

# Länsförsäkringar Hypotek

## January – June 2009

INTERIM REPORT

### The period in brief

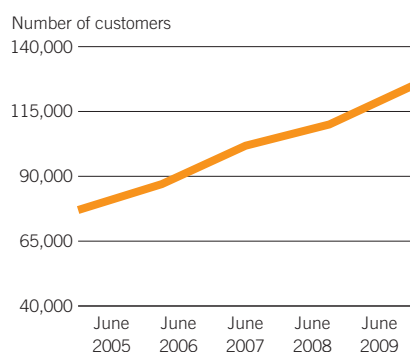
- Operating profit increased to SEK 86 M (43).
- Net interest income rose by 16% to SEK 171 M (148).
- Loan losses amounted to positive SEK 5 M (0), net.
- Lending increased by 20% to SEK 61 billion (51).
- Credit quality was highly favourable and the operations maintained a low risk profile.
- The capital adequacy ratio according to Basel II amounted to 23.1% (29.6) and the Tier 1 ratio to 18.2% (24.3).
- The number of customers rose to 125,000 (109,500).

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

*Länsförsäkringar strengthened its position in the retail mortgage market. The number of customers rose, which shows that customers view Länsförsäkringar as a reliable and stable mortgage provider. We increased our market share and are continuing to grow in the market. The credit portfolio, which has a good geographic spread in Sweden, contains almost only private homes as collateral, most of which are single-family homes. Our loan origination is conservative and based on low risk.*

Figures in parentheses pertain to the same period in 2008.

### CUSTOMER TREND



## Key figures

|   | Jan. 1, 2009<br>–Jun. 30, 2009 | Jan. 1, 2008<br>–Jun. 30, 2008 | Full-year<br>2008 |
|---|--------------------------------|--------------------------------|-------------------|
| Return on shareholders' equity, %                       | 5.2                            | 2.8                            | 4.1               |
| Return on total capital, %                              | 0.2                            | 0.2                            | 0.2               |
| Investment margin, %                                    | 0.49                           | 0.55                           | 0.65              |
| Cost/income ratio before loan losses                    | 0.28                           | 0.41                           | 0.34              |
| Cost/income ratio after loan losses                     | 0.24                           | 0.41                           | 0.34              |
| Capital adequacy ratio according to Basel II, %         | 23.1                           | 29.6                           | 27.6              |
| Capital adequacy ratio according to transition rules, % | 10.5                           | 10.6                           | 10.5              |
| Tier 1 ratio according to Basel II, %                   | 18.2                           | 24.3                           | 21.6              |
| Tier 1 ratio according to transition rules, %           | 8.3                            | 8.7                            | 8.2               |
| Percentage of doubtful receivables, %                   | 0                              | 0                              | 0                 |
| Provision ratio in relation to lending, %               | 0.05                           | 0.08                           | 0.07              |
| Loan losses, %  | 0                              | 0                              | 0                 |

## Quarterly development

| SEK M                                    | Q2<br>2009   | Q1<br>2009   | Q4<br>2008   | Q3<br>2008   | Q2<br>2008   |
|--|--------------|--------------|--------------|--------------|--------------|
| Net interest income                      | 81.9         | 89.1         | 126.1        | 87.1         | 72.9         |
| Net commission                           | -38.3        | -61.5        | -54.0        | -43.0        | -40.0        |
| Net profit from financial transactions   | 19.3         | 21.8         | -5.0         | 10.8         | 0.9          |
| Other operating income                   | 0            | 0            | 0            | 0            | 0            |
| <b>Total operating income</b>            | <b>62.9</b>  | <b>49.4</b>  | <b>67.1</b>  | <b>54.9</b>  | <b>33.8</b>  |
| Staff costs                              | -2.9         | -2.5         | -2.6         | -2.9         | -2.9         |
| Other administrative expenses            | -13.3        | -13.0        | -16.8        | -13.5        | -12.0        |
| <b>Total expenses before loan losses</b> | <b>-16.2</b> | <b>-15.5</b> | <b>-19.4</b> | <b>-16.4</b> | <b>-14.9</b> |
| <b>Profit before loan losses</b>         | <b>46.7</b>  | <b>33.9</b>  | <b>47.7</b>  | <b>38.5</b>  | <b>18.9</b>  |
| Loan losses, net                         | 1.9          | 3.1          | -0.5         | 0.3          | 0.3          |
| <b>Operating profit</b>                  | <b>48.6</b>  | <b>37.0</b>  | <b>47.2</b>  | <b>38.8</b>  | <b>19.2</b>  |

## Market commentary

Low interest rates contributed to offsetting the downward trend in housing prices. A number of regions continued to be affected by lay-off notices and levelling-out price trends. Länsförsäkringar Hypotek has retained its favourable position and its portfolio has a good geographic spread. The capital market was characterised by sharply rising stock markets and lower interest spreads between government bonds and other bonds. In May, Länsförsäkringar Hypotek issued a new five-year covered benchmark bond that was well received by the market.

## Continued growth

Retail mortgage volumes continued to rise and amounted to SEK 61 billion (51) on June 30, 2009. The percentage of total market growth was strong. The number of retail mortgage customers rose by 15,500 to 125,000 (109,500). Sales, advisory services and customer services are carried out through the 114 branches of the 24 regional insurance companies, via the Internet and telephone. Läns-hem Fastighetsförmedling's 81 branches throughout Sweden also serve as an increasingly significant sales channel.

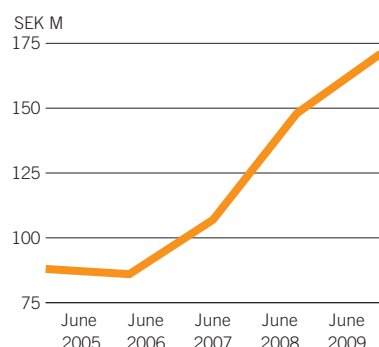
## Earnings and profitability

Profit before loan losses rose to SEK 81 M (43) and operating profit rose to SEK 86 M (43). The return on average shareholders' equity improved to 5.2% (2.8).

## Income

Net interest income rose by 16% to SEK 171 M (148). The increase is attributable to higher volumes and improved funding costs. The investment margin declined to 0.49% (0.55) as a result of the lower market interest rates, which had a negative impact on the return on shareholders' equity and flows. In addition, a larger liquidity reserve also had a certain impact on net interest income.

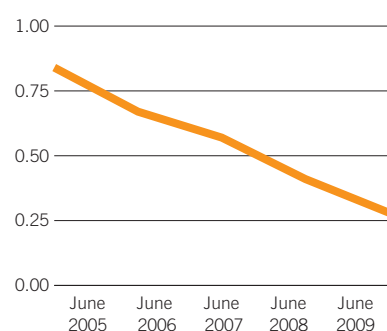
### NET INTEREST INCOME



## Expenses

Operating expenses increased by SEK 2 M, or 6%, to SEK 32 M (30), which was attributable to increased administrative expenses. The cost/income ratio strengthened to 0.28 (0.41) before loan losses and strengthened to 0.24 (0.41) after loan losses.

### COST/INCOME RATIO



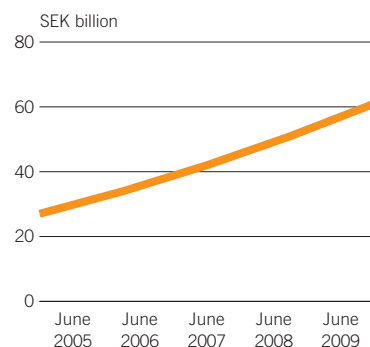
## Loan losses

Loan losses amounted to positive SEK 5 M (0), net. Doubtful receivables amounted to SEK 2 M (0), corresponding to a share of doubtful receivables of 0% (0). For more information regarding doubtful receivables, reserves and loan losses, refer to Notes 8 and 10.

## Business volumes

Total assets amounted to SEK 83 billion (53), an increase of 56% or SEK 30 billion. Lending to the public rose 20%, or SEK 10 billion, to SEK 61 billion (51) and from year-end the change was 13% or SEK 7 billion. On June 30, 2009, Länsförsäkringar's market share for retail mortgage lending to households amounted to 3.6% (3.3) and the share of market growth was strong.

### LENDING



## Credit portfolio

Essentially all lending that occurs in Länsförsäkringar Hypotek qualifies to be included in the company's covered-bond operations, known as the cover pool, in accordance with the Swedish Covered Bonds (Issuance) Act (2003:1223). The credit portfolio primarily comprises loans secured by collateral in private homes and tenant-owned apartments, and only a small portion of leisure homes.

The average loan-to-value rate (LTV) is 59% (57) and the average commitment per borrower is SEK 763,000 (724,000). The quality of the portfolio remains extremely high and has not been affected by the deterioration of the real economy. The geographic spread in Sweden is highly favourable and collateral comprises private homes.

| Cover pool                                     | Jun. 30, 2009 | Jun. 30, 2008 |
|--|---------------|---------------|
| Volume, billion                                | 59            | 50            |
| Collateral                                     | Private homes | Private homes |
| OC <sup>1)</sup> , minimum level, %            | 9             | 5             |
| OC <sup>1)</sup> , actual level, %             | 17.4          | 30.4          |
| Special account, billion                       | 11.6          | 1.8           |
| Percentage of special account in cover pool, % | 16.5          | 3.5           |
| Weighted average LTV <sup>2)</sup> , %         | 59            | 57            |
| Average age, months                            | 49            | 42            |
| Number of properties                           | 77,506        | 69,017        |
| Average commitment, SEK 000s                   | 763           | 724           |
| Average loan, SEK 000s                         | 354           | 337           |
| Interest-rate type, up to 12 months, %         | 58            | 46            |
| Interest-rate type, more than 12 months, %     | 42            | 54            |

<sup>1)</sup> OC indicates the relationship between the assets (lending) and liabilities (borrowing) in relation to the liabilities. High OC indicates that the operations have a large surplus of assets and a favourable margin in the event of, for example, a price drop in the value of the assets.

<sup>2)</sup> According to the "Maximum LTV (loan-to-value) per property" calculation method.

During a stress test of the cover pool based on a 20% price drop in the market value on June 30, 2009, the weighted average LTV increased to 66% compared with an actual weighted average LTV of 59% on June 30, 2009.

## Borrowing and liquidity

Securities issued rose SEK 13 billion, or 32%, to SEK 52 billion (39). Long-term borrowing mainly takes place with covered bonds. Securities issued amounted to SEK 24.8 billion (10.5) during the first six months of the year. Repurchased securities amounted to SEK 12.8 billion (2.4) and past due securities totalled SEK 3.1 billion (5.5) for the first six months of the year. The company has deposited SEK 11.6 billion in a special account with the parent company. Liquidity, which is managed for the entire Group by the parent company, remained favourable.

| Programme                     | Limit, Nominal | Issued, Nominal<br>Jan-Jun 2009<br>SEK billion | Issued, Nominal<br>Jan-Jun 2008<br>SEK billion | Outstanding, Nominal<br>Jun. 30, 2009<br>SEK billion | Outstanding, Nominal<br>Jun. 30, 2008<br>SEK billion | Remaining term,<br>Jun. 30, 2009,<br>Years | Remaining term,<br>Jun. 30, 2008,<br>Years |
|-------------------------------|----------------|--|--|--|--|--|--|
| Benchmark                     | Unlimited      | 17.6   | 7.2  | 33.3   | 29.5   | 3.3  | 2.3  |
| Medium Term Covered Note      | SEK 20 billion | 7.2  | 2.7  | 12.1   | 5.4  | 1.2  | 1.2  |
| Euro Medium Term Covered Note | EUR 2 billion  | -  | 0.6  | 4.9  | 4.2  | 1.5  | 2.0  |
| <b>Total</b>                  |                | <b>24.8</b>                                    | <b>10.5</b>                                    | <b>50.3</b>  | <b>39.1</b>  |  |  |

## Rating

Länsförsäkringar's covered bonds were assigned the highest credit rating, AAA, by Standard & Poor's and the highest credit rating, Aaa, by Moody's. Länsförsäkringar Hypotek is one of four players in the Swedish market for covered bonds with the highest rating from both rating agencies.

## Capital adequacy

Länsförsäkringar applies the Internal Ratings-based Approach (IRB Approach). The aim is to achieve enhanced transparency and, thereby, greater stability in the financial system. The advanced risk-classification method provides the greatest opportunities to strategically and operationally manage credit risks and is used for all retail exposures. The Standardised Approach is currently applied to other exposures to calculate the capital requirement for credit risk. Changes in the capital requirement will emerge gradually since the transition rules involve a three-year adaptation period.

In accordance with the transition rules, the capital requirement will be reduced to 80% of the Basel I rules in 2009. The capital adequacy ratio amounted to 23.1% (29.6) and the Tier 1 ratio to 18.2% (24.3) on June 30, 2009 in accordance with the Basel II rules. The capital adequacy ratio amounted to 10.5% (10.6) and the Tier 1 ratio to 8.3% (8.7) on June 30, 2009 in accordance

with the transition rules. In accordance with Pillar I of the new rules, the capital requirement, excluding the supplement to the transition rules, amounted to SEK 1,043 M on June 30, 2009, a decrease of 65% compared with SEK 2,945 M according to Basel I regulations. For more information on the calculation of capital adequacy, refer to Note 12.

## Interest-rate risk

On June 30, 2009, an increase in market interest rates of 1 percentage point would have resulted in a decrease in the value of interest-bearing assets and liabilities, including derivatives, of SEK 34 M (+17).

## Risks and uncertainties

The company is exposed to a number of risks, primarily credit risks and financial risks. The operations are characterised by a low risk profile that has not changed significantly despite weaker conditions in the real economy following the financial crisis. A detailed description of risks is available in the 2008 Annual Report. No significant changes in the allocation of risk have taken place compared with the details provided in the Annual Report.

## Events after the close of the period

In July, Moody's confirmed the parent company's long-term credit rating of A2 (stable) and short-term credit rating of P-1 with a stable outlook.

## Income statement

| SEK M                                  | Note | Q2<br>2009   | Q2<br>2008   | Jan.-Jun.<br>2009 | Jan.-Jun.<br>2008 | Full-year<br>2008 |
|--|------|--------------|--------------|-------------------|-------------------|-------------------|
| Interest income                        | 3    | 912.2        | 1,257.2      | 2,001.8           | 2,402.7           | 5,146.8           |
| Interest expense                       | 4    | -830.3       | -1,184.2     | -1,830.8          | -2,254.8          | -4,785.8          |
| <b>Net interest income</b>             |      | <b>81.9</b>  | <b>73.0</b>  | <b>171.0</b>      | <b>147.9</b>      | <b>361.0</b>      |
| Commission income                      | 5    | 0.5          | 0.5          | 1.0               | 0.9               | 1.9               |
| Commission expense                     | 6    | -38.8        | -40.6        | -100.8            | -78.7             | -176.7            |
| Net profit from financial transactions | 7    | 19.3         | 0.9          | 41.1              | 2.7               | 8.5               |
| Other operating income                 |      | 0            | 0            | 0                 | 0                 | 0.1               |
| <b>Total operating income</b>          |      | <b>62.9</b>  | <b>33.8</b>  | <b>112.3</b>      | <b>72.8</b>       | <b>194.8</b>      |
| Staff costs                            |      | -2.9         | -2.9         | -5.3              | -5.6              | -11.1             |
| Other administrative expenses          |      | -13.3        | -12.0        | -26.4             | -24.2             | -54.5             |
| <b>Total operating expenses</b>        |      | <b>-16.2</b> | <b>-14.9</b> | <b>-31.7</b>      | <b>-29.8</b>      | <b>-65.6</b>      |
| <b>Profit before loan losses</b>       |      | <b>46.7</b>  | <b>18.9</b>  | <b>80.6</b>       | <b>43.0</b>       | <b>129.2</b>      |
| Loan losses, net                       | 8    | 1.9          | 0.3          | 5.0               | 0                 | -0.2              |
| <b>Operating profit</b>                |      | <b>48.6</b>  | <b>19.2</b>  | <b>85.6</b>       | <b>43.0</b>       | <b>129.0</b>      |
| Tax                                    |      | -12.8        | -5.3         | -22.5             | -12.0             | -36.2             |
| <b>PROFIT FOR THE PERIOD</b>           |      | <b>35.8</b>  | <b>13.9</b>  | <b>63.1</b>       | <b>31.0</b>       | <b>92.8</b>       |

The comprehensive income statement and income statement for the period concur.

## Balance sheet

| SEK M  | Note | Jun. 30, 2009   | Jun. 30, 2008   | Dec. 31, 2008   |
|--|------|-----------------|-----------------|-----------------|
| <b>ASSETS</b>  |      |                 |                 |                 |
| Lending to credit institutions   | 9    | 18,657.6        | 1,845.9         | 9,723.0         |
| Lending to the public  | 10   | 60,786.6        | 50,508.5        | 53,592.4        |
| Derivatives  | 11   | 1,961.7         | 814.6           | 2,167.5         |
| Fair value adjustment of interest-rate hedged items in portfolio hedge |      | 858.5           | -555.3          | 1,044.0         |
| Deferred tax assets  |      | 0               | 0               | 0               |
| Other assets   |      | 1.5             | 6.3             | 4.0             |
| Prepaid expenses and accrued income                                    |      | 352.2           | 245.4           | 653.1           |
| <b>TOTAL ASSETS</b>  |      | <b>82,618.1</b> | <b>52,865.4</b> | <b>67,184.0</b> |
| <b>LIABILITIES, PROVISIONS AND SHAREHOLDERS' EQUITY</b>                |      |                 |                 |                 |
| Liabilities to credit institutions                                     | 9    | 25,110.8        | 10,113.6        | 18,221.0        |
| Debt securities in issue   |      | 51,671.7        | 39,061.6        | 42,284.8        |
| Derivatives  | 11   | 1,073.1         | 759.0           | 1,188.8         |
| Fair value adjustment of interest-rate hedged items in portfolio hedge |      | 737.9           | -632.1          | 991.8           |
| Other liabilities  |      | 29.2            | 24.2            | 142.8           |
| Accrued expenses and prepaid income                                    |      | 918.4           | 768.9           | 1,340.9         |
| Provisions   |      | 0.2             | 0.2             | 0.2             |
| Subordinated liabilities   |      | 662.6           | 512.6           | 662.6           |
| <b>TOTAL LIABILITIES AND PROVISIONS</b>                                |      | <b>80,203.9</b> | <b>50,608.0</b> | <b>64,832.9</b> |
| <b>SHAREHOLDERS' EQUITY</b>  |      |                 |                 |                 |
| Share capital, 70,335 shares   |      | 70.3            | 70.3            | 70.3            |
| Statutory reserve  |      | 14.1            | 14.1            | 14.1            |
| Retained earnings  |      | 2,266.7         | 2,142.0         | 2,173.9         |
| Profit for the period  |      | 63.1            | 31.0            | 92.8            |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                                      |      | <b>2,414.2</b>  | <b>2,257.4</b>  | <b>2,351.1</b>  |
| <b>TOTAL LIABILITIES, PROVISIONS AND SHAREHOLDERS' EQUITY</b>          |      | <b>82,618.1</b> | <b>52,865.4</b> | <b>67,184.0</b> |
| <b>MEMORANDUM ITEMS</b>  |      |                 |                 |                 |
| Assets pledged as security for own liabilities                         |      |                 |                 |                 |
| Loan receivables, covered bonds*                                       |      | 58,661.1        | 49,312.9        | 51,983.6        |
| Other pledged assets   |      | NONE            | NONE            | NONE            |
| Contingent liabilities   |      | 0.7             | 0.6             | 0.7             |
| Commitments  |      |                 |                 |                 |
| Repurchase transactions  |      | 14,523.1        | -               | 7,953.8         |
| Loans granted but not disbursed  |      | 361.0           | 191.0           | 162.7           |
| <b>Total commitments</b>   |      | <b>14,884.1</b> | <b>191.0</b>    | <b>8,116.5</b>  |
| <b>Other notes</b>   |      |                 |                 |                 |
| Accounting policies  | 1    |                 |                 |                 |
| Segment reporting  | 2    |                 |                 |                 |
| Capital-adequacy analysis  | 12   |                 |                 |                 |
| Disclosures on related parties   | 13   |                 |                 |                 |

\* Cover pool loans were granted against collateral for private homes, tenant-owned apartments and leisure homes at a loan-to-value rate within 75% of the market value and substitute collateral in the form of cash and cash equivalents on frozen accounts. A separate register is kept of the asset pool and the covered bonds as well as derivatives attributable to these. In the event of the company's insolvency, holders of Länsförsäkringar Hypotek's covered bonds have preferential rights pursuant to the Rights of Priority Act to the assets that are registered as cover pool.

## Cash-flow statement, indirect method

| SEK M   | Jan.-Jun. 2009 | Jan.-Jun. 2008 |
|---|----------------|----------------|
| <b>Cash and cash equivalents at the beginning of the period</b> | <b>0.3</b>     | <b>-</b>       |
| Cash flow from operating activities                             | 3,845.9        | 0.3            |
| Cash flow from investing activities                             | -              | -              |
| Cash flow from financing activities                             | -              | -              |
| <b>NET CASH FLOW FOR THE PERIOD</b>                             | <b>3,845.9</b> | <b>0.3</b>     |
| Exchange-rate differences in cash and cash equivalents          | -              | -              |
| <b>Cash and cash equivalents at the end of the period</b>       | <b>3,846.2</b> | <b>0.3</b>     |

Cash and cash equivalents at the end of the period is defined as cash and balances at central banks and lending and liabilities to credit institutions payable on demand.

## Statement of changes in shareholders' equity

| SEK M   | Share capital | Statutory reserve | Retained earnings | Profit/loss for the period | Total          |
|---|---------------|-------------------|-------------------|----------------------------|----------------|
| <b>Opening balance, January 1, 2008</b>         | <b>70.3</b>   | <b>14.1</b>       | <b>2,100.3</b>    | <b>41.7</b>                | <b>2,226.4</b> |
| Resolution by Annual General Meeting            |               |                   | 41.7              | -41.7                      | -              |
| Total comprehensive income for the period       |               |                   |                   | 31.0                       | 31.0           |
| <b>Closing balance, June 30, 2008</b>           | <b>70.3</b>   | <b>14.1</b>       | <b>2,142.0</b>    | <b>31.0</b>                | <b>2,257.4</b> |
| <b>Opening balance, July 1, 2008</b>            | <b>70.3</b>   | <b>14.1</b>       | <b>2,142.0</b>    | <b>31.0</b>                | <b>2,257.4</b> |
| Conditional shareholders' contribution received |               |                   | 125.0             |                            | 125.0          |
| Group contribution paid                         |               |                   | -129.3            |                            | -129.3         |
| Tax effect on Group contribution paid           |               |                   | 36.2              |                            | 36.2           |
| Total comprehensive income for the period       |               |                   |                   | 61.8                       | 61.8           |
| <b>Closing balance, December 31, 2008</b>       | <b>70.3</b>   | <b>14.1</b>       | <b>2,173.9</b>    | <b>92.8</b>                | <b>2,351.1</b> |
| <b>Opening balance, January 1, 2009</b>         | <b>70.3</b>   | <b>14.1</b>       | <b>2,173.9</b>    | <b>92.8</b>                | <b>2,351.1</b> |
| Resolution by Annual General Meeting            |               |                   | 92.8              | -92.8                      | -              |
| Total comprehensive income for the period       |               |                   |                   | 63.1                       | 63.1           |
| <b>Closing balance, June 30, 2009</b>           | <b>70.3</b>   | <b>14.1</b>       | <b>2,266.7</b>    | <b>63.1</b>                | <b>2,414.2</b> |

## Notes

### NOTE 1 ACCOUNTING POLICIES

Länsförsäkringar Hypotek 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), the regulations and general advice of the Swedish Financial Supervisory Authority (FFFS 2008:25) and the Swedish Financial Reporting Board's recommendation RFR 2.2 Accounting for Legal Entities. The accounting policies applied in the interim report comply with the accounting policies that were applied in the preparation of the 2008 Annual Report.

### NOTE 2 SEGMENT REPORTING

The business of the company is viewed as one homogenous segment.

### NOTE 3 INTEREST INCOME

| SEK M  | Q2<br>2009   | Q2<br>2008     | Jan.-Jun.<br>2009 | Jan.-Jun.<br>2008 | Full-year<br>2008 |
|--|--------------|----------------|-------------------|-------------------|-------------------|
| Interest income on lending to credit institutions                        | 13.9         | 35.8           | 53.3              | 79.3              | 163.0             |
| Interest income on lending to the public                                 | 488.5        | 602.7          | 1,065.3           | 1,177.8           | 2,522.3           |
| <i>Interest income on derivatives</i>                                    |              |                |                   |                   |                   |
| Hedge accounting   | 398.7        | 584.6          | 855.4             | 1,078.0           | 2,329.2           |
| Non-hedge accounting   | 11.1         | 34.1           | 27.8              | 67.6              | 127.6             |
| Other interest income  | -            | -              | -                 | -                 | 4.7               |
| <b>Total interest income</b>   | <b>912.2</b> | <b>1,257.2</b> | <b>2,001.8</b>    | <b>2,402.7</b>    | <b>5,146.8</b>    |
| of which interest income on doubtful receivables                         | 0.4          | 0.5            | 0.8               | 0.8               | 1.9               |
| of which interest income from financial items not measured at fair value | 502.4        | 638.8          | 1,118.5           | 1,257.4           | 2,690.1           |
| Average interest rate on lending to the public, %                        | 3.3          | 4.8            | 3.8               | 4.8               | 5.0               |

### NOTE 4 INTEREST EXPENSE

| SEK M  | Q2<br>2009   | Q2<br>2008     | Jan.-Jun.<br>2009 | Jan.-Jun.<br>2008 | Full-year<br>2008 |
|--|--------------|----------------|-------------------|-------------------|-------------------|
| Interest expense on liabilities to credit institutions                   | 40.4         | 120.8          | 135.9             | 241.2             | 529.5             |
| Interest expense on subordinated liabilities                             | 5.3          | 7.6            | 11.7              | 15.2              | 33.3              |
| Interest expense on interest-bearing securities                          | 399.0        | 437.5          | 826.5             | 857.0             | 1,770.2           |
| <i>Interest expense on derivatives</i>                                   |              |                |                   |                   |                   |
| Hedge accounting   | 374.5        | 585.2          | 828.6             | 1,074.5           | 2,327.5           |
| Non-hedge accounting   | 11.1         | 33.1           | 28.1              | 66.9              | 125.2             |
| Other interest expense   | 0            | 0              | 0                 | 0                 | 0.1               |
| <b>Total interest expense</b>  | <b>830.3</b> | <b>1,184.2</b> | <b>1,830.8</b>    | <b>2,254.8</b>    | <b>4,785.8</b>    |
| of which interest income from financial items not measured at fair value | 444.7        | 565.9          | 974.1             | 1,113.4           | 2,333.2           |

### NOTE 5 COMMISSION INCOME

| SEK M                          | Q2<br>2009 | Q2<br>2008 | Jan.-Jun.<br>2009 | Jan.-Jun.<br>2008 | Full-year<br>2008 |
|--------------------------------|------------|------------|-------------------|-------------------|-------------------|
| Lending commission             | 0.5        | 0.5        | 1.0               | 0.9               | 1.9               |
| <b>Total commission income</b> | <b>0.5</b> | <b>0.5</b> | <b>1.0</b>        | <b>0.9</b>        | <b>1.9</b>        |

### NOTE 6 COMMISSION EXPENSE

| SEK M  | Q2<br>2009  | Q2<br>2008  | Jan.-Jun.<br>2009 | Jan.-Jun.<br>2008 | Full-year<br>2008 |
|--|-------------|-------------|-------------------|-------------------|-------------------|
| Remuneration to regional insurance companies | 38.3        | 40.1        | 99.8              | 76.8              | 174.6             |
| Other commission                             | 0.5         | 0.5         | 1.0               | 1.9               | 2.1               |
| <b>Total commission expense</b>              | <b>38.8</b> | <b>40.6</b> | <b>100.8</b>      | <b>78.7</b>       | <b>176.7</b>      |



**NOTE 7 NET PROFIT FROM FINANCIAL  
TRANSACTIONS**

| SEK M   | Q2<br>2009  | Q2<br>2008 | Jan.-Jun.<br>2009 | Jan.-Jun.<br>2008 | Full-year<br>2008 |
|---|-------------|------------|-------------------|-------------------|-------------------|
| <b>Change in fair value</b>                       |             |            |                   |                   |                   |
| Interest-related instruments                      | -94.8       | -54.7      | -60.4             | -91.2             | -158.9            |
| Currency-related instruments                      | -13.4       | -14.0      | -2.6              | -25.1             | 69.6              |
| Change in fair value of hedged item               | 107.3       | 60.0       | 68.3              | 108.6             | 84.0              |
| Interest compensation                             | 21.8        | 0.2        | 40.4              | 1.0               | 8.0               |
| <b>Capital gain/loss</b>                          |             |            |                   |                   |                   |
| Interest-related instruments                      | -1.6        | 9.4        | -4.6              | 9.4               | 4.6               |
| Profit/loss from other financial assets           | -           | -          | -                 | -                 | 1.2               |
| <b>Total net profit of financial transactions</b> | <b>19.3</b> | <b>0.9</b> | <b>41.1</b>       | <b>2.7</b>        | <b>8.5</b>        |

**NOTE 8 LOAN LOSSES, NET**

| SEK M  | Q2<br>2009 | Q2<br>2008  | Jan.-Jun.<br>2009 | Jan.-Jun.<br>2008 | Full-year<br>2008 |
|--|------------|-------------|-------------------|-------------------|-------------------|
| <b>Specific provisions for individually<br/>assessed loan receivables</b>  |            |             |                   |                   |                   |
| Write-off of confirmed loan losses during the period   | -          | 0.1         | -                 | 0.1               | -0.9              |
| Reversed earlier impairment of loan losses recognised<br>in the interim accounts as confirmed losses                 | -          | -           | -                 | -                 | -                 |
| Impairment of loan losses during the period  | -0.3       | 0.1         | -0.3              | 0.1               | -0.5              |
| Payment received for prior confirmed loan losses   | 1.2        | -4.7        | 2.7               | -3.0              | 6.3               |
| Reversed impairment of loan losses no longer required  | -          | -0.2        | 0                 | -0.2              | 0.8               |
| <b>Net income/expense for the period for individually<br/>assessed loan receivables</b>                              | <b>0.9</b> | <b>-4.7</b> | <b>2.4</b>        | <b>-3.0</b>       | <b>5.7</b>        |
| <b>Collective reserve for individually assessed receivables</b>  | <b>-</b>   | <b>-</b>    | <b>-</b>          | <b>-</b>          | <b>-</b>          |
| <b>Collective assessment of homogenous groups of loan<br/>receivables with limited value and similar credit risk</b> |            |             |                   |                   |                   |
| Provision/reversal of impairment of loan losses  | 1.0        | 5.0         | 2.6               | 3.0               | -5.9              |
| <b>Net income/expense for the period for collectively<br/>assessed homogenous loan receivables</b>                   | <b>1.0</b> | <b>5.0</b>  | <b>2.6</b>        | <b>3.0</b>        | <b>-5.9</b>       |
| <b>Net income/expense of loan losses for the period</b>  | <b>1.9</b> | <b>0.3</b>  | <b>5.0</b>        | <b>0</b>          | <b>-0.2</b>       |

All information pertains to receivables from the public.

**NOTE 9 LENDING/LIABILITIES TO CREDIT INSTITUTIONS**

Lending to credit institutions includes investment of SEK 17,718.1 (1,845.6) M in the Parent Company.  
Liabilities to credit institutions include borrowing of SEK 20,943.9 (10,113.6) M from the Parent Company.

Balances in the Parent Company's bank accounts pertaining to the covered bond operations are recognised as "Lending to credit institutions" from June 30, 2009. Comparative figures have been restated.

# NOTE 10 LENDING TO THE PUBLIC

| SEK M   | Jun. 30, 2009   | Jun. 30, 2008   | Dec. 31, 2008   |
|---|-----------------|-----------------|-----------------|
| <b>Loan receivables, gross</b>                              |                 |                 |                 |
| Corporate sector  | 641.2           | 296.4           | 345.3           |
| Retail sector   | 60,185.2        | 50,256.2        | 53,289.6        |
| Other   | -               | 0.1             | 0.2             |
| <b>Total loan receivables, gross</b>                        | <b>60,826.4</b> | <b>50,552.7</b> | <b>53,635.1</b> |
| <b>Impairment of individually reserved loan receivables</b> |                 |                 |                 |
| Retail sector   | -0.5            | -1.8            | -0.2            |
| <b>Total individual provisions</b>                          | <b>-0.5</b>     | <b>-1.8</b>     | <b>-0.2</b>     |
| <b>Impairment of collectively reserved loan receivables</b> |                 |                 |                 |
| Corporate sector  | 0               | 0               | -               |
| Retail sector   | -39.3           | -42.4           | -42.5           |
| <b>Total collective provisions</b>                          | <b>-39.3</b>    | <b>-42.4</b>    | <b>-42.5</b>    |
| <b>Total provisions</b>                                     | <b>-39.8</b>    | <b>-44.2</b>    | <b>-42.7</b>    |
| <b>Loan receivables, net</b>                                |                 |                 |                 |
| Corporate sector  | 641.2           | 296.4           | 345.3           |
| Retail sector   | 60,145.4        | 50,212.0        | 53,246.9        |
| Other   | -               | 0.1             | 0.2             |
| <b>Total loan receivables, net</b>                          | <b>60,786.6</b> | <b>50,508.5</b> | <b>53,592.4</b> |
| <b>Doubtful loan receivables</b>                            |                 |                 |                 |
| Corporate sector  | -               | -               | -               |
| Retail sector   | 2.2             | 0.4             | 0.4             |
| <b>Total doubtful loan receivables</b>                      | <b>2.2</b>      | <b>0.4</b>      | <b>0.4</b>      |

## Definitions:

A loan receivable is considered doubtful if a payment is more than 60 days past due or if there is reason to expect that the counterparty cannot meet its undertaking. A loan receivable whose unsettled interest, fees and capital are covered by collateral is not considered a doubtful receivable.

# NOTE 11 DERIVATES

| SEK M   | Jun. 30, 2009   |                | Jun. 30, 2008   |              | Dec. 31, 2008   |                |
|---|-----------------|----------------|-----------------|--------------|-----------------|----------------|
|   | 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-rate derivatives                     | 31,972.5        | 840.3          | 26,080.0        | 610.2        | 30,647.5        | 1,000.5        |
| Foreign-exchange derivatives                  | 1,394.4         | 381.9          | -               | -            | 1,394.4         | 427.4          |
| <i>Other derivatives</i>                      |                 |                |                 |              |                 |                |
| Interest-rate derivatives                     | 1,425.0         | 18.4           | 1,175.0         | 38.4         | 875.0           | 17.7           |
| Foreign-exchange derivatives                  | 3,626.5         | 721.1          | 3,626.5         | 166.0        | 3,626.5         | 721.9          |
| <b>Total derivatives with positive values</b> | <b>38,418.4</b> | <b>1,961.7</b> | <b>30,881.5</b> | <b>814.6</b> | <b>36,543.4</b> | <b>2,167.5</b> |
| <b>Derivatives with negative values</b>       |                 |                |                 |              |                 |                |
| <i>Derivatives in hedge accounting</i>        |                 |                |                 |              |                 |                |
| Interest-rate derivatives                     | 30,565.0        | 1,037.8        | 26,857.5        | 702.8        | 27,165.0        | 1,154.0        |
| Foreign-exchange derivatives                  | -               | -              | 640.8           | 14.5         | -               | -              |
| <i>Other derivatives</i>                      |                 |                |                 |              |                 |                |
| Interest-rate derivatives                     | 675.0           | 18.3           | 1,175.0         | 38.4         | 875.0           | 17.7           |
| Foreign-exchange derivatives                  | 91.7            | 17.0           | 91.7            | 3.3          | 91.7            | 17.1           |
| <b>Total derivatives with negative values</b> | <b>31,331.7</b> | <b>1,073.1</b> | <b>28,765.0</b> | <b>759.0</b> | <b>28,131.7</b> | <b>1,188.8</b> |

# NOTE 12 CAPITAL-ADEQUACY ANALYSIS

| SEK M   | Jun. 30, 2009   | Jun. 30, 2008   | Dec. 31, 2008   |
|---|-----------------|-----------------|-----------------|
| Tier 1 capital, gross   | 2,414.2         | 2,257.3         | 2,351.0         |
| Less IRB deficit  | -34.8           | -22.4           | -25.9           |
| <b>Tier 1 capital, net</b>  | <b>2,379.4</b>  | <b>2,234.9</b>  | <b>2,325.2</b>  |
| Tier 2 capital  | 662.6           | 512.6           | 662.6           |
| Deductions for Tier 2 capital   | -34.8           | -22.4           | -25.9           |
| <b>Total capital base</b>   | <b>3,007.2</b>  | <b>2,725.1</b>  | <b>2,961.9</b>  |
| <b>Risk-weighted assets according to Basel II</b>                                   | <b>13,036.6</b> | <b>9,211.5</b>  | <b>10,737.3</b> |
| <b>Risk-weighted assets according to transition rules</b>                           | <b>28,577.4</b> | <b>25,745.2</b> | <b>28,292.3</b> |
| <b>Capital requirement for credit risk</b>  |                 |                 |                 |
| Capital requirement for credit risk according to Standardised Approach              | 121.2           | 65.4            | 93.6            |
| Capital requirement for credit risk according to IRB Approach                       | 905.8           | 661.2           | 755.1           |
| Capital requirement for operational risk  | 15.9            | 10.3            | 10.3            |
| <b>Capital requirement</b>  | <b>1 042.9</b>  | <b>736.9</b>    | <b>859.0</b>    |
| Adjustment according to transition rules  | 1,243.3         | 1,322.7         | 1,404.4         |
| <b>Total capital requirement</b>  | <b>2,286.2</b>  | <b>2,059.6</b>  | <b>2,263.4</b>  |
| Tier 1 ratio according to Basel II, %   | 18.25           | 24.26           | 21.65           |
| Capital adequacy ratio according to Basel II, %                                     | 23.07           | 29.59           | 27.58           |
| Capital ratio according to Basel II *   | 2.88            | 3.70            | 3.45            |
| Tier 1 ratio according to transition rules, %                                       | 8.33            | 8.68            | 8.22            |
| Capital adequacy ratio according to transition rules, %                             | 10.52           | 10.59           | 10.47           |
| Capital ratio according to transition rules *                                       | 1.32            | 1.32            | 1.31            |
| <b>Special disclosures</b>  |                 |                 |                 |
| <b>IRB provisions surplus (+)/deficit (-)</b>                                       | <b>-69.6</b>    | <b>-44.8</b>    | <b>-50.5</b>    |
| IRB total provisions (+)  | 38.8            | 40.0            | 42.4            |
| IRB expected loss amount (-)  | -108.4          | -84.8           | -92.9           |
| <b>Capital requirement</b>  |                 |                 |                 |
| <b>Credit risk according to Standardised Approach</b>                               |                 |                 |                 |
| Exposures to institutions   | 40.8            | 13.0            | 33.4            |
| Exposures to corporates   | 10.2            | 1.5             | 2.8             |
| Retail exposures  | -               | 0.6             | -               |
| Exposures secured on residential property   | 67.6            | 46.3            | 53.8            |
| Past due items  | 0.5             | 0.4             | 0.5             |
| Other items   | 2.1             | 3.6             | 3.1             |
| <b>Total capital requirement for credit risk according to Standardised Approach</b> | <b>121.2</b>    | <b>65.4</b>     | <b>93.6</b>     |
| <b>Credit risk according to IRB Approach</b>  |                 |                 |                 |
| <b>Retail exposures</b>   |                 |                 |                 |
| Exposures secured by real estate collateral   | 901.8           | 657.8           | 751.8           |
| Other retail exposures  | 4.0             | 3.4             | 3.3             |
| <b>Total capital requirement for credit risk according to IRB Approach</b>          | <b>905.8</b>    | <b>661.2</b>    | <b>755.1</b>    |
| <b>Operational risk</b>   |                 |                 |                 |
| Standardised Approach   | 15.9            | 10.3            | 10.3            |
| <b>Total capital requirement for operational risk</b>                               | <b>15.9</b>     | <b>10.3</b>     | <b>10.3</b>     |

\* Capital ratio = total capital base / total capital requirement

## NOTE 12 CAPITAL-ADEQUACY ANALYSIS, CONTINUED

| SEK M   | Jun. 30, 2009  | Jun. 30, 2008  | Dec. 31, 2008  |
|---|----------------|----------------|----------------|
| <b>Capital-adequacy analysis according to Basel I</b> |                |                |                |
| Tier 1 capital  | 2,414.2        | 2,257.4        | 2,351.1        |
| Tier 2 capital  | 662.6          | 512.6          | 662.6          |
| <b>Total capital base</b>                             | <b>3,076.8</b> | <b>2,770.0</b> | <b>3,013.7</b> |
| Risk-weighted assets                                  | 36,808.8       | 29,228.3       | 32,136.6       |
| Capital requirement for credit risk                   | 2,944.7        | 2,338.3        | 2,570.9        |
| Tier 1 ratio, %                                       | 6.56           | 7.72           | 7.32           |
| Capital adequacy ratio, %                             | 8.36           | 9.48           | 9.38           |
| Capital ratio   | 1.04           | 1.18           | 1.17           |

In addition to the Parent Company Länsförsäkringar Bank AB publ (556401-9878), the financial corporate group includes the wholly owned and fully consolidated subsidiaries Länsförsäkringar Hypotek AB publ (556244-1781), Wasa Kredit AB (556311-9204) and Länsförsäkringar Fondförvaltning AB publ (556364-2783).

## NOTE 13 DISCLOSURES ON RELATED PARTIES, PRICING AND AGREEMENTS

Related legal entities include the Länsförsäkringar AB Group's and the Länsförsäkringar Liv Group's companies, all associated companies, Länsförsäkringar Mäklarservice, Länshem Fastighetsförmedling AB and the 24 regional insurance companies with subsidiaries.

During Jan. 1 - Jun. 30 2009, normal business transactions have been carried out between the parent company and related legal parties. Since December 31, 2008, no significant changes have occurred in the company's agreements with these related legal entities. The company's compensation to the regional insurance companies in accordance with prevailing outsourcing agreements is presented in Note 6 Commission expense.

Related key persons are Board members, senior executives and close family members to these individuals. Since December 31, 2008, no significant changes have occurred in the company's agreements with these persons.

This interim report has been reviewed by the company's auditors.

The Board of Directors and President declare that this six-month report provides a true and fair view of the company's operations, financial position and earnings and describes the material risks and uncertainty factors faced by the company.

Stockholm, August 20, 2009

Mats Ericsson  
Chairman

Bengt Clemedtsson  
Board member

Bengt Jerning  
Board member

Christer Malm  
Board member

Anders Borgcrantz  
President

## Report on Review of Interim Financial Information

### Introduction

I have reviewed the interim report of Länsförsäkringar Hypotek AB (publ), reg. no 556244-1781, as of June 30, 2009 and for the six-month period then ended. The Board of directors and the Managing Director are responsible for the preparation and fair presentation of this interim financial information in accordance with Annual Accounts Act of Credit Institutions and Securities Companies. My responsibility is to express a conclusion on this half-year interim report based on my review.

### Scope of Review

I conducted my review in accordance with the Standard on Review Engagements (SÖG) 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the Standards on Auditing in Sweden RS and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

### Conclusion

Based on my review, nothing has come to my attention that causes me to believe that the interim report is not prepared, in all material respects, in accordance with the Annual Accounts Act of Credit Institutions and Securities Companies.

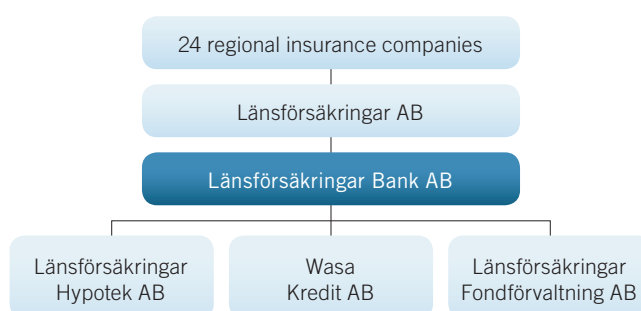
Stockholm, August 20, 2009

Johan Bäckström  
*Auktoriserad revisor*

## Financial calendar

Interim report, January – September.....**October 23, 2009**

Year-end report 2009 .....**February 16, 2010**



The Länsförsäkringar Alliance comprises 24 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, farmers and corporate customers. The number of customers amounts to slightly more than 3.2 million and the Länsförsäkringar Alliance has a joint total of 5,500 employees.

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