

# Länsförsäkringar Hypotek

## January-March 2014

INTERIM REPORT

### The period in brief

- Net interest income amounted to SEK 222 M (222).
- Loan losses amounted to SEK -1.3 M (1.1), corresponding to loan losses of 0.00% (0.00).
- Operating profit rose 11% to SEK 78 M (70) and the return on equity strengthened to 4.6% (4.5).
- Lending increased 9% to SEK 114 billion (104).
- The Core Tier 1 ratio according to Basel III was 22.1% on March 31, 2014.
- The number of customers rose 6% to 190,000.

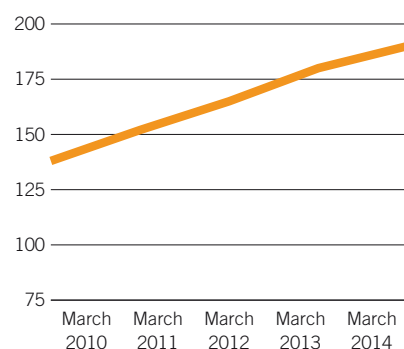
Figures in parentheses pertain to the comparative period in 2013.

**Anders Borgcrantz,**  
President of Länsförsäkringar Hypotek:

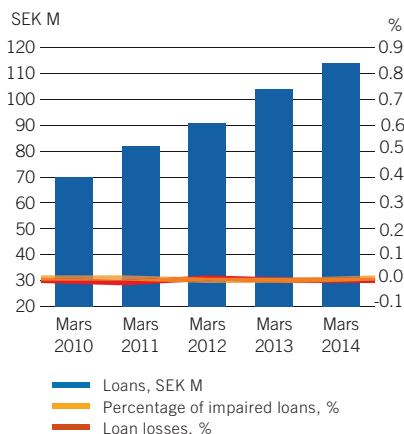
*Länsförsäkringar continues to be successful in the bank market, with good growth in retail mortgages and excellent credit quality in the loan portfolio. We are successfully extending the maturity profile of funding.*

#### CUSTOMER TREND

Number of customers, 000s



#### LOANS TO THE PUBLIC



## Key figures

	Q 1 2014	Q 4 2013	Q 1 2013	Jan-Dec 2013
Return on equity, %	4.6	3.5	4.5	4.8
Return on total capital, %	0.22	0.17	0.22	0.23
Investment margin, %	0.64	0.64	0.68	0.64
Cost/income ratio before loan losses	0.23	0.27	0.24	0.22
Cost/income ratio after loan losses	0.21	0.30	0.25	0.24
Core Tier 1 ratio according to Basel III, %	22.1	–	–	–
Capital adequacy ratio according to Basel III, %	24.0	–	–	–
Percentage of impaired loans, gross, %	0.01	0.01	0.00	0.01
Reserve ratio in relation to loans, %	0.04	0.04	0.04	0.04
Loan losses, %	0.00	0.01	0.00	0.01

## Income statement, quarterly

SEK M	Q 1 2014	Q 4 2013	Q 3 2013	Q 2 2013	Q 1 2013
Net interest income	221.6	215.9	209.1	205.8	221.5
Net commission	–115.5	–87.9	–90.6	–88.7	–78.9
Net gains/losses from financial items	–7.4	–46.3	–15.3	5.5	–49.3
Other operating income	0.2	0.0	0.2	0.0	0.2
<b>Total operating income</b>	<b>98.9</b>	<b>81.7</b>	<b>103.4</b>	<b>122.6</b>	<b>93.5</b>
Staff costs	–3.7	–3.4	–3.6	–3.9	–3.9
Other administration expenses	–18.8	–18.6	–18.7	–19.2	–18.2
<b>Total operating expenses</b>	<b>–22.5</b>	<b>–22.0</b>	<b>–22.3</b>	<b>–23.1</b>	<b>–22.1</b>
<b>Profit before loan losses</b>	<b>76.4</b>	<b>59.7</b>	<b>81.1</b>	<b>99.5</b>	<b>71.4</b>
Loan losses, net	1.3	–2.9	–0.7	–1.9	–1.1
<b>Operating profit</b>	<b>77.7</b>	<b>56.8</b>	<b>80.4</b>	<b>97.6</b>	<b>70.3</b>

## Market commentary

In the financial markets, the first quarter of the year was characterised by volatility. The exceptionally cold winter in the US contributed to US economic statistics being weaker than expected, which was a negative surprise for the market. This combined with the concern surrounding trends in the emerging economies initially led to global stock markets falling and then recovering at the end of the quarter. The Federal Reserve continued to reduce its asset purchases since the weaker signals from the US economy were considered to be temporary. Despite this, the US interest rate on ten-year bonds fell from 2.5% to 2.1%.

Signals from Europe remained cautiously positive about the economic trend, while inflation remained low. Expectations regarding additional expansive measures from the European Central Bank increased, which led to further downward pressure on European interest rates.

For Sweden, the economic statistics signalled a relatively strong fourth quarter for 2013, whereas other economic indicators gave mixed signals about the Swedish economy at the start of 2014. Inflation in Sweden also remained low, which pressed down short-term Swedish interest rates due to the higher probability of a further interest-rate cut by the Riksbank. Swedish interest rates with long maturities also fell.

In the credit market, spreads narrowed during the first quarter, which suggests a heightened risk appetite among investors. The Swedish interest rate margins between covered bonds and government bonds narrowed during the quarter.

Housing prices in Sweden increased 9% on an annual basis, which was largely due to rising prices for tenant-owned apartments. According to Valueguard's HOX index, prices of single-family homes rose 7%, while prices of tenant-owned apartments increased 13%.

## First quarter of 2014 compared with first quarter of 2013

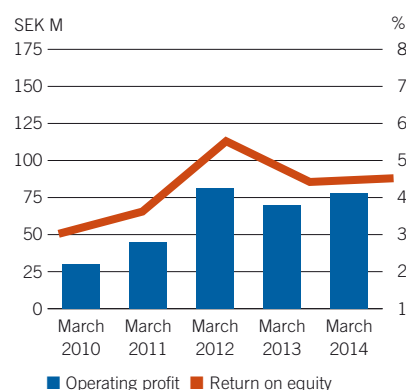
### Growth and customer trend

Loans to the public rose 9%, or SEK 10 billion, to SEK 114 billion (104). The number of customers rose 6%, or 10,000, to 190,000 (180,000), and 84% (83) of retail mortgage customers have Länsförsäkringar as their primary bank.

### Earnings and profitability

Profit before loan losses rose 7% to SEK 76 M (71) and operating profit increased 11% to SEK 78 M (70), due to improved net gains from financial items, although lower net commission was simultaneously charged to earnings. The return on equity amounted to 4.6% (4.5).

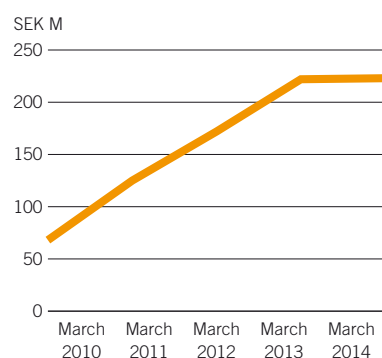
#### OPERATING PROFIT AND RETURN ON EQUITY



### Income

Operating income increased 6% to SEK 99 M (94), due to improved net gains from financial items. Net interest income amounted to SEK 222 M (222). The investment margin amounted to 0.64% (0.68). Net gains from financial items resulted in a decrease in expense of SEK 7 M (49). Net commission amounted to an expense of SEK 116 M (79).

#### NET INTEREST INCOME



### Expenses

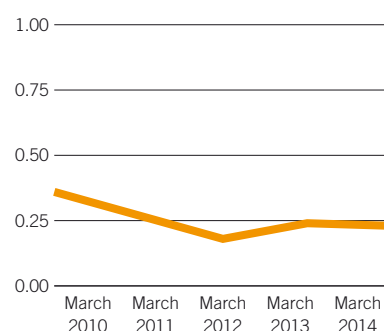
Operating expenses remained unchanged at SEK 22 M and the cost/income ratio before loan losses amounted to 0.23 (0.24). The cost/income ratio after loan losses amounted to 0.21 (0.25).

### Loan losses

From January 1, 2014, a new method is applied regarding the commitment that the regional insurance companies have regarding loan losses related to business they have originated. The new model 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.

Loan losses amounted to SEK -1.3 M (1.1), corresponding to loan losses of 0.00% (0.00). Reserves amounted to SEK 48 M (42), providing an unchanged reserve ratio in relation to loans of 0.04%. Impaired loans, gross, amounted to SEK 6 M (4), corresponding to a percentage of impaired loans, gross, of 0.01% (0.00). For more information regarding loan losses, reserves and impaired loans, see notes 8 and 10.

#### COST/INCOME RATIO BEFORE LOAN LOSSES



### Loans

All loans are granted in Sweden and in SEK. Loans to the public rose 9%, or SEK 10 billion, to SEK 114 billion (104). On February 28, 2014, the market share for retail mortgages strengthened to 4.9% (4.8), according to data from Statistics Sweden. The credit quality of the loan portfolio, comprising 75% (75) single-family homes, 20% (20) tenant-owned apartments, 5% (4) multi-family housing and 0% (1) other loans, remained favourable.

### Cover pool

A total of 93% of the loan portfolio, corresponding to SEK 106 billion, is included in the cover pool. The collateral comprises private homes, of which 77% (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 416,000 (405,000). The weighted average loan-to-value ratio, LTV, was unchanged at 63% and the nominal, current OC amounted to 20% (24).

During a stress test of the cover pool based on a 20% price drop in the market value of collateral for the mortgages, the weighted average Max-LTV was 67% (68) on March 31, 2014. No impaired loans are included in the cover pool.

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

Cover pool	Mar 31, 2014	Mar 31, 2013
Cover pool, SEK billion	126	115
OC <sup>1)</sup> , nominal, current level, %	20	24
Weighted average Max-LTV, %	63	63
Collateral	Private homes	Private homes
Seasoning, months	61	58
Number of loans	254,883	240,653
Number of borrowers	116,596	110,470
Number of properties	116,951	110,979
Average commitment, SEK 000s	910	879
Average loan, SEK 000s	416	405
Interest rate type, variable, %	58	51
Interest rate type, fixed, %	42	49
Impaired loans	None	None

<sup>1)</sup> OC is calculated using nominal values and excludes accrued interest rates. Debt securities in issue in currencies other than SEK are translated into SEK using the swap rate. Debt securities in issue include repurchase agreements.

### Funding

The funding structure is strong and the maturity structure is highly diversified. Debt securities in issue rose 16% to SEK 105 billion (90). A seven-year Euro Covered Bond of EUR 500 M was successfully issued in March.

Issued covered bonds during the quarter totalled a nominal SEK 9.5 billion (3.7) and repurchases of a nominal SEK 2.9 bil-

lion (1.5) were executed during the year. Matured covered bonds amounted to a nominal of SEK 1.1 billion (2.3).

### Liquidity

On March 31, 2014, the liquidity reserve amounted to SEK 21.7 billion (18.6) according to the Swedish Bankers'

Association's definition, of which 80% (92) is in Swedish covered bonds with an AAA/Aaa credit rating and 20% (8) in Swedish government bonds.

### Rating

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

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 and the Standardised Approach is used for all other exposures.

Core Tier 1 capital was SEK 5,487 M and the Core Tier 1 ratio according to Basel III amounted to 22.1% on March 31, 2014. The capital base was SEK 5,964 M and the capital adequacy ratio amounted to 24.0%. For more information on the calculation of capital adequacy, see note 14.

### Interest-rate risk

On March 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 8 M (59).

### Risks and uncertainties

Länsförsäkringar Hypotek is exposed to a number of risks, primarily credit risks, liquidity risks and market risks. The macroeconomic situation in Sweden is critical for credit risk since all loans are granted in Sweden. Market risks primarily comprise interest-rate risks, which are restricted through narrow limits. The operations are characterised by a low risk profile. Loan losses remain low and the refinancing of business activities was highly satisfactory during the period. A more detailed description of risks is available in the 2013 Annual Report. No significant changes in the allocation of risk have taken place compared with the description provided in the Annual Report.

### First quarter of 2014 compared with fourth quarter of 2013

Operating profit rose 37% to SEK 78 M (57), due to improved net gains from financial items. Return on equity strengthened to 4.6% (3.5). Operating income rose 21% to SEK 99 M (82), due to improved net gains from financial items. Net interest income increased 3% to SEK 222 M (216). Net gains from financial items resulted in a decrease in expense of SEK 7 M (46). Net commission fell to an expense of SEK 116 M (88). Expenses remained unchanged at SEK 22 M and the cost/income ratio before loan losses improved to 0.23 (0.27). Loan losses remained low and amounted to SEK -1.3 M (2.9).

### Events after the end of the period

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

## Income statement

SEK M	Note	Q 1 2014	Q 4 2013	Change	Q 1 2013	Change	Full-year 2013
Interest income	3	1,517.5	1,581.4	-4%	1,600.6	-5%	6,337.4
Interest expense	4	-1,295.9	-1,365.5	-5%	-1,379.1	-6%	-5,485.1
<b>Net interest income</b>		<b>221.6</b>	<b>215.9</b>	<b>3%</b>	<b>221.5</b>	<b>0%</b>	<b>852.3</b>
Commission income	5	0.5	0.4	25%	0.6	-17%	2.1
Commission expense	6	-116.0	-88.3	31%	-79.5	46%	-348.2
Net gains/losses from financial items	7	-7.4	-46.3	-84%	-49.3	-85%	-105.4
Other operating income		0.2	0.0		0.2	-50%	0.4
<b>Total operating income</b>		<b>98.9</b>	<b>81.7</b>	<b>21%</b>	<b>93.5</b>	<b>6%</b>	<b>401.2</b>
Staff costs		-3.7	-3.4	9%	-3.9	-5%	-14.8
Other administration expenses		-18.8	-18.6	1%	-18.2	3%	-74.6
Depreciation and impairment of tangible assets		-0.0	-0.0		0.0		-0.1
<b>Total operating expenses</b>		<b>-22.5</b>	<b>-22.0</b>	<b>2%</b>	<b>-22.1</b>	<b>-1%</b>	<b>-89.5</b>
<b>Profit before loan losses</b>		<b>76.4</b>	<b>59.7</b>	<b>28%</b>	<b>71.4</b>	<b>7%</b>	<b>311.7</b>
Loan losses, net	8	1.3	-2.9		-1.1		-6.6
<b>Operating profit</b>		<b>77.7</b>	<b>56.8</b>	<b>37%</b>	<b>70.3</b>	<b>11%</b>	<b>305.1</b>
Allocation fund		-	-65.0		-		-65.0
Tax		-17.1	-21.2	-19%	-15.5	10%	-80.6
<b>Profit for the period</b>		<b>60.6</b>	<b>-29.4</b>		<b>54.8</b>	<b>11%</b>	<b>159.5</b>

## Statement of comprehensive income

SEK M	Q 1 2014	Q 4 2013	Change	Q 1 2013	Change	Full-year 2013
<b>Profit for the period</b>	<b>60,6</b>	<b>-29,4</b>		<b>54,8</b>	<b>11%</b>	<b>159,5</b>
<b>Other comprehensive income</b>						
<b>Poster som har omförts eller kan omföras till periodens resultat</b>						
Cash-flow hedges	-26,6					
Change in fair value from available-for-sale financial assets	-13,3	-15,7	-15%	12,3		-11,6
Reclassification realised securities	0,0	-0,2		-0,2		-13,0
Tax attributable to items that are rerouted or can be rerouted as income for the period	8,8	3,5	151%	-2,7		5,4
<b>Total other comprehensive income for the period, net after tax</b>	<b>-31,1</b>	<b>-12,4</b>	<b>151%</b>	<b>9,4</b>		<b>-19,2</b>
<b>Total comprehensive income for the period</b>	<b>29,5</b>	<b>-41,8</b>		<b>64,2</b>	<b>-54%</b>	<b>140,3</b>

## Balance sheet

SEK M	Note	March 13, 2014	Dec 31, 2013	March 31, 2013
<b>Assets</b>				
Treasury bills and other eligible bills		4,203.8	1,491.9	1,525.3
Loans to credit institutions	9	3,729.3	4,710.0	4,195.4
Loans to the public	10	113,886.2	112,143.4	104,401.7
Bonds and other interest-bearing securities		16,703.3	15,375.9	16,525.9
Derivatives	11	1,689.0	1,146.2	1,540.3
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		609.3	486.0	540.4
Tangible assets		0.4	0.5	0.6
Deferred tax assets		–	–	3.3
Other assets		3.6	0.0	11.4
Prepaid expenses and accrued income		1,757.2	1,854.9	1,623.8
<b>Total assets</b>		<b>142,582.1</b>	<b>137,208.8</b>	<b>130,368.1</b>
<b>Liabilities, provisions and equity</b>				
Due to credit institutions	9	25,605.7	26,437.8	27,499.1
Debt securities in issue		104,742.9	98,989.5	90,026.0
Derivatives	11	1,921.9	2,538.0	3,496.4
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		1,555.6	599.7	1,359.9
Deferred tax liabilities		–	–	–
Other liabilities		73.3	51.7	16.2
Accrued expenses and deferred income		2,425.2	2,794.1	2,513.7
Provisions		0.7	0.7	0.6
Subordinated liabilities		501.0	501.0	501.0
<b>Total liabilities and provisions</b>		<b>136,826.3</b>	<b>131,912.5</b>	<b>125,412.9</b>
<b>Untaxed reserves</b>		<b>65.0</b>	<b>65.0</b>	
<b>Equity</b>				
Share capital, 70,335 shares		70.3	70.3	70.3
Statutory reserve		14.1	14.1	14.1
Fair value reserve		31.4	62.5	91.1
Retained earnings		5,514.4	4,924.9	4,724.9
Profit for the year		60.6	159.5	54.8
<b>Total equity</b>		<b>5,690.8</b>	<b>5,231.3</b>	<b>4,955.2</b>
<b>Total liabilities, provisions and equity</b>		<b>142,582.1</b>	<b>137,208.8</b>	<b>130,368.1</b>
<b>Memorandum items</b>				
	12			
For own liabilities, pledged assets		127,148.9	120,780.3	115,967.0
Other pledged assets		None	None	None
Contingent liabilities		3,360.6	2,930.6	2,730.6
Other commitments		6,486.0	4,308.2	5,422.4
<b>Other notes</b>				
Accounting policies	1			
Segment reporting	2			
Fair value valuation techniques	13			
Information about offsetting	14			
Capital-adequacy analysis	15			
Disclosures on related parties	16			

## Cash-flow statement in summary, indirect method

SEK M	Jan-Mar 2014	Jan-Mar 2013
<b>Cash and cash equivalents, January 1</b>	<b>7.2</b>	<b>6.9</b>
Cash flow from operating activities	-430.2	244.7
Cash flow from investing activities	-	-
Cash flow from financing activities	430.0	-247.0
<b>Cash flow for the period</b>	<b>-0.2</b>	<b>-2.3</b>
<b>Cash and cash equivalents, March 31</b>	<b>7.0</b>	<b>4.6</b>

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

Changes in the cash flow from operating activities are largely attributable to Treasury bills and other eligible bills SEK -2 708,4 M ( 7,1), Bonds and other interest-bearing securities SEK -1 337,7 M (1 610,4), Due to credit institutions SEK -104,5 M ( 4 357,6) and Debt securities in issue SEK 5 376,7 M (-262,1).

Changes in the cash flow from financing activities are shareholder contribution SEK 430,0 M (0,0) and attributable to Group contribution paid SEK 0.0 M (-247,0).

## Statement of changes in Shareholders' equity

Mkr	Share capital	Statutory reserve	Other reserves		Retained earnings	Profit for the period	Total
			Fair value reserve	Hedge reserve			
<b>Opening balance, January 1, 2013</b>	<b>70.3</b>	<b>14.1</b>	<b>81.7</b>		<b>4,467.6</b>	<b>257.3</b>	<b>4,891.0</b>
Profit for the period						54.8	54.8
Other comprehensive income for the period			9.4				9.4
<i>Comprehensive income for the period</i>			<i>9.4</i>			<i>54.8</i>	<i>64.2</i>
Group contribution paid							
Tax on Group contribution paid							
Resolution by annual General Meeting					257.3	-257.3	0.0
<b>Closing balance, March 31, 2013</b>	<b>70.3</b>	<b>14.1</b>	<b>91.1</b>		<b>4,724.9</b>	<b>54.8</b>	<b>4,955.2</b>
<b>Opening balance, April 1, 2013</b>	<b>70.3</b>	<b>14.1</b>	<b>91.1</b>		<b>4,724.9</b>	<b>54.8</b>	<b>4,955.2</b>
Profit for the period						104.7	104.7
Other comprehensive income for the period			-28.6				-28.6
<i>Comprehensive income for the period</i>			<i>-28.6</i>			<i>104.7</i>	<i>76.1</i>
Resolution by annual General Meeting							
Conditional shareholders' contribution received					200.0		200.0
<b>Closing balance, December 31, 2013</b>	<b>70.3</b>	<b>14.1</b>	<b>62.5</b>		<b>4,924.9</b>	<b>159.5</b>	<b>5,231.3</b>
<b>Opening balance, January 1, 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						60.6	60.6
Other comprehensive income for the period			-10.3	-20.8			-31.1
<i>Comprehensive income for the period</i>			<i>-10.3</i>	<i>-20.8</i>		<i>60.6</i>	<i>29.5</i>
Resolution by annual General Meeting					159.5	-159.5	0.0
Conditional shareholders' contribution received					430.0		430.0
<b>Closing balance, March 31, 2014</b>	<b>70.3</b>	<b>14.1</b>	<b>52.2</b>	<b>-20.8</b>	<b>5,514.4</b>	<b>60.6</b>	<b>5,690.8</b>

## Notes

### NOTE 1 ACCOUNTING POLICIES

The consolidated accounts were prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standard Board (IASB), and interpretations from the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the EU. Furthermore, the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL) (1995:1559), the Swedish Securities Market Act (2007:528), as well as the regulations and general guidelines of the Swedish Financial Supervisory Authority (FFFS 2008:25) were applied. The Group also applies the Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Rules for Groups and statements (UFR). This interim report complies with the requirements of IAS 34, Interim Financial Reporting.

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

*Changed accounting policies caused by new or amended IFRS and interpretations  
Amendments to IFRS applicable*

From 2014 have not had any significant effect on the company's financial statements in 2014.

*Changed accounting policies caused by more relevant and reliable reporting*

No changes to accounting policies have been made in 2014.

*New accounting policies caused by new transactions*

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 items. 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.

*Changed estimates and judgements*

From January 1, 2014, a new method is applied regarding the commitment that the regional insurance companies have regarding loan losses related to business they have originated. This new method will affect the level of the credit reserve continuously in 2014 and is applied prospectively in accordance with IAS 8.

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 1 2014	Q 4 2013	Change	Q 1 2013	Change	Full-Year 2013
Loans to credit institutions	14.5	14.8	-2%	7.2	101%	41.5
Loans to the public	845.3	871.2	-3%	874.6	-3%	3,479.3
Interest-bearing securities	113.0	111.2	2%	128.4	-12%	474.7
<i>Derivatives</i>						
Hedge accounting	544.7	584.2	-7%	590.4	-8%	2,341.9
Non-hedge accounting	-	-		-		-
<b>Summa ränteintäkter</b>	<b>1,517.5</b>	<b>1,581.4</b>	<b>-4%</b>	<b>1,600.6</b>	<b>-5%</b>	<b>6,337.4</b>
of which interest income on impaired loans	0.1	-0.1		0.0		0.0
Average interest rate on loans to the public during the period, %	3.0	3.1	-3%	3.4	-11%	3.3

**NOTE 4 INTEREST EXPENSE**

SEK M	Q 1 2014	Q 4 2013	Change	Q 1 2013	Change	Full-Year 2013
Due to credit institutions	-119.7	-138.7	-14%	-117.7	2%	-519.6
Interest-bearing securities	-693.6	-678.7	2%	-673.2	3%	-2,723.1
Subordinated liabilities	-4.8	-5.2	-8%	-4.6	4%	-19.9
<i>Derivatives</i>						
Hedge accounting	-468.2	-533.9	-12%	-574.8	-19%	-2,185.8
Non-hedge accounting	-	-		-		-
Other interest expense	-9.6	-9.0	7%	-8.8	9%	-36.7
<b>Total interest expense</b>	<b>-1,295.9</b>	<b>-1,365.5</b>	<b>-5%</b>	<b>-1,379.1</b>	<b>-6%</b>	<b>-5,485.1</b>

**NOTE 5 COMMISSION INCOME**

SEK M	Q 1 2014	Q 4 2013	Change	Q 1 2013	Change	Full-Year 2013
Loans	0.5	0.4	25%	0.6	-17%	2.1
<b>Total commission income</b>	<b>0.5</b>	<b>0.4</b>	<b>25%</b>	<b>0.6</b>	<b>-17%</b>	<b>2.1</b>

**NOTE 6 COMMISSION EXPENSE**

SEK M	Q 1 2014	Q 4 2013	Change	Q 1 2013	Change	Full-Year 2013
Remuneration to regional insurance companies	-115.8	-88.0	31%	-79.3	46%	-346.9
Other commission	-0.2	-0.3	0%	-0.2	0%	-1.3
<b>Total commission expense</b>	<b>-116.0</b>	<b>-88.3</b>	<b>31%</b>	<b>-79.5</b>	<b>46%</b>	<b>-348.2</b>

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

SEK M	Q 1 2014	Q 4 2013	Change	Q 1 2013	Change	Full-Year 2013
<b>Change in fair value</b>						
Interest-related instruments	422.3	93.1	354%	-156.9		-284.2
Currency-related instruments	591.1	379.4	56%	-920.3		-165.2
<i>Hedge accounting</i>						
Change in fair value of hedged items	-1,028.7	-522.3	97%	1,032.5		342.1
Inefficiencies in cash-flow hedging	-	-		-		-
<b>Realisationsresultat</b>						
Interest-related instruments	-6.7	-8.9	-25%	-14.9	-55%	-44.2
Interest compensation	14.6	12.4	18%	10.3	42%	46.1
<b>Total net gains / losses from financial items</b>	<b>-7.4</b>	<b>-46.3</b>	<b>-84%</b>	<b>-49.3</b>	<b>-85%</b>	<b>-105.4</b>

# **NOTE 8 LOAN LOSSES AND IMPAIRED LOANS**

Loan losses, SEK M	March 31, 2014	March 31, 2013
<b>Specific reserve for individually assessed loan receivables</b>		
Write-off of confirmed loan losses during the year	-0.6	-2.2
Reversed earlier impairment of loan losses recognised as confirmed losses	0.6	0.4
Impairment of loan losses during the year	-1.0	-9.9
Payment received for prior confirmed loan losses	1.0	3.2
Reversed impairment of loan losses no longer required	1.1	1.5
<b>Net expense for the year for individually assessed loan receivables</b>	<b>1.1</b>	<b>-7.0</b>
<b>Collective assessed homogenous groups of loan receivables with limited value and similar credit risk</b>		
Provision / reversal of impairment of loan losses	0.2	5.9
<b>Net expense for the year for collectively loan receivables</b>	<b>0.2</b>	<b>5.9</b>
Annual net expense for lived up of guarantees	-	-
<b>Net expense of loan losses for the year</b>	<b>1.3</b>	<b>-1.1</b>

All information pertains to receivables from the public.

Impaired loans, SEK M	March 31, 2014				March 31, 2013			
	Gross	Individual impairments	Collective impairments	Net	Gross	Individual impairments	Collective impairments	Net
Corporate sector	0.0	0	0	0.0	0.0	0	0	0.0
Retail sector	-6,1	-15.9	-32.3	-42,1	-3.5	-9.9	-31.9	-38,3
<b>Total</b>	<b>-6,1</b>	<b>-15.9</b>	<b>-32.3</b>	<b>-42,1</b>	<b>-3.5</b>	<b>-9.9</b>	<b>-31.9</b>	<b>-38,3</b>

From January 1, 2014, a new method is applied regarding the commitment that the regional insurance companies have regarding loan losses related to business they have originated.

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

Loans to credit institutions include deposits with the Parent Company of SEK 2 563,9 M (870,1). Due to credit institutions includes borrowings from the Parent Company of 23 682,1M (24 507,1).

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

Mkr	March 31, 2014	Dec 31, 2013	March 31, 2012
<b>Loans to the public before reservations</b>			
Public sector	-	-	-
Corporate sector	5,411.0	5,210.3	4,437.8
Retail sector	108,523.5	106,982.3	100,005.7
Other	-	-	-
<b>Total</b>	<b>113,934.5</b>	<b>112,192.6</b>	<b>104,443.5</b>
<b>Reservations</b>	<b>-48.2</b>	<b>-49.2</b>	<b>-41.8</b>
<b>Loans to the public</b>	<b>113,886.2</b>	<b>112,143.4</b>	<b>104,401.7</b>
Remaining term of not more than 3 month	64,631.8	65,397.4	58,997.0
Remaining term of more than 3 months but not more than 1 year	9,693.4	9,565.5	14,430.9
Remaining term of more than 1 year but not more than 5 years	38,751.7	36,438.9	30,335.4
Remaining term of more than 5 years	809.3	741.6	638.4
<b>Total</b>	<b>113,886.2</b>	<b>112,143.4</b>	<b>104,401.7</b>

**Definition**

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

**NOTE 11 DERIVATIVES**

Mkr	March 31, 2014		Dec 31, 2013		March 31, 2013	
	Nominal value	Fair value	Nominal value	Fair value	Nominal value	Fair value
<b>Derivatives with positive values</b>						
<i>Derivatives in hedge accounting</i>						
Interest-related	86,970.7	1,244.0	62,013.0	850.9	61,903.0	1,084.3
Currency-related	3,619.6	445.0	2,999.3	295.3	8,651.5	456.0
<i>Other derivatives</i>						
Currency-related	-	-	-	-	-	-
<b>Total derivatives with positive values</b>	<b>90,590.3</b>	<b>1,689.0</b>	<b>65,012.3</b>	<b>1,146.2</b>	<b>70,554.5</b>	<b>1,540.3</b>
<b>Derivatives with negative values</b>						
<i>Derivatives in hedge accounting</i>						
Interest-related	68,963.0	797.4	79,803.0	818.0	68,853.0	924.2
Currency-related	37,976.4	1,124.5	32,517.5	1,720.0	28,235.7	2,572.2
<b>Total derivatives with negative values</b>	<b>106,939.4</b>	<b>1,921.9</b>	<b>112,320.5</b>	<b>2,538.0</b>	<b>97,088.7</b>	<b>3,496.4</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	March 31, 2014	Dec 31, 2013	March 31, 2013
<b>For own liabilities, pledged assets</b>			
Collateral pledged due to repurchase agreements	727.5	24.2	1,354.6
Loan receivables, covered bonds	106,071.4	104,506.1	97,512.4
Loan receivables, substitute collateral	20,350.0	16,250.0	17,100.0
<b>Total for own liabilities, pledged assets</b>	<b>127,148.9</b>	<b>120,780.3</b>	<b>115,967.0</b>
<b>Other pledged assets</b>	Inga	Inga	Inga
<b>Contingent liabilities</b>			
Conditional shareholders' contribution	3,360.6	2,930.6	2,730.6
<b>Total contingent liabilities</b>	<b>3,360.6</b>	<b>2,930.6</b>	<b>2,730.6</b>
<b>Commitments</b>			
Loans approved but not disbursed	6,486.0	4,308.2	5,422.4

**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>March 31, 2014</b>				

**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
-------------	--	---------	--	---------

SEK M	Level,1	Level,2	Level,3	Total
<b>Dec 31,2013</b>				

**Assets**

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

**Liabilities**

Derivatives		2,538.0		2,538.0
-------------	--	---------	--	---------

Mkr	Level,1	Level,2	Level,3	Total
<b>March 31, 2013</b>				

**Assets**

Treasury bills and other eligible bills	1,525.3			1,525.3
Bonds and other interest-bearing securities	16,525.9			16,525.9
Derivatives		1,540.3		1,540.3

**Liabilities**

Derivatives		3,496.4		3,496.4
-------------	--	---------	--	---------

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

SEK M	March 31, 2014		Dec 31, 2013		March 31, 2013	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
<b>Assets</b>						
Treasury bills and other eligible bills	4,203.8	4,203.8	1,491.9	1,491.9	1,525.3	1,525.3
Loans to credit institutions	3,729.3	3,729.3	4,710.0	4,710.0	4,195.4	4,195.4
Loans to the public	113,886.2	114,666.0	112,143.4	113,010.2	104,401.7	105,083.9
Bonds and other interest-bearing securities	16,703.3	16,703.3	15,375.9	15,375.9	16,525.9	16,525.9
Derivatives	1,689.0	1,689.0	1,146.2	1,146.2	1,540.3	1,540.3
Accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total assets</b>	<b>140,211.6</b>	<b>140,991.4</b>	<b>134,867.4</b>	<b>135,734.2</b>	<b>128,188.6</b>	<b>128,870.8</b>
<b>Liabilities</b>						
Due to credit institutions	25,605.7	25,605.7	26,437.8	26,437.8	27,499.1	27,499.1
Debt securities in issue	104,742.9	109,421.5	98,989.5	102,707.6	90,026.0	95,051.4
Derivatives	1,921.9	1,921.9	2,538.0	2,538.0	3,496.4	3,496.4
Accounts payable	6.5	6.5	5.7	5.7	0.5	0.5
Subordinated liabilities	501.0	547.8	501.0	511.6	501.0	504.8
<b>Total Liabilities</b>	<b>132,778.0</b>	<b>137,503.4</b>	<b>128,472.0</b>	<b>132,200.7</b>	<b>121,523.0</b>	<b>126,552.2</b>

There were no transfers between Level 1 and Level 2 during the first quarter of 2014 or during 2013. There were no transfers from Level 3 during the first quarter of 2014 or 2013. The fair value of cash and balances with central banks, accounts receivable, due to credit institutions and accounts payable comprises a reasonable approximation of the fair value based on the cost of the assets and liabilities, since these assets and liabilities have short terms. When calculating the fair value of deposits and lending, anticipated future cash flows have been discounted using a discount rate set at the current deposit and lending rates applied (including discounts).

The main principle for measuring the fair value of debt securities in issue is that the value is measured using prices from external parties at year-end or the most recent trading date. If external prices are not available or are deemed to deviate from market levels, 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.

**NOTE 14 CAPITAL-ADEQUACY ANALYSIS**

	Basel III March 31,	Basel II Dec 31,	Basel II March 31,
SEK M	2014	2013	2013
Total equity	5,690.8	5,231.3	4,955.2
78 % of untaxed reserves	50.7	50.7	–
Deductions:			
(-) Part of interim profit not eligible	–60.6	–	–54.8
Adjustment for cash flow hedge	20.8	–	–
Adjustment for items at fair value	–52.2	–62.5	–91.1
Deferred tax assets	–	–	–3.3
IRB shortfall	–162.2	–75.9	–69.2
<b>Common Equity Tier 1 capital</b>	<b>5,487.3</b>	<b>5,143.6</b>	<b>4,736.8</b>
Tier 2 instruments	468.7	501.0	463.0
IRB excess	8.5	–75.9	69.2
<b>Own funds</b>	<b>5,964.5</b>	<b>5,568.7</b>	<b>5,130.5</b>
<b>Risk exposure amount according to Basel III</b>	<b>24,811.6</b>	<b>21,980.3</b>	<b>21,135.0</b>
<b>Transitional floor of capital requirement according to Basel I</b>	<b>56,898.1</b>	<b>55,010.7</b>	<b>51,986.1</b>
<b>Capital requirement</b>			
Capital requirement for creditrisk according to Standardised Approach	274.3	182.2	215.9
Capital requirement for creditrisk according to IRB Approach	1,544.2	1,544.7	1,439.1
Capital requirement for operational risk	43.1	35.7	35.7
Capital requirement according to credit valuation adjustment	123.3	–	–
<b>Capital requirement according to Basel III</b>	<b>1,984.9</b>	<b>1,762.6</b>	<b>1,690.8</b>
Adjustments according to Basel I floor	2,566.9	2,641.6	2,468.1
<b>Total capital requirement</b>	<b>4,551.9</b>	<b>4,404.2</b>	<b>4,158.9</b>
<b>Capital Adequacy</b>			
Tier 1 ratio and Core Tier 1 ratio according to Basel III, %	22.1	23.4	22.4
Capital adequacy ratio according to Basel III, %	24.0	25.3	24.3
Capital ratio according to Basel III	3.00	3.16	3.03
Tier 1 ratio and Core Tier 1 ratio according to transition rules, %	9.6	9.3	9.1
Capital adequacy ratio according to transition rules, %	10.5	10.1	9.9
Capital ratio according to transition rules	1.31	1.26	1.23
<b>Special disclosures</b>			
<b>IRB Provisions surplus (+)/deficit (–)</b>	<b>–153.7</b>	<b>–151.8</b>	<b>–138.4</b>
– IRB Total provisions (+)	44.8	49.2	41.8
– IRB Anticipated loss (–)	–198.5	–201.0	–180.2

**NOT 14 CAPITAL-ADEQUACY ANALYSIS, CONTINUED**

	Basel III March 31,	Basel II Dec 31,	Basel II March 31,
SEK M	2014	2013	2013
<b>Credit risk according to Standardised Approach</b>			
Exposures to institutions	134.8	53.4	71.2
Exposures to corporates	0.0	0.0	4.2
Retail exposures	0.0	0.0	3.1
Covered bonds	138.3	126.4	136.4
Other items	1.2	2.4	1.0
<b>Total capital requirement according to Standardised Approach</b>	<b>274.3</b>	<b>182.2</b>	<b>215.9</b>
<b>Credit risk according to IRB Approach</b>			
<i>Retail exposures</i>			
Exposures secured by real estate collateral	1,288.3	1,271.8	1,169.4
Other retail exposures	2.8	3.4	2.1
<b>Total retail exposures</b>	<b>1,291.1</b>	<b>1,275.2</b>	<b>1,171.5</b>
<i>Exposures to corporates</i>	253.2	269.4	267.6
<b>Total capital requirement for credit risk according to IRB Approach</b>	<b>1,544.3</b>	<b>1,544.6</b>	<b>1,439.1</b>
<b>Operational risks</b>			
Standardised Approach	43.1	35.7	35.7
<b>Total capital requirement for operational risk</b>	<b>43.1</b>	<b>35.7</b>	<b>35.7</b>
<b>Credit valuation adjustment</b>			
Standardised Approach	123.3	–	–
<b>Total capital requirement according to credit valuation adjustments</b>	<b>123.3</b>	<b>–</b>	<b>–</b>

**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 has not been reviewed by the company's auditors.

Stockholm, April 24, 2014

Anders Borgcrantz  
*President*

## Appendix

### FUNDING PROGRAMMES

Programmes	Limit, Nominal	Issued	Issued	Outstanding	Outstanding	Remaining	Remaining
		Jan-Mar 2014	Jan-Mar 2013	Mar 31, 2014	Mar 31, 2013	average term, Mar 31, 2014	average term, Mar 31, 2013
		Nominal, SEK billion	Nominal, SEK billion	Nominal, SEK billion	Nominal, SEK billion	Year	Year
Swedish Covered Benchmark	Unlimited	4.2	1.5	65.5	58.8	3.1	2.8
Medium Term Covered Note	SEK 30 billion	0.2	0	3.9	6.3	1.9	1.7
Euro Medium Term Covered Note	EUR 5 billion	5.1	2.2	35.2	26.0	3.1	2.8
<b>Total</b>		<b>9.5</b>	<b>3.7</b>	<b>104.6</b>	<b>91.1</b>	<b>3.1</b>	<b>2.7</b>

### Funding by maturity March 31, 2014

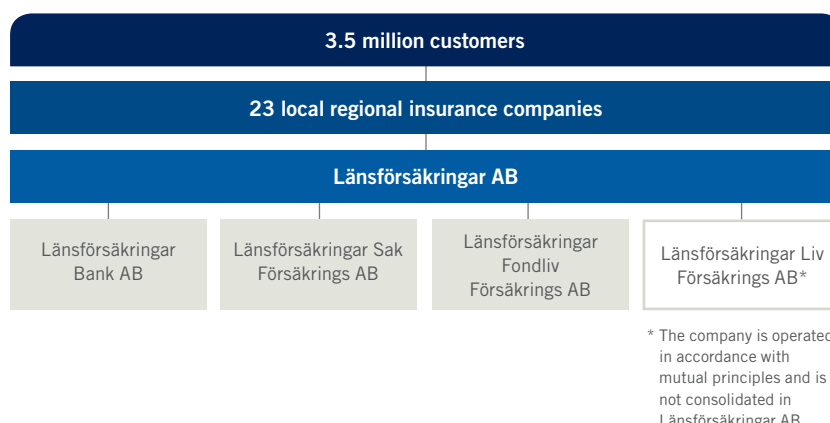
Years	2014	2015	2016	2017	2018	2019	>=2020	Total
Nominal, SEK billion	15.1	17.6	19.7	15.1	12.2	8.2	16.6	104.6

## Financial calendar

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

Interim report July-September..... **October 23, 2014**

This report contains such information that Länsförsäkringar Hypotek AB (publ) must publish in accordance with the Securities Market Act. The information was submitted for publication on February 10, 2014 at 1:00 p.m. Swedish time.



The Länsförsäkringar Alliance comprises 23 local and customer-owned regional insurance companies and the jointly owned Länsförsäkringar AB. The Länsförsäkringar Alliance is based on a strong belief in local presence and customer contacts are made at the regional insurance companies. The regional insurance companies offer a wide range of insurance, banking services and other financial solutions for private individuals, corporate customers and agricultural customers. The number of customers amounts to nearly 3.5 million and the Länsförsäkringar Alliance has a joint total of approximately 5,800 employees.

### Contact information

**Anders Borgcrantz**, President, Länsförsäkringar Hypotek AB,  
+46 (0)8-588 412 51, +46 (0)73-964 12 51

**Martin Rydin**, Vice Executive President, Länsförsäkringar Hypotek AB,  
+46 (0)8-588 412 79, +46 (0)73-964 28 23

**Anna-Lena Löfvenberg**, Investor Relations Manager, Länsförsäkringar Bank AB, Bank AB,  
+46 (0)8-588 415 16, +46 (0)73-964 15 16

Länsförsäkringar Hypotek AB (publ), Corporate Registration Number 556244-1781,  
Street address: Tegeluddsvägen 11-13,  
Postal address: 106 50 Stockholm,  
Telephone: +46 (0)8-588 400 00