

Länsförsäkringar Hypotek

Interim report January–June 2015

THE PERIOD IN BRIEF

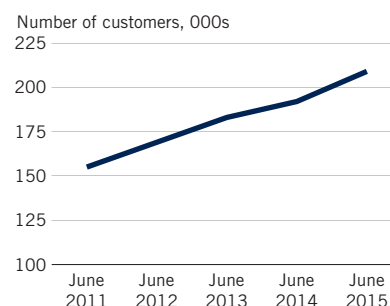
- Net interest income increased 36% to SEK 629 M (464).
- Loan losses amounted to SEK –6.3 M (–7.9), net, corresponding to loan losses of –0.01% (–0.01).
- Operating profit rose 13% to SEK 220 M (194) and return on equity was 5.4% (5.2).
- Lending increased 17% to SEK 137.0 bn (116.7).
- The Core Tier 1 ratio amounted to 38.2% (23.9*) on 30 June 2015.
- The number of customers rose 8% to 209,000.
- Länsförsäkringar Hypotek received permission from the Swedish Financial Supervisory Authority to change its IRB model and change the limit for retail exposures.

Figures in parentheses pertain to the same period in 2014. *Pertains to 31 March 2015.

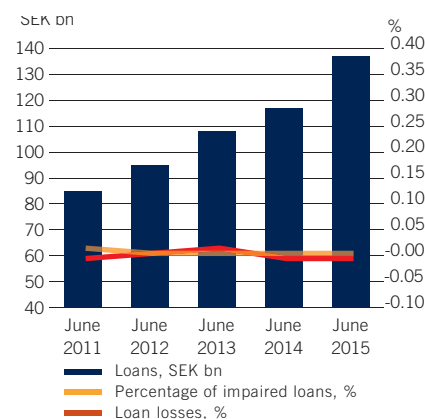
ANDERS BORGCRANTZ, PRESIDENT OF LÄNSFÖRSÄKRINGAR HYPOTEK:

“Länsförsäkringar Hypotek is continuing to grow with great stability in the mortgage market. Net interest income strengthened, as did operating profit, and we continue to have favourable credit quality with a very low percentage of impaired loans. We can still note rising housing prices and believe that it is vital that our customers have the conditions for healthy and stable household finances. Mortgage repayments combined with other forms of saving are important prerequisites for building stable private finances and for this reason we welcome the new mortgage repayment requirements.

CUSTOMER TREND



LOANS TO THE PUBLIC



KEY FIGURES

	Q 2 2015	Q 1 2015	Q 2 2014	Jan-Jun 2015	Jan-Jun 2014	Full-Year 2014
Return on equity, %	6.2	4.5	5.9	5.4	5.2	5.5
Return on total capital, %	0.34	0.23	0.31	0.28	0.27	0.29
Investment margin, %	0.86	0.77	0.69	0.81	0.66	0.71
Cost/income ratio before loan losses	0.16	0.21	0.18	0.18	0.20	0.19
Cost/income ratio after loan losses	0.14	0.18	0.13	0.16	0.16	0.17
Core Tier 1 ratio, %	38.2	23.9	22.6	38.2	22.6	21.9
Total capital ratio, %	44.0	25.8	24.6	44.0	24.6	23.8
Percentage of impaired loans, gross, %	0.00	0.00	0.00	0.00	0.00	0.00
Reserve ratio in relation to loans, %	0.02	0.03	0.03	0.02	0.03	0.03
Loan losses, %	-0.01	-0.01	-0.02	-0.01	-0.01	-0.01

* According to Basel II

INCOME STATEMENT, QUARTERLY

	Q 2 2015	Q 1 2015	Q 4 2014	Q 3 2014	Q 2 2014
Net interest income	333.0	296.3	281.6	255.5	242.2
Net commission	-231.9	-173.0	-171.6	-139.5	-137.8
Net gains/losses from financial items	49.8	-12.9	33.6	-6.5	28.9
Other operating income	0.0	0.0	0.3	0.1	0.0
Total operating income	150.9	110.4	143.9	109.6	133.3
Staff costs	-4.2	-3.8	-3.2	-3.9	-3.9
Other administration expenses	-19.9	-19.7	-18.7	-19.4	-19.7
Total operating expenses	-24.2	-23.5	-21.9	-23.3	-23.7
Profit before loan losses	126.7	86.9	122.0	86.3	109.6
Loan losses, net	3.2	3.1	0.0	2.8	6.6
Operating profit	129.9	90.0	122.0	89.1	116.2

Market commentary

Incoming data from the second quarter indicated that the US economy had recovered after the set-back in the first quarter. The US labour market performed strongly with higher employment figures and falling unemployment, while inflation remained low. Expectations of the Federal Reserve raising key interest rates were postponed until the autumn. The European economy also revealed glimmers of hope, for example, with higher confidence among households and companies. The ECB continued its bond-buying stimulus scheme to support economic recovery and inflation. However, focus during the quarter was increasingly directed to developments in Greece where negotiations on new bail-out packages with creditors broke down, resulting in Greece defaulting on a payment to the IMF on 30 June. Developments to date have led only to relatively limited market fluctuations.

The Swedish economy continued to

perform well during the quarter. GDP growth was higher and employment continued to grow strongly, although unemployment remained at high levels. Salary and inflation expectations remained low, while inflation was slightly higher than anticipated. The SEK performed more strongly than Riksbank forecasts, which, combined with increased uncertainty in the economic environment driven by the situation in Greece, resulted in the Riksbank lowering the key interest rate by 0.10 percentage points to -0.35% at its monetary policy meeting on 2 July. At the same time, the Riksbank announced that it would expand its purchase of government bonds by a further SEK 45 bn. Housing prices continued to rise. During the second quarter, prices of single-family homes increased 2% compared with the first quarter according to Statistics Sweden, and compared with the year-earlier period prices were up 8%.

Long-term bond interest rates

increased relatively sharply until mid-June when concern regarding Greece escalated. Rising bond interest rates had a negative impact on stock-market performance and credit spreads generally broadened during the quarter. The spread for a five-year Swedish covered bond expanded by approximately 25 points and the interest difference with government bonds increased even more.

Housing prices in Sweden increased 1.1% during the second quarter of 2015. According to Valueguard's HOX index, prices of single-family homes rose 1.3%, while prices of tenant-owned apartments increased 0.7%.

JANUARY-JUNE 2015 COMPARED WITH JANUARY-JUNE 2014

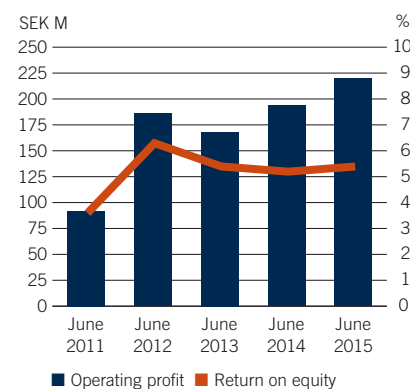
Growth and customer trend

Loans to the public rose 17%, or SEK 20.3 bn, to SEK 137.0 bn (116.7), with continued very high credit quality. The number of customers rose 8%, or 16,000, to 209,000 (193,000), and 85% (84) of retail mortgage customers have Länsförsäkringar as their primary bank.

Earnings and profitability

Operating profit rose 13% to SEK 220 M (194). The investment margin strengthened to 0.81% (0.66). Profit before loan losses rose 15% to SEK 214 M (186) due to higher net interest income. The return on equity amounted to 5.4% (5.2).

OPERATING PROFIT AND RETURN ON EQUITY

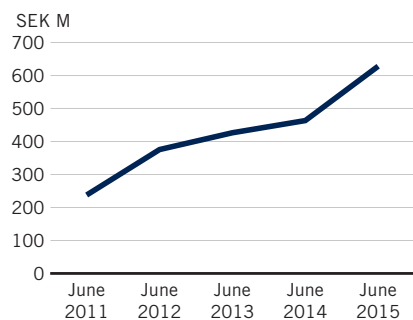


Income

Operating income increased 13% to SEK 261 M (232), due to higher net interest in-

come as a result of increased volumes for improved margins. Net interest income increased 36% to SEK 629 M (464). Net gains from financial items amounted to SEK 37 M (22). Net commission amounted to an expense of SEK –405 M (–253), due to higher remuneration to the regional insurance companies related to higher business volumes and improved margins.

NET INTEREST INCOME



Expenses

Operating expenses amounted to SEK 48 M (46). The cost/income ratio was 0.18 (0.20) before loan losses and 0.16 (0.16) after loan losses.

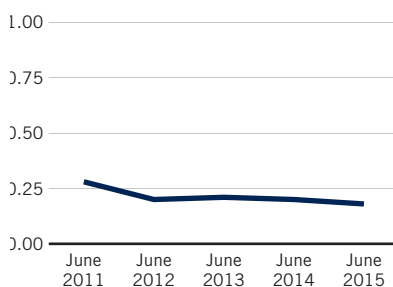
Loan losses

Loan losses amounted to SEK –6 M (–8), net, corresponding to loan losses of –0.01% (0.01). Impaired loans, gross, amounted to SEK 0 M (2), corresponding to a percentage of impaired loans, gross, of 0.00% (0.00). 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 5 M was reversed during the period. Loan losses before reversal remained low and amounted to SEK 0 M (–1), net. Reserves amounted to SEK 33 M (42), corresponding to a reserve ratio in relation to loans of 0.02% (0.03). In addition, SEK 12 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).

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 17%, or SEK 20.3 bn, to SEK 137.0 bn (116.7). The increase since year-end was 9% or SEK 10.9 bn. The credit quality of the loan portfolio, comprising 73% (74.5) single-family homes, 21% (20) tenant-owned apartments, 5.5% (5) multi-family housing and 0.5% (0.5) other loans, remained favourable. On 31 May 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 127.4 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 450,000 (419,000). The weighted average loan-to-value ratio, LTV, was 62% (63) and the nominal, current OC amounted to 38% (29).

A stress test of the cover pool based on a 20% price drop in the market value of the mortgages' collateral, resulted in a weighted average LTV of 68% (68) on 30 June 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	30 June 2015	30 June 2014
Cover pool, SEK billion	137	120
OC ¹⁾ , nominal, current level, %	38	29
Weighted average LTV, %	62	63
Collateral	Private homes	Private homes
Seasoning, months	59	61
Number of loans	283,110	259,057
Number of borrowers	128,485	118,252
Number of properties	128,733	118,607
Average commitment, SEK 000s	990	915
Average loan, SEK 000s	450	419
Interest rate type, variable, %	59	60
Interest rate type, fixed, %	41	40
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 increased 9% to SEK 102.2 bn (93.7). In April, Länsförsäkringar Hypotek issued a seven-year Euro benchmark transaction for a nominal amount of EUR 500 M. The market responded well to the transaction with high demand. Issued covered bonds during the quarter totalled a nominal SEK 17.1 billion (13.5) and repurchases of a nominal SEK 2.2 billion (4.6) were executed. Matured covered bonds amounted to a nominal SEK 15.0 bn (15.3).

Liquidity

On 30 June 2015, the liquidity reserve amounted to SEK 9.9 bn (11.7), according to the Swedish Bankers' Association's definition. However, the liquidity situation strengthened due to an improved maturity structure, which meant that the survival horizon is almost two years. The liquidity reserve comprised 100% (79) 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 A1/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	A1/Stable	P–1

¹⁾ Pertains to the company's covered bonds

Capital adequacy

Länsförsäkringar Hypotek

During the period, Länsförsäkringar Hypotek AB received permission from the Swedish Financial Supervisory Authority to change its IRB model for calculating Loss Given Default (LGD) for loans secured on residential property for private individuals. This change will result in a lower Risk Exposure Amount (REA) and thus a higher Core Tier 1 ratio. However, the changed model will entail a corresponding increase in the Pillar II capital requirements due to the risk weight floor for mortgages. Furthermore, Länsförsäkringar Hypotek AB received approval to change the limit between what is classified as retail exposures and exposures to corporates. The total effect of these changes expressed in REA is SEK 8.6 bn.

Capital ratio

Länsförsäkringar Hypotek AB (SEK M)	30 June 2015	31 Mar 2015
IRB Approach	12,692	21,845
retail exposures	9,233	18,345
exposures to corporates	3,459	3,500
Standardised Approach	2,564	2,804
Total REA	17,162	26,840
Core Tier 1 capital	6,555	6,407
Tier 1 capital	6,555	6,407
Total capital	7,556	6,912
Core Tier 1 ratio	38.2%	23.9%
Tier 1 ratio	38.2%	23.9%
Total capital ratio	44.0%	25.8%

REA on 30 June 2015 amounted to SEK 17,162 M (26,840). The large decline was due to changes to the IRB model following approval from the supervisory authority. Growth in loans in the company continued during the quarter, which impacted retail-related REA in the form of mortgages. REA under the Standardised Approach fell a total of SEK 240 M during the period, due to, for example, decreases in the exposure classes of covered bonds. In Pillar II, the risk weight floor for mortgages of 25% entailed an additional capital requirement of SEK 2,649 M (1,515).

During the second quarter, Core Tier 1 capital and Tier 1 capital were mainly positively impacted by generated profit, SEK 101 M, and effects of the changed IRB model (see above) that led to lower deductions for expected losses. Länsförsäkringar Hypotek AB received a capital contribution of SEK 500 M from Länsförsäkringar Bank's AB during the second quarter in the form of a dated subordinated debt that meets the regulatory requirements to be included in Tier 2 capital.

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

Interest-rate risk

On 30 June 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 9 M (increase: 7).

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 2014 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 2015 COMPARED WITH FIRST QUARTER OF 2015

Operating profit rose 44% to SEK 130 M (90), due to higher operating income. Return on equity amounted to 6.2% (4.5). Operating income increased 37% to SEK 151 M (110), due to higher net gains from financial items. Net interest income increased 12% to SEK 333 M (296). Net gains from financial items amounted to SEK 50 M (losses: 13) as a result of changes in value of interest-bearing items. Commission expense amounted to SEK –232 M (–174). Operating expenses amounted to SEK 24 M (24) and the cost/income ratio before loan losses to 0.16% (0.21). Loan losses amounted to SEK 3 M (3).

Events after the end of the period

No significant events occurred after the end of the period.

INCOME STATEMENT

SEK M	Note	Q 2 2015	Q 1 2015	Change	Q 2 2014	Change	Jan-Jun 2015	Jan-Jun 2014	Change	Full-Year 2014
Interest income	3	1,149.9	1,218.5	-6%	1,450.6	-21%	2,368.4	2,968.2	-20%	5,603.6
Interest expense	4	-816.9	-922.2	-11%	-1,208.4	-32%	-1,739.1	-2,504.3	-31%	-4,602.6
Net interest income		333.0	296.3	12%	242.2	37%	629.3	463.9	36%	1,001.0
Commission income	5	0.6	0.5	20%	0.5	20%	1.1	1.0	10%	2.0
Commission expense	6	-232.5	-173.5	34%	-138.3	68%	-406.0	-254.4	60%	-566.4
Net gains/losses from financial items	7	49.8	-12.9		28.9	72%	36.9	21.5	72%	48.6
Other operating income		0.0	0.0		0.0		0.0	0.1	-100%	0.4
Total operating income		150.9	110.4	37%	133.3	13%	261.3	232.1	13%	485.6
Staff costs		-4.2	-3.8	11%	-3.9	8%	-8.0	-7.5	7%	-14.6
Other administration expenses		-19.9	-19.7	1%	-19.7	1%	-39.6	-38.5	3%	-76.5
Depreciation and impairment of tangible assets		-0.1	0.0		-0.1	0%	-0.1	-0.1	0%	-0.1
Total operating expenses		-24.2	-23.5	3%	-23.7	2%	-47.7	-46.1	3%	-91.2
Profit before loan losses		126.7	86.9	46%	109.6	16%	213.6	186.0	15%	394.4
Loan losses, net	8	3.2	3.1	3%	6.6	-52%	6.3	7.9	-20%	10.7
Operating profit		129.9	90.0	44%	116.2	12%	219.9	193.9	13%	405.1
Allocation fund		-	-		-		-	-		-116.8
Tax		-28.6	-6.4		-25.6	12%	-35.0	-42.7	-18%	-77.1
Profit for the period		101.3	83.6	21%	90.6	12%	184.9	151.2	22%	211.2

STATEMENT OF COMPREHENSIVE INCOME

SEK M	Q 2 2015	Q 1 2015	Change	Q 2 2014	Change	Jan-Jun 2015	Jan-Jun 2014	Change	Full-Year 2014
Profit for the period	101.3	83.6	21%	90.6	12%	184.9	151.2	22%	211.2
Other comprehensive income									
Items that may subsequently be reclassified to the income statement									
Cash-flow hedges	59.6	25.9		17.0		85.5	-9.6		63.9
Change in fair value from available-for-sale financial assets	-19.4	-29.6	-88%	-2.6		-49.0	-15.9		-14.3
Reclassification realised securities	-23.3	17.3		-1.3		-6.0	-1.3		11.1
Tax attributable to items that are rerouted or can be rerouted as income for the period	-3.7	-3.0	23%	-2.9	28%	-6.7	5.9		-13.3
Total other comprehensive income for the period, net after tax	13.2	10.6	25%	10.2	29%	23.8	-20.9		47.4
Total comprehensive income for the period	114.5	94.2	22%	100.8	14%	208.7	130.3	60%	258.6

BALANCE SHEET

SEK M	Note	30 Jun, 2015	31 Dec, 2014	30 Jun, 2014
Assets				
Treasury bills and other eligible bills		–	–	2 410.2
Loans to credit institutions	9	2,392.4	2,488.8	5,953.8
Loans to the public	10	137,046.2	126,127.9	116,732.0
Bonds and other interest-bearing securities		9,773.3	12,391.9	9,482.0
Derivatives	11	5,047.8	4,827.5	2,903.5
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		861.0	980.7	788.1
Tangible assets		0.7	0.5	0.4
Deferred tax assets		–	–	–
Other assets		3.7	53.9	11.6
Prepaid expenses and accrued income		521.1	1,372.6	573.9
Total assets		155,646.2	148,243.8	138,855.5
Liabilities, provisions and equity				
Due to credit institutions	9	39,202.0	32,637.1	33,250.4
Debt securities in issue		102,194.7	100,888.0	93,655.5
Derivatives	11	1,737.4	1,747.1	1,764.8
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		2,926.5	3,634.3	2,408.7
Other liabilities		67.8	122.3	107.8
Accrued expenses and deferred income		1,705.6	2,611.6	1,310.0
Provisions		0.9	0.8	0.7
Subordinated liabilities		1,001.0	501.0	501.0
Total liabilities and provisions		148,835.9	142,142.2	132,998.9
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		133.7	109.9	41.6
Retained earnings		6,225.5	5,514.3	5,514.4
Profit for the year		184.9	211.2	151.2
Total equity		6,628.5	5,919.8	5,791.6
Total liabilities, provisions and equity		155,646.2	148,243.8	138,855.5
Memorandum items				
For own liabilities, pledged assets	12	137,437.6	128,742	119,899.0
Other pledged assets		None	None	None
Contingent liabilities		3,860.6	3,360.6	3,360.6
Other commitments		10,787.5	7,276.6	8,029.8
Other notes				
Accounting policies	1			
Segment reporting	2			
Fair value valuation techniques	13			
Capital-adequacy analysis	14			
Disclosures on related parties	15			

CASH-FLOW STATEMENT IN SUMMARY, INDIRECT METHOD

SEK M	Jan-Jun 2015	Jan-Jun 2014
Cash and cash equivalents, 1 January	11.8	7.2
Cash flow from operating activities	-1,001.4	-430.6
Cash flow from investing activities	-0.2	0.0
Cash flow from financing activities	1,000.0	430.0
Cash flow for the period	-1.6	-0.6
Cash and cash equivalents, 31 March	10.2	6.6

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 -10,918.3 M (-4,588.6), due to credit institutions to SEK 6,564.9 M (-6,813.0) and debt securities in issue -1,306.7 M (5,334.0). Changes to the cash flow from the financing activities are largely attributable to shareholder's contribution received SEK 500.0 M (430.0) and subordinated loans 500.0 M (0.0).

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						151.2	151.2
Other comprehensive income for the period			-13.4	-7.5			-20.9
<i>Comprehensive income for the period</i>			<i>-13.4</i>	<i>-7.5</i>		<i>151.2</i>	<i>130.3</i>
According to Board's proposal for resolution at Annual General Meeting					159.5	-159.5	0.0
Conditional shareholders' contribution received					430.0		430.0
Closing balance, 30 June 2014	70.3	14.1	49.1	-7.5	5,514.3	151.2	5,791.6
Opening balance, 1 July 2014	70.3	14.1	49.1	-7.5	5,514.3	151.2	5,791.6
Profit for the period						60.0	60.0
Other comprehensive income for the period			10.9	57.4			68.3
<i>Comprehensive income for the period</i>			<i>10.9</i>	<i>57.4</i>		<i>60.0</i>	<i>128.3</i>
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						184.9	184.9
Other comprehensive income for the period			-42.9	66.7			23.8
<i>Comprehensive income for the period</i>			<i>-42.9</i>	<i>66.7</i>		<i>184.9</i>	<i>208.7</i>
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, 30 June 2015	70.3	14.1	17.1	116.6	6,225.5	184.9	6,628.5

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 2 2015	Q 1 2015	Change	Q 2 2014	Change	Jan-Jun 2015	Jan-Jun 2014	Change	Full-Year 2014
Loans to credit institutions	5.8	14.3	-59%	14.6	-60%	20.1	33.6	-40%	58.3
Loans to the public	745.1	763.3	-2%	830.6	-10%	1,508.5	1,675.9	-10%	3,285.8
Interest-bearing securities	45.2	51.2	-12%	84.7	-47%	96.4	193.2	-50%	306.1
Derivatives	353.8	389.7	-9%	520.9	-32%	743.4	1,065.5	-30%	1,953.4
Total interest income	1,149.9	1,218.5	-6%	1,450.8	-21%	2,368.4	2,968.2	-20%	5,603.6
of which interest income on impaired loans	0.5	0.2		-0.2		0.7	-0.1		0.2
Average interest rate on loans to the public during the period, %	2.23	2.38		2.90		2.30	2.95		2.8

NOTE 4 INTEREST EXPENSE

SEK M	Q 2 2015	Q 1 2015	Change	Q 2 2014	Change	Jan-Jun 2015	Jan-Jun 2014	Change	Full-Year 2014
Due to credit institutions	-62.8	-87.5	-28%	-98.5	-36%	-150.3	-218.2	-31%	-445.0
Interest-bearing securities	-534.9	-595.2	-10%	-664.5	-20%	-1,130.1	-1,358.1	-17%	-2,558.5
Subordinated liabilities	-3.2	-3.4	-6%	-5.5	-42%	-6.6	-10.3	-36%	-18.2
Derivatives	-204.5	-225.3	-9%	-429.6	-52%	-429.8	-897.8	-52%	-1,542.1
Other interest expense	-11.5	-10.8	6%	-10.3	12%	-22.3	-19.9	12%	-38.8
Total interest expense	-816.9	-922.2	-11%	-1,208.4	-32%	-1,739.1	-2,504.3	-31%	-4,602.6

NOTE 5 COMMISSION INCOME

SEK M	Q 2 2015	Q 1 2015	Change	Q 2 2014	Change	Jan-Jun 2015	Jan-Jun 2014	Change	Full-Year 2014
Loans	0.6	0.5	20%	0.5	20%	1.1	1.0	10%	2.0
Total commission income	0.6	0.5	20%	0.5	20%	1.1	1.0	10%	2.0

NOTE 6 COMMISSION EXPENSE

SEK M	Q 2 2015	Q 1 2015	Change	Q 2 2014	Change	Jan-Jun 2015	Jan-Jun 2014	Change	Full-Year 2014
Remuneration to regional insurance companies	-232.2	-173.3	34%	-138.0	68%	-405.5	-253.8	60%	-565.4
Other commission	-0.3	-0.2	50%	-0.3	0%	-0.5	-0.6	-17%	-1.0
Total commission expense	-232.5	-173.5	34%	-138.3	68%	-406.0	-254.4	60%	-566.4

NOTE 7 NET GAINS / LOSSES FROM FINANCIAL ITEMS

SEK M	Q 2 2015	Q 1 2015	Change	Q 2 2014	Change	Jan-Jun 2015	Jan-Jun 2014	Change	Full-Year 2014
Interest-bearing assets and liabilities and related derivatives	33.1	-24.8		16.7	98%	8.3	-5.3		-12.0
Other financial assets and liabilities	0.4	0.2	100%	-0.3		0.6	-0.2		-0.3
Interest compensation	16.3	11.7	39%	12.5	30%	28.0	27.0	4%	60.9
Total net gains / losses from financial items	49.8	-12.9		28.9	72%	36.9	21.5	72%	48.6

NOTE 8 LOAN LOSSES AND IMPAIRED LOANS

Loan losses, SEK M	Q 2 2015	Q 1 2015	Change	Q 2 2014	Change	Jan-Jun 2015	Jan-Jun 2014	Change	Full-Year 2014
Specific reserve for individually assessed loan receivables									
Write-off of confirmed loan losses during the period	–	–0.5	–100%	–0.7	–100%	–0.6	–1.3	–54%	–3.0
Reversed earlier impairment of loan losses recognised as confirmed losses	0.1	0.3	–67%	0.3	–67%	0.5	0.9	–44%	2.1
Impairment of loan losses during the period	–1.5	–1.0	50%	–1.7	–12%	–2.5	–2.7	–7%	–6.1
Payment received for prior confirmed loan losses	0.8	0.5	60%	1.0	–20%	1.3	2.0	–35%	3.2
Reversed impairment of loan losses no longer required	3.7	3.9	–5%	7.4	–50%	7.6	8.5	–11%	10.5
Net expense for the year for individually assessed loan receivables	3.1	3.2	–3%	6.4	–52%	6.3	7.5	–16%	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	–0.1		0.2	–50%	0.0	0.4	–100%	4.0
Net expense for the year for collectively loan receivables	0.1	–0.1		0.2	–50%	–	0.4	–100%	4.0
Annual net expense for lived up of guarantees		–		–		–	–		–
Net expense of loan losses for the period	3.2	3.1	3%	6.6	–52%	6.3	7.9	–20%	10.7

All information pertains to receivables from the public.

Impaired loans, SEK M	30 June 2015				31 December 2014				30 June 2014			
	Gross	Individual impairments	Collective impairments	Net	Gross	Individual impairments	Collective impairments	Net	Gross	Individual impairments	Collective impairments	Net
Corporate sector	–	–	–	–	–	–	–	–	0.1	–0.0	–0.0	0.1
Retail sector	–	–6.8	–26.4	–33.2	0.3	–10.5	–28.2	–38.4	2.3	–12.5	–29.5	–39.7
Total	–	–6.8	–26.4	–33.2	0.3	–10.5	–28.2	–38.4	2.4	–12.5	–29.5	–39.6

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 June 30, 2015, the total credit reserve requirement amounted to SEK 45 M, of which Länsförsäkringar Hypotek ABs credit reserve amounted to SEK 33 M and the remainder amounting to SEK 12 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 Länsförsäkringar Hypotek ABs credit reserves on the date of introduction will be gradually reduced by SEK 21 M, while SEK 5 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 1,557.0 M (4,998.4).

Due to credit institutions includes borrowings from the Parent Company of 37,785.3 M (31,707.5).

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	30 Jun, 2015	31 Dec, 2014	30 Jun, 2014
Loans to the public before reservations			
Public sector			
Corporate sector	7,156.2	6,468.5	5,699.4
Retail sector	129,923.2	119,698.1	111,074.6
Other	–	–	–
Total	137,079.4	126,166.6	116,774.0
Reservations	–33.2	–38.7	–42.0
Loans to the public	137,046.2	126,127.9	116,732.0
Remaining term of not more than 3 month	78,001.2	70,912.8	68,408.2
Remaining term of more than 3 months but not more than 1 year	15,099.4	14,749.5	9,670.5
Remaining term of more than 1 year but not more than 5 years	42,263.8	38,994.7	37,811.9
Remaining term of more than 5 years	1,681.8	1,470.9	841.4
Total	137,046.2	126,127.9	116,732.0

Definition

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

NOTE 11 DERIVATIVES

SEK M	30 Jun 2015		31 Dec 2014		30 Jun 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	68,970.0	2,582.4	65,485.0	2,818.0	66,280.0	1,894.7
Currency-related	14,621.7	2,465.1	14,442.0	2,009.5	12,964.5	1,008.7
<i>Other derivatives</i>						
Interest-related	7,500.0	0.3	7,000.0	0.0	3,000.0	0.1
Total derivatives with positive values	91,091.7	5,047.8	86,927.0	4,827.5	82,244.5	2,903.5
Derivatives with negative values						
<i>Derivatives in hedge accounting</i>						
Interest-related	65,710.0	1,367.7	62,765.0	1,313.6	57,788.0	1,010.5
Currency-related	8,453.4	369.7	13,547.9	433.3	14,180.3	754.2
<i>Other derivatives</i>						
Interest-related	–	–	7,000.0	0.2	3,000.0	0.1
Total derivatives with negative values	74,163.4	1,737.4	83,312.9	1,747.1	74,968.3	1,764.8

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	30 Jun 2015	31 Dec 2014	30 Jun 2014
For own liabilities, pledged assets			
Collateral pledged due to repurchase agreements	883.1	–	161.9
Loan receivables, covered bonds	127,429.5	117,267.0	108,586.1
Loan receivables, substitute collateral	9,125.0	11,475.0	11,151.0
Total for own liabilities, pledged assets	137,437.6	128,742.0	119,899.0
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	10,787.5	7,276.6	8,029.8

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
30 June 2015				
Assets				
Treasury bills and other eligible bills				
Bonds and other interest-bearing securities	9,773.3			9,773.3
Derivatives		5,047.8		5,047.8
Liabilities				
Derivatives		1,737.4		1,737.4
SEK M				
31 December 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				
30 June 2014				
Assets				
Treasury bills and other eligible bills	2,410.2			2,410.2
Bonds and other interest-bearing securities	9,482.0			9,482.0
Derivatives		2,903.5		2,903.5
Liabilities				
Derivatives		1,764.8		1,764.8

NOTE 13 FAIR VALUE VALUATION TECHNIQUES, CONTINUED

SEK M	30 Jun 2015		31 Dec 2014		30 Jun 2014	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Assets						
Treasury bills and other eligible bills	–	–	–	–	2,410.2	2,410.2
Loans to credit institutions	2,392.4	2,392.4	2,488.8	2,488.8	5,953.8	5,953.8
Loans to the public	137,046.2	138,046.3	126,127.9	127,341.6	116,732.0	117,710.4
Bonds and other interest-bearing securities	9,773.3	9,773.3	12,391.9	12,391.9	9,482.0	9,482.0
Derivatives	5,047.8	5,047.8	4,827.5	4,827.5	2,903.5	2,903.5
Total assets	154,259.7	155,259.8	145,836.1	147,049.8	137,481.5	138,459.9
Liabilities						
Due to credit institutions	39,202.0	39,202.0	32,637.1	32,637.1	33,250.4	33,250.4
Debt securities in issue	102,194.7	105,964.2	100,888.0	106,719.8	93,655.5	97,626.0
Derivatives	1,737.4	1,737.4	1,747.1	1,747.1	1,764.8	1,764.8
Other liabilities	6.6	6.6	6.7	6.7	0.5	0.5
Subordinated liabilities	1,001.0	1,037.8	501.0	525.3	501.0	554.1
Total Liabilities	144,141.7	147,948.0	135,779.9	141,636.0	129,172.2	133,195.8

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

SEK M	31 Jun 2015	31 Dec 2014	30 Jun 2014
Total Equity	6,628.5	5,919.8	5,791.6
78 % of untaxed reserves	141.8	141.8	50.7
Own funds eligible for capital- adequacy	6,770.3	6,061.6	5,842.3
Adjustment for cash flow hedge	-116.6	-49.9	7.5
IRB shortfall	-	-60.0	-49.1
Adjustment for prudent valuation	-82.7	-156.2	-154.7
Deferred tax assets	-16.5	-18.8	-
Common Equity Tier 1 capital	6,554.5	5,776.7	5,646.0
Tier 2 instruments	1,001.0	501.0	501.0
IRB excess	-	5.8	7.4
Tier 2 capital	1,001.0	506.8	508.4
Own funds	7,555.5	6,283.5	6,154.4
Risk exposure amount according to CRD IV	17,162.1	26,419.5	24,974.0
Total Capital requirement according to CRD IV	1,373.0	2,113.6	1,997.9
Capital requirement for creditrisk according to Standardised Approach	205.1	248.2	250.9
Capital requirement for creditrisk according to IRB Approach	1,015.4	1,680.5	1,574.2
Capital requirement for operational risk	52.0	43.1	43.1
Capital requirement according to credit valuation adjustment	100.5	141.7	129.8
Core Tier 1 ratio according to CRD IV	38.2%	21.9%	22.6%
Tier 1 ratio according to CRD IV	38.2%	21.9%	22.6%
Capital adequacy ratio according to CRD IV	44.0%	23.8%	24.6%
Special disclosures			
IRB Provisions surplus (+) / deficit (-)	-82.7	-150.4	-147.3
- IRB Total provisions (+)	45.2	46.6	46.5
- IRB Anticipated loss (-)	-127.9	-197.0	-193.8
Capital adequacy Basel I floor	5,688.7	5,180.5	4,798.5
Capital requirement Basel I floor	7,638.2	6,433.9	6,301.7
Surplus of capital according to Basel I floor	1,949.6	1,253.4	1,503.2

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	772.3	429.1	n/a	n/a	1,201.3
Tier 1 capital	1,029.7	429.1	n/a	n/a	1,458.8
Capital base	1,373.0	429.1	n/a	n/a	1,802.0
Core Tier 1 capital available for use as buffer					32.2%

NOT 14 CAPITAL-ADEQUACY ANALYSIS, CONTINUED

SEK M	30 Jun 2015		31 Dec 2014		30 Jun 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	124.0	1,550.4	146.2	1,827.0	172.6	2,157.9
Exposures to corporates	–	–	–	–	–	–
Covered bonds	79.1	989.0	100.9	1,260.6	76.7	958.8
Other items	1.9	24.2	1.2	15.2	1.5	18.9
Total capital requirement and risk exposure amount	205.1	2,563.7	248.2	3,102.9	250.9	3,135.7
Credit risk according to IRB Approach						
<i>Retail exposures</i>						
Exposures secured by real estate collateral	735.9	9,198.5	1,383.1	17,288.2	1,298.3	16,228.3
Other retail exposures	2.7	34.3	1.5	18.8	12.3	153.7
Total retail exposures	738.6	9,232.9	1,384.6	17,307.0	1,310.6	16,382.0
Exposures to corporates	276.7	3,459.1	296.0	3,699.6	263.6	3,295.4
Total capital requirement and risk exposure amount	1,015.4	12,692.0	1,680.5	21,006.6	1,574.2	19,677.4
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	100.5	1,256.5	141.7	1,771.7	129.8	1,622.5

Internally assessed capital requirement

The internally assessed capital requirement for Länsförsäkringar Hypotek AB on 30 June 2015 amounted to SEK 1,677 M. The capital meeting the internal capital requirement, meaning the capital base, amounted to SEK 7,556 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, 17 July 2015

Rikard Josefson
Chairman of the board

Gert Andersson
Board member

Christian Bille
Board member

Bengt Clemedtson
Board member

Christer Malm
Board member

Anders Borgerantz
Board member

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 30 June 2015 and the six-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, 17 July 2015

Dan Beitner
Authorised Public Accountant

Financial calendar

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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