

Länsförsäkringar Hypotek

Interim report January–March 2015

THE YEAR IN BRIEF

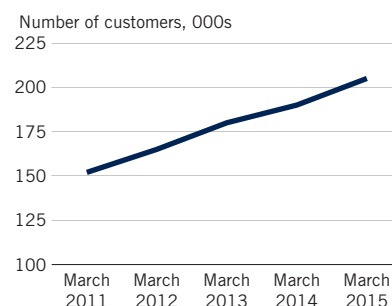
- Net interest income increased 34% to SEK 296 M (222).
- Loan losses amounted to SEK –3.1 M (–1.3), net, corresponding to loan losses of –0.01% (0.00).
- Operating profit rose 16% to SEK 90 M (78) and the return on equity amounted to 4.5% (4.6).
- Lending increased 15% to SEK 130.9 bn (113.9).
- The Core Tier 1 ratio amounted to 23.9% on 31 March 2015.
- The number of customers rose 8% to 205,000.

Figures in parentheses pertain to the same period in 2014.

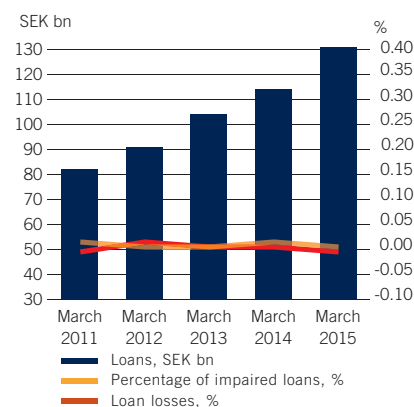
ANDERS BORGCRANTZ, PRESIDENT OF LÄNSFÖRSÄKRINGAR HYPOTEK:

“Länsförsäkringar continued to grow in the mortgage market during the first quarter of 2015. Net interest income increased and credit quality remained high with loan losses and impaired loans that amounted to zero. Financing of the retail mortgage lending operations was highly satisfactory and the maturity profile remained highly diversified.

CUSTOMER TREND



LOANS TO THE PUBLIC



KEY FIGURES

	Q 1 2015	Q 4 2014	Q 1 2014	Full-Year 2014
Return on equity, %	4.5	6.4	4.6	5.5
Return on total capital, %	0.23	0.34	0.22	0.29
Investment margin, %	0.77	0.78	0.64	0.71
Cost/income ratio before loan losses	0.21	0.15	0.23	0.19
Cost/income ratio after loan losses	0.18	0.15	0.21	0.17
Core Tier 1 ratio, %	23.9	21.9	22.1	21.9
Total capital ratio, %	25.8	23.8	24.0	23.8
Percentage of impaired loans, gross, %	0.00	0.00	0.01	0.00
Reserve ratio in relation to loans, %	0.03	0.03	0.04	0.03
Loan losses, %	-0.01	0.00	0.00	-0.01

* According to Basel II

INCOME STATEMENT, QUARTERLY

	Q 1 2015	Q 4 2014	Q 3 2014	Q 2 2014	Q 1 2014
Net interest income	296.3	281.6	255.5	242.2	221.6
Net commission	-173.0	-171.6	-139.5	-137.8	-115.5
Net gains/losses from financial items	-12.9	33.6	-6.5	28.9	-7.4
Other operating income	0.0	0.3	0.1	0.0	0.2
Total operating income	110.4	143.9	109.6	133.3	98.9
Staff costs	-3.8	-3.2	-3.9	-3.9	-3.7
Other administration expenses	-19.7	-18.7	-19.4	-19.7	-18.8
Total operating expenses	-23.5	-21.9	-23.3	-23.7	-22.5
Profit before loan losses	86.9	122.0	86.3	109.6	76.4
Loan losses, net	-3.1	0.0	2.8	6.6	1.3
Operating profit	90.0	122.0	89.1	116.2	77.7

Market commentary

Incoming economical indicators showed that US GDP growth in the first quarter was weak, the probable cause of which was such temporary factors as adverse weather and a major port strike. The labour market continued to strengthen and unemployment fell. However, inflation displayed a relatively weak trend due to the sharp decline in oil prices and the stronger USD. The Federal Reserve signalled that future interest-rate increases would be made at a considerably slower pace than seen in previous interest-rate cycles, in order to keep long-term interest rates down.

The ECB initiated a bond-buying stimulus package in March that is planned to continue until at least September 2016. The ECB will purchase government bonds, covered bonds and asset backed securities for EUR 60 bn per month. The large volumes of bond buying weakened the EUR and also pressed interest rates down. Futu-

re indicators suggest an improvement in the eurozone and unemployment will continue to fall, albeit from high levels. However, political developments, primarily in Greece but also in other European economies, generated a certain level of unease in the market.

Economic statistics for Sweden were stronger than expected. Low inflation and falling inflation expectations led the Riksbank to lower its repo rate to minus -0.25% in two stages, and initiate a bond-buying stimulus programme for government bonds totalling SEK 40 bn. These measures affected the entire Swedish yield curve, with falling rates across the board. The expansive monetary policy contributed to the negative interest rate for five-year Swedish government bonds at the end of the quarter, while the Stibor rates were negative for up to six months. Credit spreads generally narrowed and in the European market spreads for covered bonds were down to levels before the crisis.

Meanwhile, the interest-rate difference in Swedish covered bonds compared with/ to the government bond curve widened slightly during the period, mainly in the segments with longer terms.

Global stock markets generally increased during the first quarter of 2015. Returns in local currency were positive for all regions including Sweden. European and Swedish shares rose considerably more than other markets due to surprisingly expansive monetary policies.

Housing prices in Sweden increased 7.5% during the first quarter of 2015, 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 6.6%, while prices of tenant-owned apartments increased 9.0%.

FIRST QUARTER OF 2015 COMPARED WITH FIRST QUARTER OF 2014

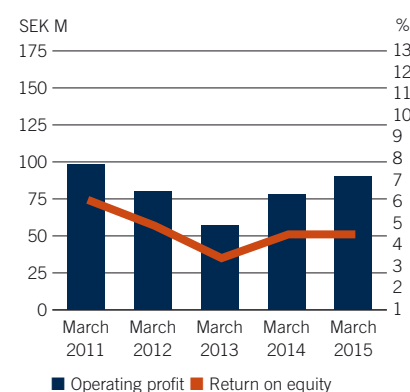
Growth and customer trend

Loans to the public rose 15%, or SEK 17.0 bn, to SEK 130.9 bn (113.9), with continued (very) high credit quality. The number of customers rose 8%, or 15,000, to 205,000 (190,000), and 85% (84) of retail mortgage customers have Länsförsäkringar as their primary bank.

Earnings and profitability

Profit before loan losses increased 14% to SEK 87 M (76) and operating profit increased 16% to SEK 90 M (78). The increase was attributable to higher net interest income. The return on equity amounted to 4.5% (4.6).

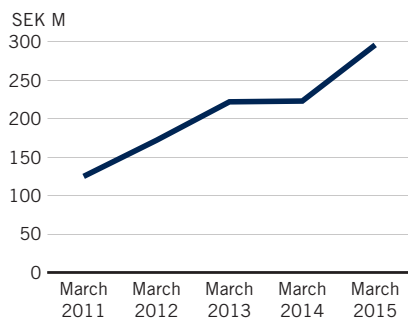
OPERATING PROFIT AND RETURN ON EQUITY



Income

Operating income increased 12% to SEK 110 M (99), due to higher net interest income as a result of increased volumes. Net interest income increased 34% to SEK 296 M (222). The investment margin strengthened to 0.77% (0.64). Net losses from financial items amounted to SEK –13 M (–7). Net commission amounted to an expense of SEK –173 M (–116), due to higher remuneration to the regional insurance companies.

NET INTEREST INCOME



Expenses

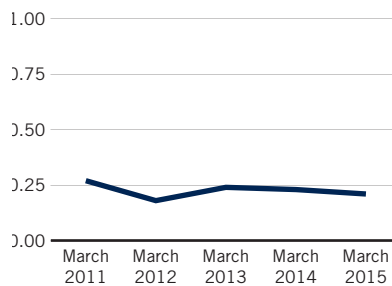
Operating expenses amounted to SEK 24 M (23). The cost/income ratio was 0.21 (0.23) before loan losses and 0.18 (0.21) after loan losses.

Loan losses

The new settlement model, which was introduced on 1 January 2014, regarding the commitment 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 – gradually will be reversed by SEK 21 M.. SEK 3 M was reversed during the period. Loan losses amounted to SEK –3 M (–1), net, corresponding to loan losses of –0.01% (0.00). Loan losses before reversal remained low and amounted to SEK 0 M (–1), net. Reserves amounted to SEK 36 M (48), corresponding to a reserve ratio in relation to loans of 0.03% (0.04). In addition, SEK 9 M of the remuneration to the regional insurance companies is withheld, in accordance with the settlement model

described above. The reserve ratio in relation to loans, including the held remuneration to the regional insurance companies, was 0.03% (0.04). Impaired loans, gross, amounted to SEK 0 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 rose 15%, or SEK 17 bn, to SEK 130.9 bn (113.9) and the increase since year-end was 4% or SEK 4.7 bn. The credit quality of the loan portfolio, comprising 73% (75) single-family homes, 20% (20) tenant-owned apartments, 6% (5) multi-family housing and 1% (0) other loans, remained solid. On 28 February 2015, the market share for retail mortgages was 5.2% (4.9), according to Statistics Sweden.

Cover pool

The cover pool contains 93% of the loan portfolio, corresponding to SEK 121.7 bn. The collateral comprises private homes, of which 76% (77) are single-family homes, 22% (21) tenant-owned apartments and 2% (2) vacation homes. The geographic spread throughout Sweden is favourable and the average loan amount is only SEK 440,000 (416,000). The weighted average loan-to-value ratio, LTV, was 62% (63) and the nominal, current OC amounted to 40% (20).

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% (67) on 31 March 2015. No impaired loans are included in the cover pool. According to Moody's report from 10 December

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	31 Mar 2015	31 Mar 2013
Cover pool, SEK billion	131	126
OC ¹⁾ , nominal, current level, %	40	20
Weighted average LTV, %	62	63
Collateral	Private homes	Private homes
Seasoning, months	60	61
Number of loans	276,207	254,883
Number of borrowers	125,500	116,596
Number of properties	125,879	116,951
Average commitment, SEK 000s	966	910
Average loan, SEK 000s	440	416
Interest rate type, variable, %	59	58
Interest rate type, fixed, %	41	42
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 favourable and the maturity profile is well diversified. Debt securities in issue fell 7% to SEK 97.1 bn (104.6). A transaction with nominal EUR 1 bn matured during the first quarter of 2015. For the past few years, EUR transactions have been made in EUR 500 M instead of EUR 1 bn as in the past, which provides a more balanced maturity structure. Issued covered bonds during the quarter totalled a nominal SEK 6.7 bn (9.5) and repurchases of a nominal SEK 0.5 bn (2.9) were executed. Matured covered bonds amounted to a nominal SEK 11.3 bn (1.1).

Liquidity

On 31 March 2015, the liquidity reserve totalled SEK 10.2 bn (21.7) according to the Swedish Bankers' Association's definition. The decline in the liquidity reserve was due to a bond of a nominal EUR 1 bn in Länsförsäkringar Hypotek maturing during the quarter. However, the liquidity situation strengthened due to an improved maturity structure, which meant (that) the survival horizon was extended to exceed two years at the end of the quarter.

The liquidity reserve comprised 100% (80) 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/Under review for possible upgrade 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/Under review	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, the foundation IRB Approach to exposures to corporates, and the Standardised Approach is used for other exposures. On 31 March 2015, Core Tier 1 capital and Tier 1 capital was SEK 6,407 M (5,777) and the Core Tier 1 ratio amounted to 23.9% (21.9). The capital base was SEK 6,912 M (6,284) and the capital adequacy ratio amounted to 25.8% (23.8). Core Tier 1 capital increased SEK 630 M during the period mainly attributable to a capital contribution of SEK 500 M and generated profit of SEK 84 M during the quarter. From 1 January 2015 equity is no longer to be adjusted for unrealised gains related to available-for-sale assets, which led to a positive effect of SEK 50 M on the capital base.

On 31 March 2015, the total Risk Exposure Amount (REA) in Länsförsäk-

ringar Hypotek AB was SEK 26,840 M (26,420). The increase in the REA (SEK 838 M) under the IRB Approach was mainly related to continued growth in lending to households in the form of mortgages (SEK 1,030 M) compared with the preceding period. The REA under the Standardised Approach fell SEK 299 M during the first quarter, with the decline due to the lower exposure to covered bonds. CVA-risk amounted to SEK 1,542 M (1,772). In Pillar II, the risk weight floor for mortgages of 25% entailed an additional capital requirement of SEK 1,515 M. The capital requirement for operational risk increased SEK 9 M (REA, SEK 111 M) compared with 2014 due to the annual recalculation.

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

Interest-rate risk

On 31 March 2015, an increase in market interest rates of 1 percentage point would have decreased the value of interest-bearing assets and liabilities, including derivatives, by SEK 32 M (increase: 8).

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, seeing 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 quarter. A more detailed description of risks is available in the 2014 Annual Report. No significant changes in the allocation of risk have taken place compared with the description provided in the Annual Report.

FIRST QUARTER OF 2015 COMPARED WITH FOURTH QUARTER OF 2014

Operating profit fell 26% to SEK 90 M (122), due to lower operating income. The return on equity amounted to 4.5% (6.4). Operating income declined 23% to SEK 110 M (144), primarily due to lower net gains from financial items. Net interest income increased 5% to SEK 296 M (282). Net gains from financial items declined to a loss of SEK 13 M (gain: 34) due to changes in value of interest-bearing items and repurchases of own bonds. Commission expense amounted to SEK –174 M (–172). Operating expenses amounted to SEK 24 M (22) and the cost/income ratio before loan losses to 0.21% (0.15). Loan losses amounted to SEK 3 M (0).

Events after the end of the period

Länsförsäkringar Hypotek AB received permission in April to change the model for calculating Loss Given Default (LGD) for loans secured on residential property for private individuals.

In addition, Länsförsäkringar Hypotek AB received permission in April to raise the exposure limit for the retail exposure class, which determines whether exposures to small and medium-sized businesses are attributable to either the retail or corporates exposure class, in accordance with the current rules.

INCOME STATEMENT

SEK M	Note	Q 1 2015	Q 4 2014	Change	Q 1 2014	Change	Full-Year 2014
Interest income	3	1,218.5	1,275.1	-4%	1,517.5	-20%	5,603.6
Interest expense	4	-922.2	-993.5	-7%	-1,295.9	-29%	-4,602.6
Net interest income		296.3	281.6	5%	221.6	34%	1,001.0
Commission income	5	0.5	0.5		0.5		2.0
Commission expense	6	-173.5	-172.1	1%	-116.0	50%	-566.4
Net gains/losses from financial items	7	-12.9	33.6		-7.4	74%	48.6
Other operating income		0.0	0.3		0.2		0.4
Total operating income		110.4	143.9	-23%	98.9	12%	485.6
Staff costs		-3.8	-3.2	19%	-3.7	3%	-14.6
Other administration expenses		-19.7	-18.7	5%	-18.8	5%	-76.5
Depreciation and impairment of tangible assets		0.0	0.0		-0.0		-0.1
Total operating expenses		-23.5	-21.9	7%	-22.5	4%	-91.2
Profit before loan losses		86.9	122.0	-29%	76.4	14%	394.4
Loan losses, net	8	3.1	-		1.3	138%	10.7
Operating profit		90.0	122.0	-26%	77.7	16%	405.1
Allocation fund		-	-116.8		-		-116.8
Tax		-6.4	-14.9	-57%	-17.1	-63%	-77.1
Profit for the period		83.6	-9.7		60.6	38%	211.2

STATEMENT OF COMPREHENSIVE INCOME

SEK M	Q 1 2015	Q 4 2014	Change	Q 1 2014	Change	Full-Year 2014
Profit for the period	83.6	-9.7		60.6	38%	211.2
Other comprehensive income						
Items that may subsequently be reclassified to the income statement						
Cash-flow hedges	25.9	46.1	-44%	-26.6		63.9
Change in fair value from available-for-sale financial assets	-29.6	-25.6		-13.3		-14.3
Reclassification realised securities	17.3	15.3		0.0		11.1
Tax attributable to items that are rerouted or can be rerouted as income for the period	-3.0	-7.9	-62%	8.8		-13.3
Total other comprehensive income for the period, net after tax	10.6	27.9	-62%	-31.1		47.4
Total comprehensive income for the period	94.2	18.2	418%	29.5	219%	258.6

BALANCE SHEET

SEK M	Note	31 Mar, 2015	31 Dec, 2014	31 Mar, 2014
Assets				
Treasury bills and other eligible bills		–	–	4,203.8
Loans to credit institutions	9	2,855.9	2,488.8	3,729.3
Loans to the public	10	130,857.8	126,127.9	113,886.2
Bonds and other interest-bearing securities		10,049.3	12,391.9	16,703.3
Derivatives	11	5,851.7	4,827.5	1,689.0
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		1,099.0	980.7	609.3
Tangible assets		0.7	0.5	0.4
Deferred tax assets		–	–	–
Other assets		7.1	53.9	3.6
Prepaid expenses and accrued income		1,008.7	1,372.6	1,757.2
Total assets		151,730.2	148,243.8	142,582.1
Liabilities, provisions and equity				
Due to credit institutions	9	39,125.8	32,637.1	25,605.7
Debt securities in issue		97,086.9	100,888.0	104,742.9
Derivatives	11	1,638.4	1,747.1	1,921.9
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		4,131.4	3,634.3	1,555.6
Other liabilities		61.1	122.3	73.3
Accrued expenses and deferred income		2,489.0	2,611.6	2,425.2
Provisions		0.8	0.8	0.7
Subordinated liabilities		501.0	501.0	501.0
Total liabilities and provisions		145,034.4	142,142.2	136,826.3
Untaxed reservs		181.8	181.8	65.0
Equity				
Share capital, 70,335 shares		70.3	70.3	70.3
Statutory reserve		14.1	14.1	14.1
Fair value reserve		120.5	109.9	31.4
Retained earnings		6,225.5	5,514.3	5,514.4
Profit for the year		83.6	211.2	60.6
Total equity		6,514.0	5,919.8	5,690.8
Total liabilities, provisions and equity		151,730.2	148,243.8	142,582.1
Memorandum items				
For own liabilities, pledged assets	12	131,735.5	128,742	127,148.9
Other pledged assets		None	None	None
Contingent liabilities		3,860.6	3,360.6	3,360.6
Other commitments		9,775.7	7,276.6	6,486.0
Other notes				
Accounting policies	1			
Segment reporting	2			
Fair value valuation techniques	13			
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Disclosures on related parties	15			

CASH-FLOW STATEMENT IN SUMMARY, INDIRECT METHOD

SEK M	Jan-Mar 2015	Jan-Mar 2014
Cash and cash equivalents, 1 January	12.0	7.2
Cash flow from operating activities	-503.5	-430.2
Cash flow from investing activities	-0.2	-
Cash flow from financing activities	500.0	430.0
Cash flow for the period	-3.7	-0.2
Cash and cash equivalents, 31 March	8.3	7.0

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 -4,727.4 M (-1,742.5), due to credit institutions to SEK 7,121.0 M (-104.5) and debt securities in issue -4,564.6 M (5,376.7).

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

SEK M	Share capital	Statutory reserve	Fair value reserves		Retained earnings	Profit for the period	Total
			Fair value reserve	Hedge reserve			
Opening balance, 1 January 2014	70.3	14.1	62.5	-	4,924.9	159.5	5,231.3
Profit for the period						60.6	60.6
Other comprehensive income for the period			-10.3	-20.8			-31.1
<i>Comprehensive income for the period</i>			-10.3	-20.8		60.6	29.5
According to Board's proposal for resolution at Annual General Meeting					159.5	-159.5	-
Conditional shareholders' contribution received					430.0		430.0
Closing balance, 31 March 2014	70.3	14.1	52.2	-20.8	5,514.3	60.6	5,690.8
Opening balance, 1 April 2014	70.3	14.1	52.2	-20.8	5,514.3	60.6	5,690.8
Profit for the period						150.6	150.6
Other comprehensive income for the period			7.8	70.7			78.5
<i>Comprehensive income for the period</i>			7.8	70.7		150.6	229.1
According to Board's proposal for resolution at Annual General Meeting							
Conditional shareholders' contribution received							
Closing balance, 31 December 2014	70.3	14.1	60.0	49.9	5,514.3	211.2	5,919.8
Opening balance, 1 January 2015	70.3	14.1	60.0	49.9	5,514.3	211.2	5,919.8
Profit for the period						83.6	83.6
Other comprehensive income for the period			-9.6	20.2			10.6
<i>Comprehensive income for the period</i>			-9.6	20.2		83.6	94.2
According to Board's proposal for resolution at Annual General Meeting					211.2	-211.2	-
Conditional shareholders' contribution received					500.0		500.0
Closing balance, 31 March 2015	70.3	14.1	50.4	70.1	6,225.5	83.6	6,514.0

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 2015

No accounting standards, which have been published but not yet applied, came into effect during the period that have a significant effect on the consolidated financial statements or capital adequacy and large exposures. In all other respects, the interim report has been prepared in accordance with the same accounting policies and calculation methods applied in the 2014 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 1 2015	Q 4 2014	Change	Q 1 2014	Change	Full-Year 2014
Loans to credit institutions	14.3	19.2	-26%	14.5	-1%	58.3
Loans to the public	763.3	790.8	-3%	845.3	-10%	3,285.8
Interest-bearing securities	51.2	45.4	13%	113.0	-55%	306.1
Derivatives	389.7	419.7	-7%	544.7	-28%	1,953.4
Total interest income	1,218.5	1,275.1	-4%	1,517.5	-20%	5,603.6
of which interest income on impaired loans	0.2	0.3	-33%	0.1	100%	0.2
Average interest rate on loans to the public during the period, %	2.38	2.6	-8%	3.0	-21%	2.8

NOTE 4 INTEREST EXPENSE

SEK M	Q 1 2015	Q 4 2014	Change	Q 1 2014	Change	Full-Year 2014
Due to credit institutions	-87.5	-103.3	-15%	-119.7	-27%	-445.0
Interest-bearing securities	-595.2	-604.7	-2%	-693.6	-14%	-2,558.5
Subordinated liabilities	-3.4	-3.7	-8%	-4.8	-29%	-18.2
Derivatives	-225.3	-272.4	-17%	-468.2	-52%	-1,542.1
Other interest expense	-10.8	-9.4	15%	-9.6	13%	-38.8
Total interest expense	-922.2	-993.5	-7%	-1,295.9	-29%	-4,602.6

NOTE 5 COMMISSION INCOME

SEK M	Q 1 2015	Q 4 2014	Change	Q 1 2014	Change	Full-Year 2014
Loans	0.5	0.5		0.5		2.0
Total commission income	0.5	0.5		0.5		2.0

NOTE 6 COMMISSION EXPENSE

SEK M	Q 1 2015	Q 4 2014	Change	Q 1 2014	Change	Full-Year 2014
Remuneration to regional insurance companies	-173.3	-171.9	1%	-115.8	50%	-565.4
Other commission	-0.2	-0.2		-0.2		-1.0
Total commission expense	-173.5	-172.1	1%	-116.0	50%	-566.4

NOTE 7 NET GAINS / LOSSES FROM FINANCIAL ITEMS

SEK M	Q 1 2015	Q 4 2014	Change	Q 1 2014	Change	Full-Year 2014
Interest-bearing assets and liabilities and related derivatives	-24.8	15.3		-22.0	13%	-12.0
Other financial assets and liabilities	0.2	0.4	-50%	0.0		-0.3
Interest compensation	11.7	17.9	-35%	14.6	-20%	60.9
Total net gains / losses from financial items	-12.9	33.6		-7.4	74%	48.6

NOTE 8 LOAN LOSSES AND IMPAIRED LOANS

Loan losses, SEK M	Q 1 2015	Q 4 2014	Change	Q 1 2014	Change	Full-Year 2014
Specific reserve for individually assessed loan receivables						
Write-off of confirmed loan losses during the period	-0.5	-0.9	-44%	-0.6	-17%	-3.0
Reversed earlier impairment of loan losses recognised as confirmed losses	0.3	0.9	-67%	0.6	-50%	2.1
Impairment of loan losses during the period	-1.0	-1.7	-41%	-1.0		-6.1
Payment received for prior confirmed loan losses	0.5	0.5		1.0	-50%	3.2
Reversed impairment of loan losses no longer required	3.9	1.2	225%	1.1	255%	10.5
Net expense for the year for individually assessed loan receivables	3.2	0.0		1.1	191%	6.7
Collective assessed homogenous groups of loan receivables with limited value and similar credit risk						
Provision / reversal of impairment of loan losses	-0.1	0.0		0.2		4.0
Net expense for the year for collectively loan receivables	-0.1	0.0		0.2		4.0
Annual net expense for lived up of guarantees	-	-		-		-
Net expense of loan losses for the period	3.1	0.0		1.3	138%	10.7

All information pertains to receivables from the public.

Impaired loans, SEK M	31 March 2015				31 December 2014				31 March 2014			
	Gross	Individual impairments	Collective impairments	Net	Gross	Individual impairments	Collective impairments	Net	Gross	Individual impairments	Collective impairments	Net
Corporate sector					-	-	-	-	0.0	0	0	0.0
Retail sector	0.5	-8.3	-27.4	-35.2	0.3	-10.5	-28.2	-38.4	6.1	-15.9	-32.3	-42.1
Total	0.5	-8.3	-27.4	-35.2	0.3	-10.5	-28.2	-38.4	6.1	-15.9	-32.3	-42.1

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 March 31, 2015, the total credit reserve requirement amounted to SEK 45 M, of which LF Hypotek AMs credit reserve amounted to SEK 36 M and the remainder amounting to SEK 9 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 3 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 1,752.8 M (2,563.9).

Due to credit institutions includes borrowings from the Parent Company of 37,771.7 M (23,682.1).

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 Mar, 2015	31 Dec, 2014	31 Mar, 2014
Loans to the public before reservations			
Public sector	–	–	–
Corporate sector	6,842.3	6,468.5	5,411.0
Retail sector	124,051.2	119,698.1	108,523.5
Other	–	–	–
Total	130,893.5	126,166.6	113,934.5
Reservations	–35.7	–38.7	–48.2
Loans to the public	130,857.8	126,127.9	113,886.2
Remaining term of not more than 3 month	70,603.8	70,912.8	64,631.8
Remaining term of more than 3 months but not more than 1 year	17,581.3	14,749.5	9,693.4
Remaining term of more than 1 year but not more than 5 years	41,120.9	38,994.7	38,751.7
Remaining term of more than 5 years	1,551.8	1,470.9	809.3
Total	130,857.8	126,127.9	113,886.2

Definition

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

NOTE 11 DERIVATIVES

SEK M	31 Mar 2015		31 Dec 2014		31 Mar 2014	
	Nominal value	Fair value	Nominal value	Fair value	Nominal value	Fair value
Derivatives with positive values						
<i>Derivatives in hedge accounting</i>						
Interest-related	71,115.0	3,182.3	65,485.0	2,818.0	86,970.7	1,244.0
Currency-related	13,527.6	2,669.4	14,442.0	2,009.5	3,619.6	445.0
<i>Other derivatives</i>						
Interest-related			7,000.0	0.0		
Total derivatives with positive values	84,642.6	5,851.7	86,927.0	4,827.5	90,590.3	1,689.0
Derivatives with negative values						
<i>Derivatives in hedge accounting</i>						
Interest-related	66,455.0	1,466.6	62,765.0	1,313.6	68,963.0	797.4
Currency-related	3,817.9	171.8	13,547.9	433.3	37,976.4	1,124.5
<i>Other derivatives</i>						
Interest-related			7,000.0	0.2		
Total derivatives with negative values	70,272.9	1,638.4	83,312.9	1,747.1	106,939.4	1,921.9

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 Mar 2015	31 Dec 2014	31 Mar 2014
For own liabilities, pledged assets			
Collateral pledged due to repurchase agreements	810.4	–	727.5
Loan receivables, covered bonds	121,650.1	117,267.0	106,071.4
Loan receivables, substitute collateral	9,275.0	11,475.0	20,350.0
Total for own liabilities, pledged assets	131,735.5	128,742.0	127,148.9
Other pledged assets	None	None	None
Contingent liabilities			
Conditional shareholders' contribution	3,860.6	3,360.6	3,360.6
Total contingent liabilities	3,860.6	3,360.6	3,360.6
Commitments			
Loans approved but not disbursed	9,775.7	7,276.6	6,486.0

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
31 Mar 2015				
Assets				
Treasury bills and other eligible bills				
Bonds and other interest-bearing securities	10,049.3			10,049.3
Derivatives		5,851.7		5,851.7
Liabilities				
Derivatives		1,638.4		1,638.4
SEK M				
31 Dec 2014				
Assets				
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
Liabilities				
Derivatives		1,747.1		1,747.1
SEK M				
31 Mar 2014				
Assets				
Treasury bills and other eligible bills	4,203.8			4,203.8
Bonds and other interest-bearing securities	16,703.3			16,703.3
Derivatives		1,689.0		1,689.0
Liabilities				
Derivatives		1,921.9		1,921.9

NOTE 13 FAIR VALUE VALUATION TECHNIQUES, CONTINUED

SEK M	31 Mar 2015		31 Dec 2014		31 Mar 2014	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Assets						
Treasury bills and other eligible bills	–	–	–	–	4,203.8	4,203.8
Loans to credit institutions	2,855.9	2,855.9	2,488.8	2,488.8	3,729.3	3,729.3
Loans to the public	130,857.8	132,175.6	126,127.9	127,341.6	113,886.2	114,666.0
Bonds and other interest-bearing securities	10,049.3	10,049.3	12,391.9	12,391.9	16,703.3	16,703.3
Derivatives	5,851.7	5,851.7	4,827.5	4,827.5	1,689.0	1,689.0
Total assets	149,614.7	150,932.5	145,836.1	147,049.8	140,211.6	140,991.4
Liabilities						
Due to credit institutions	39,125.8	39,125.8	32,637.1	32,637.1	25,605.7	25,605.7
Debt securities in issue	97,086.9	103,734.2	100,888.0	106,719.8	104,742.9	109,421.5
Derivatives	1,638.4	1,638.4	1,747.1	1,747.1	1,921.9	1,921.9
Other liabilities	11.1	11.1	6.7	6.7	6.5	6.5
Subordinated liabilities	501.0	526.9	501.0	525.3	501.0	547.8
Total Liabilities	138,363.2	145,036.4	135,779.9	141,636.0	132,778.0	137,503.4

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.

Derivatives essentially refer to swaps for which fair value has been calculated by discounting expected future cash flows.

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 Accounting policies.

NOT 14 CAPITAL-ADEQUACY ANALYSIS (1)

SEK M	31 Mar 2015	31 Dec 2014	31 Mar 2014
Total Equity	6,514.0	5,919.8	5,690.7
Part of interim profits not verified	–	–	–60.6
78 % of untaxed reserves	141.8	141.8	50.7
Own funds eligible for capital- adequacy	6,655.8	6,061.6	5,680.9
Adjustment for cash flow hedge	–70.1	–49.9	20.8
Adjustment for items to fair value	–	–60.0	–52.2
IRB shortfall	–161.4	–156.2	–162.2
Adjustment for prudent valuation	–17.5	–18.8	–
Deferred tax assets	–	–	–
Common Equity Tier 1 capital	6,406.8	5,776.7	5,487.3
Tier 2 instruments	501.0	501.0	468.7
IRB excess	3.8	5.8	8.5
Tier 2 capital	504.8	506.8	477.2
Own funds	6,911.6	6,283.5	5,964.5
Risk exposure amount according to CRD IV	26,840.4	26,419.5	24,811.5
Total Capital requirement according to CRD IV	2,147.2	2,113.6	1,984.9
Capital requirement for creditrisk according to Standardised Approach	224.3	248.2	274.3
Capital requirement for creditrisk according to IRB Approach	1,747.6	1,680.5	1,544.2
Capital requirement for operational risk	52.0	43.1	43.1
Capital requirement according to credit valuation adjustment	123.4	141.7	123.3
Core Tier 1 ratio according to CRD IV	23.9%	21.9%	22.1%
Tier 1 ratio according to CRD IV	23.9%	21.9%	22.1%
Capital adequacy ratio according to CRD IV	25.8%	23.8%	24.0%
Special disclosures			
IRB Provisions surplus (+) / deficit (-)	–157.6	–150.4	–153.7
– IRB Total provisions (+)	44.3	46.6	44.8
– IRB Anticipated loss (-)	–201.9	–197.0	–198.5
Capital adequacy Basel I floor	5,420.5	5,180.5	4,705.6
Capital requirement Basel I floor	7,069.3	6,433.9	6,118.2
Surplus of capital according to Basel I floor	1,648.8	1,253.4	1,412.6

Minimum capital requirements and buffers	Minimum capital requirements	Capital conservation buffer	Countercyclical buffert	Systemic risk buffer	Total
Core Tier 1 capital	4.5%	2.5%	n/a	n/a	7.0%
Tier 1 capital	6.0%	2.5%	n/a	n/a	8.5%
Capital base	8.0%	2.5%	n/a	n/a	10.5%

SEK M	Minimum capital requirements	Capital conservation buffer	Countercyclical buffert	Systemic risk buffer	Total
Core Tier 1 capital	1,207.8	671.0	n/a	n/a	1,878.8
Tier 1 capital	1,610.4	671.0	n/a	n/a	2,281.4
Capital base	2,147.2	671.0	n/a	n/a	2,818.2
Core Tier 1 capital available for use as buffer					17,8%

NOT 14 CAPITAL-ADEQUACY ANALYSIS, CONTINUED

SEK M	31 Mar 2015		31 Dec 2014		31 Mar 2014	
	Capital requirement	Risk exposure amount	Capital requirement	Risk exposure amount	Capital requirement	Risk exposure amount
Credit risk according to Standardised Approach						
Exposures to institutions	141.7	1,770.9	146.2	1,827.0	134.8	1,684.7
Exposures to corporates	–	–	–	–	–	–
Covered bonds	81.8	1,022.5	100.9	1,260.6	138.3	1,729.0
Other items	0.8	10.2	1.2	15.2	1.2	15.2
Total capital requirement and risk exposure amount	224.3	2,803.6	248.2	3,102.9	274.3	3,428.9
Credit risk according to IRB Approach						
<i>Retail exposures</i>						
Exposures secured by real estate collateral	1,466.0	18,324.9	1,383.1	17,288.2	1,281.2	16,015.0
Other retail exposures	1.6	19.5	1.5	18.8	9.8	122.9
Total retail exposures	1,467.6	18,344.4	1,384.6	17,307.0	1,291.0	16,137.9
Exposures to corporates	280.0	3,500.3	296.0	3,699.6	253.2	3,164.4
Total capital requirement and risk exposure amount	1,747.6	21,844.8	1,680.5	21,006.6	1,544.2	19,302.4
Operational risk						
Standardised Approach	52.0	649.9	43.1	538.4	43.1	538.4
Total capital requirement for operational risk	52.0	649.9	43.1	538.4	43.1	538.4
Total capital requirement for credit valuation adjustments	123.4	1,542.2	141.7	1,771.7	123.3	1,541.8

Internally assessed capital requirement

The internally assessed capital requirement for Länsförsäkringar Hypotek AB on 31 March 2015 amounted to SEK 2,447 M. The capital meeting the internal capital requirement, meaning the capital base, amounted to SEK 6,912 M. The bank bases its calculation on the methods used to calculate the capital requirement under the framework of Pillar I. For risks not included in Pillar I, known as Pillar II risks, internal models are used to allocate a capital requirement to each risk. In addition to this capital requirement, there is a capital conservation buffer that is used to cover the stress test buffer and business risk.

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, 29 April 2015

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, 29 April 2015

Dan Beitner
Authorised Public Accountant

Financial calendar

APRIL–JUNE:

Interim report Länsförsäkringar Hypotek **17 July 2015**

Interim report Länsförsäkringar Bank **17 July 2015**

JULY–SEPTEMBER:

Interim report Länsförsäkringar Hypotek **21 October 2015**

Interim report Länsförsäkringar Bank **21 October 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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FOR FURTHER INFORMATION, PLEASE CONTACT:

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