. No impaired loans are included in the cover pool. According to Moody's report from 31 January 2015, 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	31 Dec 2014	31 Dec 2013
Cover pool, SEK billion	129	121
OC <sup>1)</sup> , nominal, current level, %	30	22
Weighted average LTV, %	62	62
Collateral	Private homes	Private homes
Seasoning, months	60	60
Number of loans	270,806	252,240
Number of borrowers	123,077	115,490
Number of properties	123,512	115,988
Average commitment, SEK 000s	949	901
Average loan, SEK 000s	433	414
Interest rate type, variable, %	59	55
Interest rate type, fixed, %	41	45
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

The funding structure is favourable and the maturity profile is well diversified. Debt securities in issue increasing 2% to SEK 101 bn (99). Issued covered bonds during the year totalled a nominal SEK 23.9 bn (23.5) and repurchases of a nominal SEK 7.8 bn (7.2) were executed. Matured covered bonds amounted to a nominal SEK 16.6 bn (8.4).

## Liquidity

On 31 December 2014 the liquidity reserve totalled SEK 12.6 bn (17.3) according to the Swedish Bankers' Association's definition. The decrease in the liquidity reserve was due to large maturities during the year. The reserve consists of 100% (91) Swedish covered bonds with the credit rating of AAA/Aaa.

## Rating

Länsförsäkringar Hypotek is one of three issuers in the Swedish market with the highest credit rating for covered bonds from both Standard & Poor's and Moody's. The Parent Company Länsförsäkringar Bank's credit rating is A/Stable from Standard & Poor's and A3/Stable from Moody's.

Company	Agency	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, the foundation IRB Approach to exposures to corporates, and the Standardised Approach is used for other exposures. On 31 December 2014, Core Tier 1 capital and Tier 1 capital was SEK 5,777 M (5,144) and the Core Tier 1 ratio amounted to 21.9% (23.4). The capital base was SEK 6,245 M (5,569) and the capital adequacy ratio amounted to 23.8% (25.3). Core Tier 1 capital increased SEK 633 M during the period mainly attributable to generated profit and shareholders' contributions of SEK 430 M from Länsförsäkringar Bank AB during the first quarter. Through the introduction of Basel III, several of the deductions that could previously be made in Tier 2 capital have been moved as deductions in Core Tier 1 capital. The greatest impact in Länsförsäkringar Hypotek is on the IRB deficit, which was previously a 50% deduction in Tier 2 capital but is now deducted in its entirety from Core Tier 1 capital. In addition, a deduction of SEK 19 M was added during the year due to regulatory requirements for prudent valuation of items in the fair value category. The deduction is made against Core Tier 1 capital.

On 31 December 2014, the total Risk Exposure Amount (REA) in Länsförsäkringar Hypotek was SEK 26,420 M (22,032). The increase in REA under the IRB Approach, SEK 1,391 M, was mainly related to the continued growth in lending to households in the form of mortgages. REA for CVA (Credit Value Adjustment) amounted to SEK 1,772 M. There was no corresponding CVA in 2013, since this requirement was introduced in 2014 through Basel III. According to the Swedish Financial Supervisory Authority's regulations on prudential requirements and capital buffers, decided in June 2014, the capital conservation buffer is to amount to 2.5% of the company's total risk-weighted exposure amount and be covered by Core Tier 1 capital. This corresponds to SEK 660 M in Länsförsäkringar Hypotek AB. In Pillar II, the risk weight floor for mortgages was raised to 25% from September 2014. To attain this risk weight floor, the capital requirement was increased by SEK 1,116 M.

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

## Interest-rate risk

On December 31, 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 22 M (40).

## Risks and uncertainties

Länsförsäkringar Hypotek is exposed to a number of risks, primarily credit risks, liquidity risks and market risks. The macro-economic 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.

## FOURTH QUARTER OF 2014 COMPARED WITH THIRD QUARTER OF 2014

Operating profit increased 37% to SEK 122 M (89), due to higher operating income. Return on equity amounted to 6.4% (5.2). Operating income increased 31% to SEK 144 M (110), due to higher net interest income and net gains from financial items. Net interest income increased 10% to SEK 282 M (256). Net gains from financial items increased to SEK 34 M (–7), due to repurchases of own bonds in the third quarter. Commission expense amounted to SEK –172 M (–140). Operating expenses amounted to SEK 22 M (23) and the cost/income ratio before loan losses to 0.15% (0.21). Loan losses amounted to SEK 0 M (3).

## Events after the end of the period

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

## Annual Report

The Annual Report will be available on Länsförsäkringar Hypotek's website after 20 February 2014.

## INCOME STATEMENT

SEK m	Note	Q 4 2014	Q 3 2014	Change	Q 4 2013	Change	Jan-Dec 2014	Jan-Dec 2013	Change
Interest income	3	1,275.1	1,360.2	-6%	1,581.4	-19%	5,603.6	6,337.4	-12%
Interest expense	4	-993.5	-1,104.7	-10%	-1,365.5	-27%	-4,602.6	-5,485.1	-16%
<b>Net interest income</b>		<b>281.6</b>	<b>255.5</b>	<b>10%</b>	<b>215.9</b>	<b>30%</b>	<b>1,001.0</b>	<b>852.3</b>	<b>17%</b>
Commission income	5	0.5	0.4	25%	0.4	25%	2.0	2.1	-5%
Commission expense	6	-172.1	-139.9	23%	-88.3	95%	-566.4	-348.2	63%
Net gains/losses from financial items	7	33.6	-6.5		-46.3		48.6	-105.4	
Other operating income		0.3	0.1	200%	0.0		0.4	0.4	
<b>Total operating income</b>		<b>143.9</b>	<b>109.6</b>	<b>31%</b>	<b>81.7</b>	<b>76%</b>	<b>485.6</b>	<b>401.2</b>	<b>21%</b>
Staff costs		-3.2	-3.9	-18%	-3.4	-6%	-14.6	-14.8	-1%
Other administration expenses		-18.7	-19.4	-4%	-18.6	1%	-76.5	-74.6	3%
Depreciation and impairment of tangible assets		0.0	-		-0.0		-0.1	-0.1	
<b>Total operating expenses</b>		<b>-21.9</b>	<b>-23.3</b>	<b>-6%</b>	<b>-22.0</b>		<b>-91.2</b>	<b>-89.5</b>	<b>2%</b>
<b>Profit before loan losses</b>		<b>122.0</b>	<b>86.3</b>	<b>41%</b>	<b>59.7</b>	<b>104%</b>	<b>394.4</b>	<b>311.7</b>	<b>27%</b>
Loan losses, net	8	0.0	2.8		-2.9		10.7	-6.6	
<b>Operating profit</b>		<b>122.0</b>	<b>89.1</b>	<b>37%</b>	<b>56.8</b>	<b>115%</b>	<b>405.1</b>	<b>305.1</b>	<b>33%</b>
Allocation fund		-116.8	-		-65.0	80%	-116.8	-65.0	80%
Tax		-14.9	-19.4	-23%	-21.2	-30%	-77.1	-80.6	-4%
<b>Profit for the period</b>		<b>-9.7</b>	<b>69.7</b>		<b>-29.4</b>	<b>-67%</b>	<b>211.2</b>	<b>159.5</b>	<b>32%</b>

## STATEMENT OF COMPREHENSIVE INCOME

SEK M	Q 4 2014	Q 3 2014	Change	Q 4 2013	Change	Jan-Dec 2014	Jan-Dec 2013	Change
<b>Profit for the period</b>	<b>-9.7</b>	<b>69.7</b>		<b>-29.4</b>	<b>-67%</b>	<b>211.2</b>	<b>159.5</b>	<b>32%</b>
<b>Other comprehensive income</b>								
<b>Items that may subsequently be reclassified to the income statement</b>								
Cash-flow hedges	46.0	27.5	67%			63.9	-	
Change in fair value from available-for-sale financial assets	-25.6	27.2		-15.7	63%	-14.3	-11.6	23%
Reclassification realised securities	15.3	-2.8		-0.2		11.1	-13.0	
Tax attributable to items that are rerouted or can be rerouted as income for the period	-7.9	-11.4	-31%	3.5		-13.3	5.4	
<b>Total other comprehensive income for the period, net after tax</b>	<b>27.9</b>	<b>40.5</b>	<b>-31%</b>	<b>-12.4</b>		<b>47.4</b>	<b>-19.2</b>	
<b>Total comprehensive income for the period</b>	<b>18.2</b>	<b>110.2</b>	<b>-84%</b>	<b>-41.8</b>		<b>258.6</b>	<b>140.3</b>	<b>84%</b>

## BALANCE SHEET

SEK M	Note	31 Dec 2014	31 Dec 2013
<b>Assets</b>			
Treasury bills and other eligible bills		0.0	1,491.9
Loans to credit institutions	9	2,488.8	4,710.0
Loans to the public	10	126,127.9	112,143.4
Bonds and other interest-bearing securities		12,391.9	15,375.9
Derivatives	11	4,827.5	1,146.2
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		980.7	486.0
Tangible assets		0.5	0.5
Deferred tax assets		–	–
Other assets		53.9	0.0
Prepaid expenses and accrued income		1,372.6	1,854.9
<b>Total assets</b>		<b>148,243.8</b>	<b>137,208.8</b>
<b>Liabilities, provisions and equity</b>			
Due to credit institutions	9	32,637.1	26,437.8
Debt securities in issue		100,888.0	98,989.5
Derivatives	11	1,747.1	2,538.0
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		3,634.3	599.7
Other liabilities		122.3	51.7
Accrued expenses and deferred income		2,611.6	2,794.1
Provisions		0.8	0.7
Subordinated liabilities		501.0	501.0
<b>Total liabilities and provisions</b>		<b>142,142.2</b>	<b>131,912.5</b>
<b>Untaxed reservs</b>		<b>181.8</b>	<b>65.0</b>
<b>Equity</b>			
Share capital, 70,335 shares		70.3	70.3
Statutory reserve		14.1	14.1
Fair value reserve		109.9	62.5
Retained earnings		5,514.3	4,924.9
Profit for the year		211.2	159.5
<b>Total equity</b>		<b>5,919.8</b>	<b>5,231.3</b>
<b>Total liabilities, provisions and equity</b>		<b>148,243.8</b>	<b>137,208.8</b>
<b>Memorandum items</b>			
	12		
For own liabilities, pledged assets		128,742	120,780.3
Other pledged assets		None	None
Contingent liabilities		3,360.6	2,930.6
Other commitments		7,276.6	4,308.2
<b>Other notes</b>			
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Disclosures on related parties			

## CASH-FLOW STATEMENT IN SUMMARY, INDIRECT METHOD

SEK M	Jan-Dec 2014	Jan-Dec 2013
<b>Cash and cash equivalents, 1 January</b>	<b>7.2</b>	<b>6.9</b>
Cash flow from operating activities	-425.2	47.3
Cash flow from investing activities	-0.2	-
Cash flow from financing activities	430.0	-47.0
<b>Cash flow for the period</b>	<b>4.6</b>	<b>0.3</b>
<b>Cash and cash equivalents, 31 December</b>	<b>11.8</b>	<b>7.2</b>

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

The change in cash flow from operating activities is largely attributable to loans to the public amounting to SEK -13,976.3 M (-10,720.8), bonds and other interest-bearing securities to SEK 3,149.1 M (2,631.3), due to credit institutions to SEK 7,399.2 M (2,912.7). The change in cash flow from financing activities is attributable to shareholders' contributions of SEK 430.0 M (200.0)

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

SEK M	Share capital	Statutory reserve	Other reserves		Retained earnings	Profit for the period	Total
			Fair value reserve	Hedge reserve			
<b>Opening balance, 1 January 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, 31 December 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>
<b>Opening balance, 1 January 2014</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>
Profit for the period						211.2	211.2
Other comprehensive income for the period			-2.5	49.9			47.4
<i>Comprehensive income for the period</i>			-2.5	49.9		211.2	258.6
Resolution by annual General Meeting					159.5	-159.5	0.0
Conditional shareholders' contribution received					430.0		430.0
<b>Closing balance, 31 December 2014</b>	<b>70.3</b>	<b>14.1</b>	<b>60.0</b>	<b>49.9</b>	<b>5,514.3</b>	<b>211.2</b>	<b>5,919.8</b>

## NOTES

### NOTE 1 ACCOUNTING POLICIES

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

#### **Changes that have significantly impacted the financial statements in 2014**

Changes to laws, regulations and recommendations applicable from 2014 have not had any significant effect on the company's accounts in 2014.

As previously, hedging of interest risk is applied but from 2014 cash-flow hedging is applied to currency risks attributable to future payments in foreign currency related to the foreign funding programmes. Interest and currency interest rate swaps that are hedging instruments in cash-flow hedging are measured at fair value. The change in value is recognised in other comprehensive income and in the cash-flow hedging reserve in equity to the extent that the change in the value of the swap is effective and corresponds to future cash flows attributable to the hedged item. Ineffectiveness is recognised in profit and loss in the item Net gains from financial transactions. Gains or losses recognised in the cash-flow hedging reserve under equity in other comprehensive income are reclassified and recognised in profit and loss in the same period as the hedged item affects profit and loss. The application of cash-flow hedging affects the financial statements for the period in question.

In all other respects, the interim report has been prepared in accordance with the same accounting policies and calculation methods 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 2014	Q 3 2014	Change	Q 4 2013	Change	Jan-Dec 2014	Jan-Dec 2013	Change
Loans to credit institutions	19.2	14.4	33%	14.8	30%	58.3	41.5	40%
Loans to the public	790.8	819.0	-3%	871.2	-9%	3,285.8	3,479.3	-6%
Interest-bearing securities	45.4	58.7	-23%	111.2	-59%	306.1	474.7	-36%
Derivatives	419.7	468.1	-10%	584.2	-28%	1,953.4	2,341.9	-17%
<b>Total interest income</b>	<b>1,275.1</b>	<b>1,360.2</b>	<b>-6%</b>	<b>1,581.4</b>	<b>-19%</b>	<b>5,603.6</b>	<b>6,337.4</b>	<b>-12%</b>
of which interest income on impaired loans	0.3	0.1		-0.1		0.2	0.0	
Average interest rate on loans to the public during the period, %	2.6	2.8		3.1		2.8	3.3	

### NOTE 4 INTEREST EXPENSE

SEK M	Q 4 2014	Q 3 2014	Change	Q 4 2013	Change	Jan-Dec 2014	Jan-Dec 2013	Change
Due to credit institutions	-103.3	-123.4	-16%	-138.7	-26%	-445.0	-519.6	-14%
Interest-bearing securities	-604.7	-595.8	1%	-678.7	-11%	-2,558.5	-2,723.1	-6%
Subordinated liabilities	-3.7	-4.1	-10%	-5.2	-29%	-18.2	-19.9	-9%
Derivatives	-272.4	-371.9	-27%	-533.9	-49%	-1,542.1	-2,185.8	-29%
Other interest expense	-9.4	-9.5	-1%	-9.0	4%	-38.8	-36.7	6%
<b>Total interest expense</b>	<b>-993.5</b>	<b>-1,104.7</b>	<b>-10%</b>	<b>-1,365.5</b>	<b>-27%</b>	<b>-4,602.6</b>	<b>-5,485.1</b>	<b>-16%</b>

### NOTE 5 COMMISSION INCOME

SEK M	Q 4 2014	Q 3 2014	Change	Q 4 2013	Change	Jan-Dec 2014	Jan-Dec 2013	Change
Loans	0.5	0.4	25%	0.4	25%	2.0	2.1	-5%
<b>Total commission income</b>	<b>0.5</b>	<b>0.4</b>	<b>25%</b>	<b>0.4</b>	<b>25%</b>	<b>2.0</b>	<b>2.1</b>	<b>-5%</b>

### NOTE 6 COMMISSION EXPENSE

SEK M	Q 4 2014	Q 3 2014	Change	Q 4 2013	Change	Jan-Dec 2014	Jan-Dec 2013	Change
Remuneration to regional insurance companies	-171.9	-139.7	23%	-88.0	95%	-565.4	-346.9	63%
Other commission	-0.2	-0.2		-0.3	-33%	-1.0	-1.3	-23%
<b>Total commission expense</b>	<b>-172.1</b>	<b>-139.9</b>	<b>23%</b>	<b>-88.3</b>	<b>95%</b>	<b>-566.4</b>	<b>-348.2</b>	<b>63%</b>

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

SEK M	Q 4 2014	Q 3 2014	Change	Q 4 2013	Change	Jan-Dec 2014	Jan-Dec 2013	Change
Interest-bearing assets and liabilities and related derivatives	15.3	-21.5		-58.6		-12.0	-151.3	
Other financial assets and liabilities	0.4	-1.0		-0.1		-0.3	-0.2	
Interest compensation	17.9	16.0	12%	12.4	44%	60.9	46.1	32%
<b>Total net gains / losses from financial items</b>	<b>33.6</b>	<b>-6.5</b>		<b>-46.3</b>		<b>48.6</b>	<b>-105.4</b>	

## NOTE 8 LOAN LOSSES AND IMPAIRED LOANS

Loan losses, SEK M	Q 4 2014	Q 3 2014	Change	Q 4 2013	Change	Jan-Dec 2014	Jan-Dec 2013	Change
<b>Specific reserve for individually assessed loan receivables</b>								
Write-off of confirmed loan losses during the year	-0.9	-0.7	29%	-2.0	-55%	-3.0	-8.2	-65%
Reversed earlier impairment of loan losses recognised as confirmed losses	0.9	0.3	200%	1.4	-36%	2.1	5.0	-58%
Impairment of loan losses during the year	-1.7	-1.7		-11.8	-86%	-6.1	-35.9	-83%
Payment received for prior confirmed loan losses	0.5	0.7	-29%	2.5	-80%	3.2	11.1	-71%
Reversed impairment of loan losses no longer required	1.2	3.0	-60%	6.6	-82%	10.5	15.8	-34%
<b>Net expense for the year for individually assessed loan receivables</b>	<b>0.0</b>	<b>1.6</b>		<b>-3.3</b>		<b>6.7</b>	<b>-12.2</b>	
<b>Collective assessed homogenous groups of loan receivables with limited value and similar credit risk</b>								
Provision / reversal of impairment of loan losses	0.0	1.2		0.4		4.0	5.6	-29%
<b>Net expense for the year for collectively loan receivables</b>	<b>0.0</b>	<b>1.2</b>		<b>0.4</b>		<b>4.0</b>	<b>-5.6</b>	<b>-29%</b>
Annual net expense for lived up of guarantees	-	-		-		-	-	
<b>Net expense of loan losses for the year</b>	<b>0.0</b>	<b>2.8</b>		<b>-2.9</b>		<b>10.7</b>	<b>-6.6</b>	

All information pertains to receivables from the public.

Impaired loans, SEK M	31 December 2014				31 December 2013			
	Individual Gross impairments	Collective impairments		Net	Individual Gross impairments	Collective impairments		Net
Corporate sector	-	-	-	-	-	-	-	-
Retail sector	0.3	-10.5	-28.2	-38.4	6.1	-17.0	-32.2	-43.1
<b>Total</b>	<b>0.3</b>	<b>-10.5</b>	<b>-28.2</b>	<b>-38.4</b>	<b>6.1</b>	<b>-17.0</b>	<b>-32.2</b>	<b>-43.1</b>

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. On December 31, 2014, the total credit reserve requirement amounted to SEK 47 M, of which LF Hypotek AMs credit reserve amounted to SEK 39 M and the remainder amounting to SEK 8 M was offset against the regional insurance companies' held funds, according to the model described above. The transition to the new model means that the LF Hypotek ABs credit reserves on the date of introduction will be gradually reduced by SEK 21 M, while SEK 10 M was reversed during the period.

## NOTE 9 LOANS / DUE TO CREDIT INSTITUTIONS

Loans to credit institutions include deposits with the Parent Company of SEK 2,476.0 M (4,480.8).

Due to credit institutions includes borrowings from the Parent Company of 32,376.4 M (25,872.7).

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	31 Dec	
	2014	2013
<b>Loans to the public before reservations</b>		
Public sector		
Corporate sector	6,468.5	5,210.3
Retail sector	119,698.1	106,982.3
Other		–
<b>Total</b>	<b>126,166.6</b>	<b>112,192.6</b>
<b>Reservations</b>	<b>–38.7</b>	<b>–49.2</b>
<b>Loans to the public</b>	<b>126,127.9</b>	<b>112,143.4</b>
Remaining term of not more than 3 month	70,912.8	65,397.4
Remaining term of more than 3 months but not more than 1 year	14,749.5	9,565.5
Remaining term of more than 1 year but not more than 5 years	38,994.7	36,438.9
Remaining term of more than 5 years	1,470.9	741.6
<b>Total</b>	<b>126,127.9</b>	<b>112,143.4</b>

### Definition

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

## NOTE 11 DERIVATIVES

SEK M	31 Dec 2014		31 Dec 2013	
	Nominal value	Fair value	Nominal value	Fair value
<b>Derivatives with positive values</b>				
<i>Derivatives in hedge accounting</i>				
Interest-related	65,485.0	2,818.0	62,013.0	850.9
Currency-related	14,442.0	2,009.5	2,999.3	295.3
<i>Other derivatives</i>				
Interest-related	7,000.0	0.0	–	–
<b>Total derivatives with positive values</b>	<b>86,927.0</b>	<b>4,827.5</b>	<b>65,012.3</b>	<b>1,146.2</b>
<b>Derivatives with negative values</b>				
<i>Derivatives in hedge accounting</i>				
Interest-related	62,765.0	1,313.6	79,803.0	818.0
Currency-related	13,547.9	433.3	32,517.5	1,720.0
<i>Other derivatives</i>				
Interest-related	7,000.0	0.2	–	–
<b>Total derivatives with negative values</b>	<b>83,312.9</b>	<b>1,747.1</b>	<b>112,320.5</b>	<b>2,538.0</b>

Länsförsäkringar Hypotek AB enters into financial hedging agreements to hedge against the interest-rate risk and currency risk that the Group's funding programmes give rise to. By using derivatives, the company can hedge both the fair value of the bonds issued due to changes in the market interest rate, and hedge cash flows attributable to future flows in foreign currency. Hedging instruments primarily comprise interest and currency interest-rate swaps.

## NOTE 12 MEMORANDUM ITEMS

SEK M	31 Dec 2014	31 Dec 2013
<b>For own liabilities, pledged assets</b>		
Collateral pledged due to repurchase agreements		24,2
Loan receivables, covered bonds	117,267.0	104,506.1
Loan receivables, substitute collateral	11,475.0	16,250.0
<b>Total for own liabilities, pledged assets</b>	<b>128,742.0</b>	<b>120,780.3</b>
<b>Other pledged assets</b>	None	None
<b>Contingent liabilities</b>		
Conditional shareholders' contribution	3,360.6	2,930.6
<b>Total contingent liabilities</b>	<b>3,360.6</b>	<b>2,930.6</b>
<b>Commitments</b>		
Loans approved but not disbursed	7,276.6	4,308.2

## 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.

SEK M	Level 1	Level 2	Level 3	Total
<b>31 Dec 2014</b>				
<b>Assets</b>				
Treasury bills and other eligible bills				
Bonds and other interest-bearing securities	12,391.9			12,391.9
Derivatives		4,827.5		4,827.5
<b>Liabilities</b>				
Derivatives		1,747.1		1,747.1
<b>SEK M</b>				
<b>31 Dec 2013</b>				
<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		1,146.2		1,146.2
<b>Liabilities</b>				
Derivatives		2,538.0		2,538.0

## NOTE 13 FAIR VALUE VALUATION TECHNIQUES, CONTINUED

SEK M	31 Dec 2014		31 Dec 2013	
	Book value	Fair value	Book value	Fair value
<b>Assets</b>				
Treasury bills and other eligible bills	–	–	1,491.9	1,491.9
Loans to credit institutions	2,488.8	2,488.8	4,710.0	4,710.0
Loans to the public	126,127.9	127,341.6	112,143.4	113,010.2
Bonds and other interest-bearing securities	12,391.9	12,391.9	15,375.9	15,375.9
Derivatives	4,827.5	4,827.5	1,146.2	1,146.2
<b>Total assets</b>	<b>145,836.1</b>	<b>147,049.8</b>	<b>134,867.4</b>	<b>135,734.2</b>
<b>Liabilities</b>				
Due to credit institutions	32,637.1	32,637.1	26,437.8	26,437.8
Debt securities in issue	100,888.0	106,719.8	98,989.5	102,707.6
Derivatives	1,747.1	1,747.1	2,538.0	2,538.0
Other liabilities	6.7	6.7	5.7	5.7
Subordinated liabilities	501.0	525.3	501.0	511.6
<b>Total Liabilities</b>	<b>135,779.9</b>	<b>141,636.0</b>	<b>128,472.0</b>	<b>132,200.7</b>

There were no transfers between Level 1 and Level 2 during the period. There were no transfers from Level 3 during the period. The fair value of loans to credit institutions, due to credit institutions and other liabilities comprises a reasonable approximation of the fair value based on the cost of the assets and liabilities.

When calculating the fair value of loans to the public, anticipated future cash flows have been discounted using a discount rate set at the current lending rate 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 the closing date or the most recent trading date. If external prices are not available or are deemed to deviate from market levels, and for measuring the fair value of subordinated liabilities, a standard method or valuation technique based on the estimated or original issue spread has been utilised.

Gains and losses are recognised in profit and loss under "net gains/losses from financial items." For information on the determination of fair value, valuation techniques and inputs, see also note 2 Accounting policies in the 2013 Annual Report.

## NOT 14 CAPITAL-ADEQUACY ANALYSIS (1)

Mkr	Basel III	Basel II
	31 Dec 2014	31 Dec 2013
Total Equity	5,919.8	5,231.3
Part of interim profits not verified	-	-
78 % of untaxed reserves	141.8	50.7
<b>Own funds eligible for capital- adequacy</b>	<b>6,061.6</b>	<b>5,282.0</b>
Adjustment for cash flow hedge	-49.9	-
Adjustment for items to fair value	-60.0	-62.5
IRB shortfall	-156.2	-75.9
Adjustment for prudent valuation	-18.8	-
Deferred tax assets	-	-
<b>Common Equity Tier 1 capital</b>	<b>5,776.7</b>	<b>5,143.6</b>
Tier 2 instruments	501.0	501.0
IRB excess	5.8	-75.9
<b>Tier 2 capital</b>	<b>506.8</b>	<b>425.1</b>
<b>Own funds</b>	<b>6,283.5</b>	<b>5,568.7</b>
<b>Risk exposure amount according to Basel III</b>	<b>26,419.5</b>	<b>22,032.4</b>
<b>Total Capital requirement enligt Basel III</b>	<b>2,113.6</b>	<b>1,762.6</b>
Capital requirement for creditrisk according to Standardised Approach	248.2	182.2
Capital requirement for creditrisk according to IRB Approach	1,680.5	1,544.7
Capital requirement for operational risk	43.1	35.7
Capital requirement according to credit valuation adjustment	141.7	-
<b>Core Tier 1 ratio according to CRD IV</b>	21.9%	23.4%
<b>Tier 1 ratio according to CRD IV</b>	21.9%	23.4%
<b>Capital adequacy ratio according to CRD IV</b>	23.8%	25.3%
<b>Special disclosures</b>		
<b>IRB Provisions surplus (+) / deficit (-)</b>	-150.4	-151.8
- IRB Total provisions (+)	46.6	49.2
- IRB Anticipated loss (-)	-197.0	-201.0
<b>Capital adequacy Basel I floor</b>	5,180.5	4,556.0
Capital requirement Basel I floor	6,433.9	5,720.5
<b>Surplus of capital according to Basel I floor</b>	<b>1,253.4</b>	<b>1,164.5</b>

## NOT 14 CAPITAL-ADEQUACY ANALYSIS, CONTINUED

Mkr	Basel III 31 Dec 2014		Basel II 31 Dec 2013	
	Capital require- ment	Risk exposure amount	Capital require- ment	Risk exposure amount
<b>Credit risk according to Standardised Approach</b>				
Exposures to institutions	146.2	1,827.0	53.4	667.6
Exposures to corporates	–	–	–	–
Covered bonds	100.9	1,260.6	126.4	1,580.6
Other items	1.2	15.2	2.4	29.4
<b>Total capital requirement and risk exposure amount</b>	<b>248.2</b>	<b>3,102.9</b>	<b>182.2</b>	<b>2,277.6</b>
<b>Credit risk according to IRB Approach</b>				
<i>Retail exposures</i>				
Exposures secured by real estate collateral	1,383.1	17,288.2	1,271.8	15,897.6
Other retail exposures	1.5	18.8	3.4	42.5
<b>Total retail exposures</b>	<b>1,384.6</b>	<b>17,307.0</b>	<b>1,275.2</b>	<b>15,940.2</b>
Exposures to corporates	296.0	3,699.6	269.4	3,368.0
<b>Total capital requirement and risk exposure amount</b>	<b>1,680.5</b>	<b>21,006.6</b>	<b>1,544.7</b>	<b>19,308.2</b>
<b>Operational risk</b>				
Standardised Approach	43.1	538.4	35.7	446.6
<b>Total capital requirement for operational risk</b>	<b>43.1</b>	<b>538.4</b>	<b>35.7</b>	<b>446.6</b>
Total capital requirement for credit valuation adjustments	141.7	1,771.7	–	–

## NOTE 15 DISCLOSURES ON RELATED PARTIES

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

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

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

Stockholm, 10 February 2015

Rikard Josefson  
*Chairman of the board*

Gert Andersson  
*Board member*

Christian Bille  
*Board member*

Bengt Clemedtson  
*Board member*

Christer Malm  
*Board member*

Anders Borgcrantz  
*President*



## AUDITOR'S REPORT ON THE REVIEW OF THE INTERIM REPORT PREPARED IN ACCORDANCE WITH CHAPTER 9 OF THE SWEDISH ANNUAL ACCOUNTS ACT

To the Board of Directors of Länsförsäkringar Hypotek AB (publ)  
Corporate Registration Number 556244-1781

### **Introduction**

I have reviewed the interim financial information (interim report) of Länsförsäkringar Hypotek AB (publ) as per 31 December 2014 and the twelve-month period then ended. The Board of Directors and the President are responsible for preparing and presenting this interim report in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies. My responsibility is to express a conclusion on this interim report based on my review.

### **Focus and scope of the review**

I conducted my review in accordance with the International Standard on Review Engagements ISRE 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of 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 and consequently does not enable me to obtain assurance that I would become aware of all significant matters that might be identified in an audit. 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 interim report has not, in all material respects, been prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm, 10 February 2015

Dan Beitner  
*Authorised Public Accountant*

# Financial calendar

## JANUARY-MARCH:

Interim report Länsförsäkringar Hypotek .....**29 April 2015**

Interim report Länsförsäkringar Bank .....**29 April 2015**

## JANUARY-JUNE:

Interim report Länsförsäkringar Hypotek .....**17 July 2015**

Interim report Länsförsäkringar Bank .....**17 July 2015**

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 10 February 2015 at 12:00 a.m. Swedish time.

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