

# Länsförsäkringar Hypotek Year-end Report 2011

## The year in brief

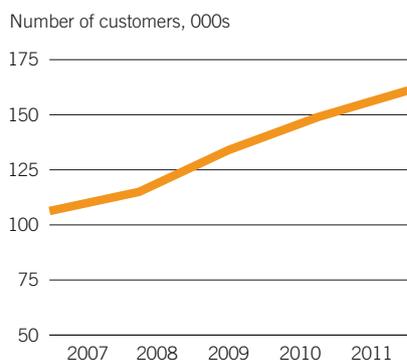
- Loans rose 11% to SEK 89 billion (80).
- Operating profit rose 25% to SEK 189 M (152) and return on equity was 3.6% (3.5).
- Net interest income rose 25% to SEK 506 M (406).
- Recoveries exceeded loan losses and amounted to SEK 4 M (3), net.
- The Tier 1 ratio according to Basel II was 20.6% (19.7) and the capital adequacy ratio was 22.8% (22.3).
- Länsförsäkringar had Sweden's most satisfied retail mortgage customers according to the 2011 Swedish Quality Index.
- The number of customers rose 8% to 161,000 (149,000).

Figures in parentheses pertain to 2010.

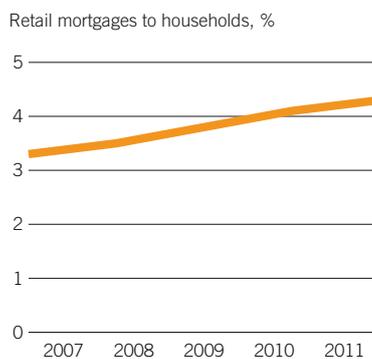
**Anders Borgcrantz,**  
President of Länsförsäkringar Hypotek:

*Länsförsäkringar is strengthening its position as Sweden's fifth largest mortgage institution and has Sweden's most satisfied retail mortgage customers for the seventh consecutive year. It shows that the strategy with local presence and proximity to customers, who ultimately are the owners, is successful. We provide retail mortgage lending in the most simple and personal way as possible to make the process clear and secure for customers. Loans are increasing according to plan and have maintained high credit quality. Liquidity is highly favourable and we are well-prepared in an economic climate that remains uncertain.*

### CUSTOMER TREND

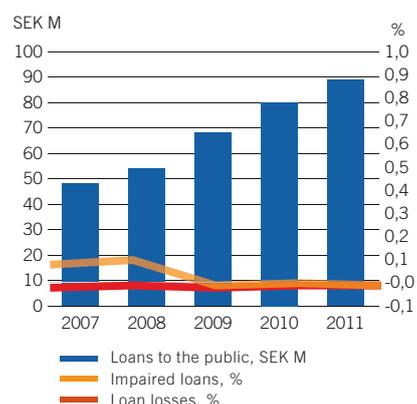


### MARKET SHARE



Source: Swedish Bankers' Association

### LOANS TO THE PUBLIC



## Key figures

	Q 4 2011	Q 4 2010	Q 3 2011	Jan-Dec 2011	Jan-Dec 2010
Return on equity, %	3.7	3.0	3.4	3.6	3.5
Return on total capital, %	0.18	0.13	0.15	0.17	0.15
Investment margin, %	0.50	0.45	0.41	0.45	0.40
Cost/income ratio before loan losses	0.32	0.35	0.30	0.30	0.31
Cost/income ratio after loan losses	0.34	0.35	0.32	0.28	0.30
Tier 1 ratio according to Basel II, %	20.6	19.7	21.2	20.6	19.7
Tier 1 ratio according to transition rules, %	9.4	9.2	9.4	9.4	9.2
Capital adequacy ratio according to Basel II, %	22.8	22.3	23.5	22.8	22.3
Capital adequacy ratio according to transition rules, %	10.5	10.4	10.5	10.5	10.4
Percentage of impaired loans, %	0.00	0.01	0.01	0.00	0.01
Reserve ratio in relation to loans, %	0.04	0.05	0.04	0.04	0.05
Loan losses, %	0.01	0.00	0.01	0.00	0.00

## Income statement, quarterly

SEK M	Q 4 2011	Q 3 2011	Q 2 2011	Q 1 2011	Q 4 2010
Net interest income	147.0	121.2	113.7	124.5	118.1
Net commission expense	-66.7	-59.0	-59.7	-63.3	-63.5
Net gains/losses from financial items	-2.5	3.5	5.5	-2.0	-0.2
Other operating income	0	0	0.3	-	0
<b>Total operating income</b>	<b>77.8</b>	<b>65.7</b>	<b>59.8</b>	<b>59.2</b>	<b>54.4</b>
Staff costs	-3.1	-3.8	-3.9	-2.8	-2.0
Other administration expenses	-21.6	-15.8	-13.9	-13.0	-16.8
<b>Total operating expenses</b>	<b>-24.7</b>	<b>-19.6</b>	<b>-17.8</b>	<b>-15.8</b>	<b>-18.8</b>
<b>Profit before loan losses</b>	<b>53.1</b>	<b>46.1</b>	<b>42.0</b>	<b>43.4</b>	<b>35.6</b>
Loan losses, net	-1.3	-1.1	5.0	1.6	-0.5
<b>Operating profit</b>	<b>51.8</b>	<b>45.0</b>	<b>47.0</b>	<b>45.0</b>	<b>35.1</b>

## Market commentary

Global concern continued in the fourth quarter and the year ended on a negative note, with growth forecasts adjusted downward and continued concern surrounding the debt crises in several euro zone countries. Sweden was also affected by increasing concerns and the Riksbank lowered its key interest rate in December due to weaker economic prospects in the business environment and the slowdown in the Swedish economy. The Swedish employment rate is relatively good.

The Swedish bank and mortgage bond market was well-functioning throughout the quarter. Market activities in the European covered-bond market were significantly lower as a result of decreased risk willingness, despite historically high mortgage spreads.

Activity on the Swedish housing market has slowed, which had a marginal effect on the trend in housing prices. Prices of single-family homes fell 2% in the fourth quarter, whereas prices of tenant-owned apartments increased 2%, according to Real Estate Agency Statistics. For the full-year, prices of single-family homes declined 4% and tenant-owned apartments 1%.

Household and retail mortgages increased 1% during the fourth quarter, according to data from Statistics Sweden, which is a more normal rate.

## Sweden's most satisfied retail mortgage customers

Länsförsäkringar has Sweden's most satisfied retail mortgage customers for the seventh consecutive year according to the 2011 Swedish Quality Index. The survey shows that Länsförsäkringar is the mortgage lender that best met customer expectations and is perceived to be the most reasonably priced. Image and loyalty also received the highest rating, as did the quality of products and services.

## 2011 compared with 2010

Growth and customer trend  
Loans to the public rose 11%, or SEK 9 billion, to SEK 89 billion (80), and Länsförsäkringar strengthened its position as Sweden's fifth largest mortgage institution

with a market share of 4.3%. The number of customers increased 8%, or 12,000, to 161,000 (149,000), and eight out of ten mortgage customers have Länsförsäkringar as their primary bank.

#### Earnings and profitability

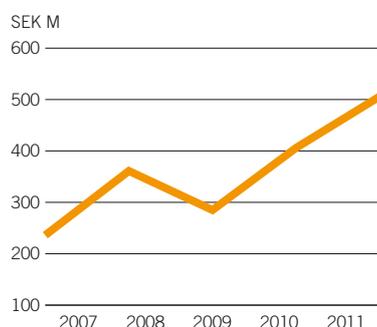
Profit before loan losses increased 25% to SEK 185 M (148) and operating profit rose 25% to SEK 189 M (152) due to higher net interest income. Return on equity was 3.6% (3.5).

To better reflect the actual business agreement with the regional insurance companies, the accounting policy for recognising loan losses has been changed, which affects the items Compensation to regional insurance companies and Loan losses, see Note 1. Translation has also been made of comparative figures.

#### Income

Net interest income rose 25%, or SEK 100 M, to SEK 506 M (406). The increase was due to higher lending volumes and increased return on equity. The investment margin strengthened to 0.45% (0.40). Net interest income was charged with a provision totalling SEK 34 M (15) for stability fund fees. Operating income rose a total of 22%, or SEK 47 M, to SEK 263 M (216). Net commission fell to an expense of SEK 249 M (198), attributable to higher compensation to the regional insurance companies. The largest share of commission expense comprises compensation to the regional insurance companies and is calculated based on net interest income.

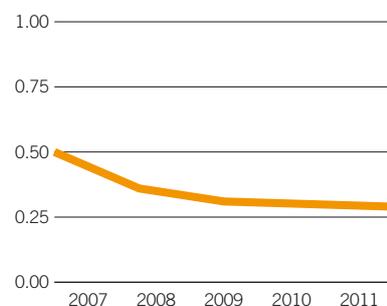
#### NET INTEREST INCOME



#### Expenses

Operating expenses increased 16% to SEK 78 M (67) as a result of higher business volumes. The cost/income ratio strengthened to 0.30 (0.31) before loan losses and to 0.28 (0.30) after loan losses.

#### COST/INCOME RATIO



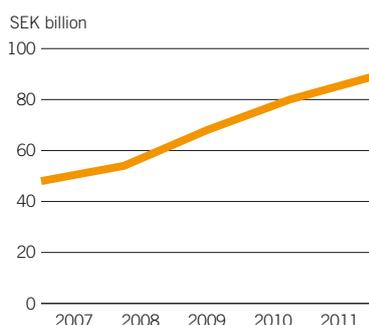
#### Loan losses

Recoveries exceeded loan losses, amounting to SEK 4 M (3), net, corresponding to loan losses of 0% (0). Reserves amounted to SEK 34 M (42), corresponding to a reserve ratio in relation to loans of 0.04% (0.05). Impaired loans fell to SEK 1 M (9), corresponding to a percentage of impaired loans of 0% (0.01). For more information regarding loan losses, reserves and impaired loans, see notes 8 and 10.

#### Loans

Loans to the public rose 11%, or SEK 9 billion, to SEK 89 billion (80). The loan portfolio continues to be characterised by high credit quality. The market share for retail mortgages to households rose to 4.3% (4.1) on December 31, 2011 and the share of market growth during the year exceeded 7%, according to statistics from the Swedish Bankers' Association.

#### LOANS



#### Cover pool

Essentially all lending that occurs in Länsförsäkringar Hypotek qualifies for inclusion in the covered-bond operations, known as the cover pool, in accordance with the Swedish Covered Bonds (Issuance) Act (2003:1223). Lending only takes place in Sweden. Market values were updated at the end of the year in line with established internal practice.

The weighted average loan-to-value ratio, LTV, was 61% (60) and the average commitment per borrower was SEK 859,000 (837,000) on December 31, 2011. The nominal, current OC <sup>1)</sup> amounted to 22.5% (21.2).

The geographic distribution in Sweden is favourable and collateral comprises only private homes, including single-family homes, tenant-owned apartments and, to a marginal extent, leisure homes. Credit quality is high, which is confirmed by Moody's key figure of "collateral score," which indicates that Länsförsäkringar Hypotek has the highest credit quality of all Swedish covered bond issuers and is among the top issuers in Europe. No impaired loans are included in the cover pool.

Cover pool	Dec. 31, 2011	Dec. 31, 2010
Cover pool, SEK billion	107	100
of which, Swedish mortgages, SEK billion	84	77
of which, substitute collateral, SEK billion	21	15
of which, separate deposit account, SEK billion	2	8
OC <sup>1)</sup> , nominal, current level, %	22.5	21.2
Weighted average maximum LTV, %	61	60
Collateral	Private homes	Private homes
Seasoning, months	58	50
Number of loans	215,668	200,576
Number of borrowers	98,296	91,632
Number of properties	98,766	92,147
Average commitment, SEK 000s	859	837
Average loan, SEK 000s	391	382
Interest-rate type, variable, %	58	67
Interest-rate type, fixed, %	42	33
Impaired loans	None	None

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

During a stress test of the cover pool based on a 20% price drop in the market value of the mortgages' collateral, the weighted average Max-LTV increased to 67% (68) compared with a current weighted average Max-LTV of 61% (60) on December 31, 2011.

## Borrowing

Debt securities in issue rose 7%, or SEK 5 billion, to SEK 85 billion (80). Borrowing was highly successful throughout the year. Covered bonds in the nominal amount of SEK 26.8 billion (44.0) were issued. Last year, the Bank Group's liquidity reserve was restructured by the build up of a liquidity reserve in Länsförsäkringar Hypotek, which is the reason for higher issue volumes in 2010.

Repurchased covered bonds totalled a nominal SEK 12.3 billion (8.0) and matured covered bonds amounted to a nominal SEK 7.9 billion (10.5) during the year. For more information about the borrowing programmes, see Appendix.

## Liquidity

Liquidity remained strong. The liquidity reserve, which comprises substitute collateral and the separate deposit account, amounted to a nominal SEK 22.8 billion (22.7), of which 60% (53) was deposited in Swedish covered bonds with an AAA/Aaa credit rating, 33% (11) in investments with the Swedish government as the counterparty and 7% (36) was deposited in the separate deposit account. The level of substitute collateral matches the refinancing requirement for all debt securities in issue falling due until the second quarter of 2013.

## Rating

Länsförsäkringar Hypotek is one of four institutions in the Swedish covered bond market with the highest rating from both rating agencies. The Parent Company Länsförsäkringar Bank's credit rating is A/stable from Standard & Poor's and A2/negative from Moody's.

Company	Agency	Long-term rating	Short-term rating
Länsförsäkringar Hypotek <sup>1)</sup>	Standard & Poor's	AAA/stable	A-1+
Länsförsäkringar Hypotek <sup>1)</sup>	Moody's	Aaa/stable	-
Länsförsäkringar Bank	Standard & Poor's	A/stable	A-1(K-1)
Länsförsäkringar Bank	Moody's	A2/negative	P-1

<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 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.

Tier 1 capital, net, amounted to SEK 4,140 M (3,547) and the Tier 1 ratio according to Basel II totalled 20.6% (19.7) on December 31, 2011. The capital base amounted to SEK 4,584 M (4,003) and the capital adequacy ratio according to Basel II was 22.8% (22.3). For more information on the calculation of capital adequacy, see note 13.

## Interest-rate risk

On December 31, 2011, 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 20 M (54).

## Risks and uncertainties

Länsförsäkringar Hypotek is exposed to a number of risks, primarily credit risks and financial risks. The operations are characterised by a low risk profile. Loan losses remain low and the refinancing of business activities was highly successful during the year, and the borrowing durations have been extended.

A detailed description of risks is available in the 2010 Annual Report. No significant changes in the risk allocation have taken place compared with the description provided in the Annual Report.

## Fourth quarter of 2011 compared with fourth quarter of 2010

Operating profit rose to SEK 52 M (35), attributable to a higher net interest income. Net interest income rose 24%, or SEK 29 M, to SEK 147 M (118) due to larger volumes, higher return on equity and improved investment margins. The return on equity strengthened to 3.7% (3.0). The in-

vestment margin strengthened to 0.50% (0.45). Operating income rose a total of 43%, or SEK 23 M, to SEK 78 M (55). Net commission fell to an expense of SEK 67 M (64) attributable to higher compensation to the regional insurance companies due to higher net interest income. Operating expenses increased 32% to SEK 25 M (19) as a result of higher business volumes. Net loan losses amounted to SEK 1 M (1).

## Fourth quarter of 2011 compared with third quarter of 2011

Operating profit rose to SEK 52 M (45), attributable to a higher net interest income. Net interest income increased 21%, or SEK 26 M, to SEK 147 M (121) due to improved margins and increased volumes. The margin improvement was attributable to lower average liquidity cost. The return on equity strengthened to 3.7% (3.4). The investment margin improved to 0.50% (0.41). Operating income rose a total of 17%, or SEK 12 M, to SEK 78 M (66). Net commission fell to an expense of SEK 67 M (59). Expenses increased to SEK 25 M (20) as a result of higher business volumes. Net loan losses amounted to SEK 1 M (1).

## Events after the end of the year

At the beginning of February, Martin Rydin took office as Executive Vice President and CFO, replacing Göran Laurén, former Executive Vice President, who became the Deputy Head of Asset Management at Länsförsäkringar AB.

## Annual Report

The Annual Report will be published on the home page [www.lansforsakringar.se/financialhypotek](http://www.lansforsakringar.se/financialhypotek) at the end of March.

## Income statement

SEK M	Note	Q 4 2011	Q 4 2010	Change	Q 3 2011	Change	Jan-Dec 2011	Jan-Dec 2010	Change
Interest income	3	1,859.1	1,230.8		1,874.3		6,891.7	4,018.9	
Interest expense	4	-1,712.1	-1,112.7		-1,753.1		-6,385.3	-3,613.1	
<b>Net interest income</b>		<b>147.0</b>	<b>118.1</b>	<b>24 %</b>	<b>121.2</b>	<b>21 %</b>	<b>506.4</b>	<b>405.8</b>	<b>25 %</b>
Commission income	5	0.6	0.5		0.6		2.2	1.9	
Commission expense	6	-67.3	-64.0		-59.6		-250.8	-200.1	
Net gains from financial items	7	-2.5	-0.2		3.5		4.5	8.0	
Other operating income		0	0		0		0.4	0	
<b>Total operating income</b>		<b>77.8</b>	<b>54.4</b>	<b>43 %</b>	<b>65.7</b>	<b>19 %</b>	<b>262.7</b>	<b>215.6</b>	<b>22 %</b>
Staff costs		-3.1	-2.0		-3.8		-13.6	-10.4	
Other administration expenses		-21.6	-16.8		-15.8		-64.4	-57.0	
Depreciation and impairment of tangible assets		0	-		-		0	-	
<b>Total operating expenses</b>		<b>-24.7</b>	<b>-18.8</b>	<b>32 %</b>	<b>-19.6</b>	<b>28 %</b>	<b>-78.0</b>	<b>-67.4</b>	<b>16 %</b>
<b>Profit before loan losses</b>		<b>53.1</b>	<b>35.6</b>	<b>49 %</b>	<b>46.1</b>	<b>15 %</b>	<b>184.7</b>	<b>148.2</b>	<b>25 %</b>
Loan losses, net	8	-1.3	-0.5		-1.1		4.0	3.3	
<b>Operating profit</b>		<b>51.8</b>	<b>35.1</b>	<b>48 %</b>	<b>45.0</b>	<b>15 %</b>	<b>188.7</b>	<b>151.5</b>	<b>25 %</b>
Tax		-3.2	-16.1		-11.8		-39.2	-46.7	
<b>Profit for the period</b>		<b>48.6</b>	<b>19.0</b>	<b>156 %</b>	<b>33.2</b>	<b>47 %</b>	<b>149.5</b>	<b>104.8</b>	<b>43 %</b>

## Statement of comprehensive income

SEK M	Q 4 2011	Q 4 2010	Change	Q 3 2011	Change	Jan-Dec 2011	Jan-Dec 2010	Change
<b>Profit for the period</b>	<b>48.6</b>	<b>19.0</b>	<b>156 %</b>	<b>33.2</b>	<b>47 %</b>	<b>149.5</b>	<b>104.8</b>	<b>43 %</b>
<b>Other comprehensive income</b>								
<i>Available-for-sale-financial assets</i>								
Fair value change	60.8	-22.4		2.6		161.0	25.9	
Reclassification realised securities	-1.5	-		-		-3.6	-	
Tax	-15.6	5.9		-0.7		-41.4	-6.8	
<b>Total other comprehensive income for the period, net after tax</b>	<b>43.7</b>	<b>-16.5</b>	<b>365 %</b>	<b>1.9</b>	<b>-</b>	<b>116.0</b>	<b>19.1</b>	<b>507 %</b>
<b>Total comprehensive income for the period</b>	<b>92.3</b>	<b>2.5</b>	<b>-</b>	<b>35.1</b>	<b>163 %</b>	<b>265.5</b>	<b>123.9</b>	<b>114 %</b>

## Balance sheet

SEK M	Note	Dec 31, 2011	Dec 31, 2010
<b>Assets</b>			
Treasury bills and other eligible bills		8,341.5	2,820.7
Loans to credit institutions	9	1,912.1	8,155.8
Loans to the public	10	88,625.0	79,666.7
Bonds and other interest-bearing securities		14,504.5	12,483.3
Derivatives	11	1,470.3	995.9
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		640.5	126.4
Tangible assets		0.3	–
Deferred tax assets		0.3	–
Other assets		1.2	1.0
Prepaid expenses and accrued income		1,916.1	1,419.7
<b>Total assets</b>		<b>117,411.8</b>	<b>105,669.5</b>
<b>Liabilities and equity</b>			
Due to credit institutions	9	19,985.7	17,844.4
Debt securities in issue		85,396.2	79,695.4
Derivatives	11	2,237.8	1,864.8
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		1,755.8	–378.9
Deferred tax liabilities		–	10.5
Other liabilities		355.4	146.3
Accrued expenses and deferred income		2,838.3	2,363.5
Provisions		–	0.2
Subordinated liabilities		501.0	501.0
<b>Total liabilities</b>		<b>113,070.2</b>	<b>102,047.2</b>
<b>Equity</b>			
Share capital, 70,335 shares		70.3	70.3
Statutory reserve		14.1	14.1
Fair value reserve		145.6	29.6
Retained earnings		3,962.1	3,403.5
Profit for the year		149.5	104.8
<b>Total equity</b>		<b>4,341.6</b>	<b>3,622.3</b>
<b>Total liabilities and equity</b>		<b>117,411.8</b>	<b>105,669.5</b>
<b>Memorandum items</b>			
	12		
For own liabilities, pledged assets		86,366.1	79,628.9
Other pledged assets		None	None
Contingent liabilities		2,192.6	1,483.3
Other commitments		3,893.7	3,226.3
<b>Other notes</b>			
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## Cash-flow statement in summary, indirect method

SEK M	Jan-dec 2011	Jan-dec 2010
<b>Cash and cash equivalents, January 1</b>	<b>22.9</b>	<b>160.6</b>
Cash flow from operating activities	-549.0	-653.0
Cash flow from financing activities	531.9	515.3
<b>Cash flow for the year</b>	<b>-17.1</b>	<b>-137.7</b>
<b>Cash and cash equivalents, December 31</b>	<b>5.8</b>	<b>22.9</b>

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

Changes to the cash flow from operating activities are mainly attributable to loans to the public SEK -8,952.1 M (-12,131.5), liabilities to credit institutions SEK 6,226.7 M (1,095.5) and debt securities in issue SEK 6,154.1 M (26,131.2).

Changes to the cash flow from investing activities are mainly attributable to shareholders' contribution received SEK 710.0 M (745.0) and group contribution paid SEK -177.8 M (-155.6).

## Statement of changes in shareholders' equity

SEK M	Share capital	Statutory reserve	Fair value reserve	Retained earnings	Profit for the period	Total
<b>Opening balance, January 1, 2010</b>	<b>70.3</b>	<b>14.1</b>	<b>10.5</b>	<b>2,689.6</b>	<b>99.9</b>	<b>2,884.4</b>
Profit for the year					104.8	104.8
Other comprehensive income for the year			19.1			19.1
<i>Comprehensive income for the year</i>			<i>19.1</i>		<i>104.8</i>	<i>123.9</i>
Resolution by Annual General Meeting				99.9	-99.9	-
Group contribution paid				-177.8		-177.8
Tax on Group contribution paid				46.8		46.8
Conditional shareholders' contribution received				745.0		745.0
<b>Closing balance, December 31, 2010</b>	<b>70.3</b>	<b>14.1</b>	<b>29.6</b>	<b>3,403.5</b>	<b>104.8</b>	<b>3,622.3</b>
<b>Opening balance, January 1, 2011</b>	<b>70.3</b>	<b>14.1</b>	<b>29.6</b>	<b>3,403.5</b>	<b>104.8</b>	<b>3,622.3</b>
Profit for the year					149.5	149.5
Other comprehensive income for the year			116.0			116.0
<i>Comprehensive income for the year</i>			<i>116.0</i>		<i>149.5</i>	<i>265.5</i>
Resolution by Annual General Meeting				104.8	-104.8	-
Group contribution paid				-347.6		-347.6
Tax on Group contribution paid				91.4		91.4
Conditional shareholders' contribution received				710.0		710.0
<b>Closing balance, December 31, 2011</b>	<b>70.3</b>	<b>14.1</b>	<b>145.6</b>	<b>3,962.1</b>	<b>149.5</b>	<b>4,341.6</b>

## Notes

### NOTE 1 ACCOUNTING POLICIES

Länsförsäkringar Hypotek prepares its report 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 guidelines of the Swedish Financial Supervisory Authority (FFFS 2008:25). The company also applies the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities and statements issued by the Swedish Financial Reporting Board pertaining to listed companies. The regulations in RFR 2 stipulate that the company, in the annual accounts for the legal entity, shall apply all IFRS and statements adopted by the EU 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 link between accounting and taxation. The recommendation stipulates the permissible exceptions from and supplements to IFRS. This year-end report was prepared in accordance with IAS 34 Interim Financial Reporting.

During the year a new principle for the accounting of loan losses has been applied. The new principle implies that Länsförsäkringar Hypotek accounts

for only its part of the loan losses. Earlier the regional insurance companies' share of the loan losses decreased the remuneration to the regional insurance companies in the commission costs and thereby didn't impact the loan losses of Länsförsäkringar Hypotek. The new principle clarifies the lines of responsibility between the company and the regional insurance companies.

The Swedish Financial Reporting Board has withdrawn UFR 2 Group Contributions and Shareholder's Contributions and made changes to the recommendation RFR 2 concerning accounting for group contribution. This change has no impact on the company. The group contributions that has been paid to or received from group companies with the purpose of minimising the total tax effect of the Group continuously will be accounted for in Shareholders' Equity excluding the tax effect since group contributions are accounted for according to the policies of dividends and shareholder's contributions.

The accounting policies applied in the year-end report comply with the accounting policies and basis of calculation that will be applied in the preparation of the 2011 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 year's income statement and balance sheet.

### NOTE 3 INTEREST INCOME

SEK M	Q 4 2011	Q 4 2010	Change	Q 3 2011	Change	Jan-Dec 2011	Jan-Dec 2010	Change
Loans to credit institutions	7.1	33.9		12.4		86.5	108.2	
Loans to the public	877.2	559.4		831.7		3,149.7	1,910.4	
Interest-bearing securities	162.4	108.6		171.9		568.5	389.5	
<i>Derivatives</i>								
Hedge accounting	812.5	528.9		858.3		2,955.5	1,610.7	
Non-hedge accounting		-		-		131.5	0.1	
<b>Total interest income</b>	<b>1,859.2</b>	<b>1,230.8</b>	<b>51 %</b>	<b>1,874.3</b>	<b>-1 %</b>	<b>6,891.7</b>	<b>4,018.9</b>	<b>71 %</b>
of which interest income on impaired loans	-1.4	0.2		-0.9		-2.7	0.7	
of which interest income from financial items not measured at fair value	884.4	593.3		844.1		3,236.1	2,018.6	
Average interest rate on loans to the public during the period, %	4.0	2.9		3.9		3.7	2.6	

### NOTE 4 INTEREST EXPENSE

SEK M	Q 4 2011	Q 4 2010	Change	Q 3 2011	Change	Jan-Dec 2011	Jan-Dec 2010	Change
Due to credit institutions	-127.4	-53.7		-115.2		-400.5	-133.7	
Interest-bearing securities	-695.6	-593.1		-720.7		-2,729.9	-2,137.2	
Subordinated liabilities	-6.2	-4.5		-6.1		-23.7	-16.2	
<i>Derivatives</i>								
Hedge accounting	-875.5	-461.8		-900.7		-3,072.1	-1,310.4	
Non-hedge accounting	-	-		-		-125.1	-0.2	
Other interest expense	-7.5	0.4		-10.4		-34.0	-15.4	
<b>Total interest expense</b>	<b>-1,712.2</b>	<b>-1,112.7</b>	<b>54 %</b>	<b>-1,753.1</b>	<b>-2 %</b>	<b>-6,385.3</b>	<b>-3,613.1</b>	<b>77 %</b>
of which interest expense from financial items not measured at fair value	-836.7	-650.9		-852.3		-3,188.1	-2,302.6	

### NOTE 5 COMMISSION INCOME

SEK M	Q 4 2011	Q 4 2010	Change	Q 3 2011	Change	Jan-Dec 2011	Jan-Dec 2010	Change
Lending	0.6	0.5		0.6		2.2	1.9	
<b>Total commission income</b>	<b>0.6</b>	<b>0.5</b>	<b>24 %</b>	<b>0.6</b>	<b>-2 %</b>	<b>2.2</b>	<b>1.9</b>	<b>15 %</b>
of which commission income from financial items not measured at fair value	0.6	0.5		0.6		2.2	1.9	

**NOTE 6 COMMISSION EXPENSE**

SEK M	Q 4 2011	Q 4 2010	Change	Q 3 2011	Change	Jan-Dec 2011	Jan-Dec 2010	Change
Remuneration to regional insurance companies	-66.8	-63.7		-59.2		-249.2	-198.2	
Other commission	-0.5	-0.3		-0.4		-1.6	-1.9	
<b>Total commission expense</b>	<b>-67.3</b>	<b>-64.0</b>	<b>5 %</b>	<b>-59.6</b>	<b>13 %</b>	<b>-250.8</b>	<b>-200.1</b>	<b>25 %</b>
of which commission expense from financial items not measured at fair value	-66.8	-63.7		-59.2		-249.1	-198.2	

**NOTE 7 NET GAINS FROM FINANCIAL ITEMS**

SEK M	Q 4 2011	Q 4 2010	Change	Q 3 2011	Change	Jan-Dec 2011	Jan-Dec 2010	Change
<b>Change in fair value</b>								
Interest-related instruments	147.1	-353.5		290.6		469.2	-340.6	
Currency-related instruments	-625.7	-200.0		481.2		15.6	-447.1	
Change in fair value of hedged items	466.1	545.7		-775.1		-506.5	752.7	
<b>Capital gain / loss</b>								
Interest-related instruments	0.3	-		-1.2		1.4	0.1	
Interest compensation	9.7	7.6		8.0		24.8	42.9	
<b>Total net gains from financial items</b>	<b>-2.5</b>	<b>-0.2</b>		<b>3.5</b>		<b>4.5</b>	<b>8.0</b>	

**NOTE 8 LOAN LOSSES, NET**

SEK M	Q 4 2011	Q 4 2010	Change	Q 3 2011	Change	Jan-Dec 2011	Jan-Dec 2010	Change
<b>Specific reserve for individually assessed loan receivables</b>								
Write-off of confirmed loan losses during the period	-17.2	-0.2		0.0		-17.5	-0.4	
Reversed earlier impairment of loan losses recognised as confirmed losses	4.4	0.7		0.1		4.8	0.9	
Impairment of loan losses during the period	-0.6	-1.5		-2.7		-8.4	-4.6	
Payment received for prior confirmed loan losses	10.3	1.0		1.4		13.1	4.4	
Reversed impairment of loan losses no longer required	1.2	0.2		3.1		6.7	1.2	
<b>Net income / expense for the period for individually assessed loan receivables</b>	<b>-1.9</b>	<b>0.2</b>	<b>-</b>	<b>1.9</b>	<b>205 %</b>	<b>-1.3</b>	<b>1.5</b>	<b>187 %</b>
<b>Collective reserves for individually assessed receivables</b>	<b>-</b>	<b>-</b>		<b>-</b>		<b>-</b>	<b>-</b>	
<b>Collectively assessed homogenous groups of loan receivables with limited value and similar credit risk</b>								
Provision/reversal of impairment of loan losses	0.6	-0.7		-3.0		5.3	1.8	
<b>Net income / expense for the period for collectively assessed homogenous loan receivables</b>	<b>0.6</b>	<b>-0.7</b>	<b>-186 %</b>	<b>-3.0</b>	<b>-120%</b>	<b>5.3</b>	<b>1.8</b>	<b>-195 %</b>
<b>Net income / expense of loan losses for the period</b>	<b>-1.3</b>	<b>-0.5</b>	<b>180 %</b>	<b>-1.1</b>	<b>18%</b>	<b>4.0</b>	<b>3.3</b>	<b>-21 %</b>

All information pertains to receivables from the public.

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

Loans to credit institutions include deposits with the parent company of SEK 1,906.3 M (8,133.0).  
Due to credit institutions include borrowing of SEK 18,047.7 M (14,765.4) from the parent company.

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	Dec 31, 2011	Dec 31, 2010
<b>Loan receivables, gross</b>		
Corporate sector	1,733.8	1,490.0
Retail sector	86,925.0	78,218.9
<b>Total loan receivables, gross</b>	<b>88,658.8</b>	<b>79,708.9</b>
<b>Impairment of individually assessed loan receivables</b>		
Retail sector	-0.3	-3.4
<b>Total individual reserves</b>	<b>-0.3</b>	<b>-3.4</b>
<b>Impairment of collectively assessed loan receivables</b>		
Corporate sector	-2.5	-1.0
Retail sector	-31.0	-37.8
<b>Total collective reserves</b>	<b>-33.5</b>	<b>-38.8</b>
<b>Total reserves</b>	<b>-33.8</b>	<b>-42.2</b>
<b>Loan receivables, net</b>		
Corporate sector	1,731.3	1,489.0
Retail sector	86,893.7	78,177.7
<b>Total loans to the public, net</b>	<b>88,625.0</b>	<b>79,666.7</b>
<b>Impaired loans</b>		
Retail sector	0.8	9.3
<b>Total impaired loans</b>	<b>0.8</b>	<b>9.3</b>

**Definition**

A loan receivable is considered impaired if a payment is more than 60 days past due or if there are other reasons to expect that the counterparty cannot meet its undertaking. The loan receivable is considered impaired to the extent that its not covered by collateral in an adequate amount.

**NOTE 11 DERIVATIVES**

SEK M	Dec 31, 2011		Dec 31, 2010	
	Nominal value	Fair value	Nominal value	Fair value
<b>Derivatives with positive values</b>				
<i>Derivatives in hedge accounting</i>				
Interest	59,395.0	1,292.2	44,117.0	609.7
Currency	10,576.6	454.2	1,777.7	401.3
Collateral received, CSA	-	-276.1	-	-17.0
<i>Other derivatives</i>				
Interest	0	0	13,500.0	1.9
<b>Total derivatives with positive values</b>	<b>69,971.6</b>	<b>1,470.3</b>	<b>59,394.7</b>	<b>995.9</b>
<b>Derivatives with negative values</b>				
<i>Derivatives in hedge accounting</i>				
Interest	61,169.0	1,350.6	53,706.0	1,037.1
Currency	11,852.1	887.2	10,577.1	827.7
<i>Other derivatives</i>				
Currency	-	-	-	-
<b>Total derivatives with negative values</b>	<b>73,021.1</b>	<b>2,237.8</b>	<b>64,283.1</b>	<b>1,864.8</b>

**NOTE 12 MEMORANDUM ITEMS**

SEK M	Dec 31, 2011	Dec 31, 2010
<b>For own liabilities, pledged assets</b>		
Collateral pledged due to repurchase agreements	1,938.0	2,975.2
Loan receivables, covered bonds	84,428.1	76,653.7
<b>Total for own liabilities, pledged assets</b>	<b>86,366.1</b>	<b>79,628.9</b>
<b>Other pledged assets</b>	None	None
<b>Contingent liabilities</b>		
Conditional shareholders' contribution	2,192.6	1,482.6
Early retirement at age 62 in accordance with pension agreement, 80%	–	0.7
<b>Total contingent liabilities</b>	<b>2,192.6</b>	<b>1,483.3</b>
<b>Commitments</b>		
Loans approved but not disbursed	3,893.7	3,226.3

**NOTE 13 CAPITAL-ADEQUACY ANALYSIS**

SEK M	Dec 31, 2011	Dec 31, 2010
<b>Capital base</b>		
Tier 1 capital, gross	4,196.0	3,592.6
Deduction deferred tax assets	–0.3	–
Less IRB deficit	–56.2	–45.2
<b>Tier 1 capital, net</b>	<b>4,139.5</b>	<b>3,547.4</b>
Tier 2 capital	501.0	501.0
Deductions for Tier 2 capital	–56.2	–45.2
<b>Total capital base</b>	<b>4,584.3</b>	<b>4,003.2</b>
<b>Risk-weighted assets according to Basel II</b>	<b>20,130.8</b>	<b>17,973.4</b>
<b>Risk-weighted assets according to transition rules</b>	<b>43,844.0</b>	<b>38,431.9</b>
<b>Capital requirement</b>		
Capital requirement for credit risk according to Standardised Approach	355.0	370.9
Capital requirement for credit risk according to IRB Approach	1,230.9	1,046.8
Capital requirement for operational risk	24.6	20.2
<b>Capital requirement according to Basel II</b>	<b>1,610.5</b>	<b>1,437.9</b>
Adjustment according to transition rules	1,897.0	1,636.7
<b>Total capital requirement</b>	<b>3,507.5</b>	<b>3,074.6</b>
<b>Capital adequacy</b>		
Tier 1 ratio according to Basel II, %	20.56	19.74
Capital-adequacy ratio according to Basel II, %	22.77	22.27
Capital ratio according to Basel II*	2.85	2.78
Tier 1 ratio according to transition rules, %	9.44	9.23
Capital-adequacy ratio according to transition rules, %	10.46	10.42
Capital ratio according to transition rules*	1.31	1.30
<b>Special disclosures</b>		
<b>IRB Provisions surplus (+) / deficit (-)</b>	<b>-112.4</b>	<b>-90.4</b>
– Total provisions (+)	31.2	40.1
– Anticipated loss (-)	-143.6	-130.5
<b>Capital requirement</b>		
<b>Credit risk according to Standardised Approach</b>		
Exposures to institutions	69.5	50.2
Exposures to corporates	1.1	1.6
Retail exposures	46.1	123.5
Exposures secured on residential property	117.7	91.5
Past due items	0.2	0.3
Covered bonds	119.2	102.4
Other items	1.2	1.4
<b>Total capital requirement for credit risk according to Standardised Approach</b>	<b>355.0</b>	<b>370.9</b>

**NOTE 13 CAPITAL-ADEQUACY ANALYSIS, CONTINUED**

SEK M	Dec 31, 2011	Dec 31, 2010
<b>Credit risk according to IRB Approach</b>		
<b>Retail exposures</b>		
Exposures secured by real estate collateral	1,150.3	971.0
Other retail exposures	0.6	1.7
<i>Total retail exposures</i>	<i>1,150.9</i>	<i>972.7</i>
Exposures to corporates	80.0	74.2
<b>Total capital requirement for credit risk according to IRB Approach</b>	<b>1,230.9</b>	<b>1,046.9</b>
<b>Operational risk</b>		
Standardised Approach	24.6	20.2
<b>Total capital requirement for operational risk</b>	<b>24.6</b>	<b>20.2</b>
 <b>Capital-adequacy analysis according to Basel I</b>		
Tier 1 capital	4,195.7	3,592.6
Tier 2 capital	501.0	501.0
<b>Total capital base</b>	<b>4,696.7</b>	<b>4,093.6</b>
Risk-weighted assets	56,561.3	49,452.1
Capital requirement for credit risk	4,524.9	3,956.2
Tier 1 ratio, %	7.42	7.26
Capital-adequacy ratio, %	8.30	8.28
Capital ratio*	1.04	1.03

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

**NOTE 14 DISCLOSURES ON RELATED PARTIES**

Related legal entities include the Länsförsäkringar AB Group's and the Länsförsäkringar Liv Group's companies, all associated companies, Länsförsäkringar Mäklarservice AB, Länsförsäkringar Fastighetsförmedling AB, the 23 regional insurance companies with subsidiaries, as well as the local insurance companies that hold shares in Länsförsäkringar AB.

Normal business transactions between the related parties took place during 2011.

Since December 31, 2010, 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, 2010, no significant changes have occurred in the company's agreements with these persons.

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

Stockholm, February 16, 2012

Rikard Josefson	Christian Bille	Bengt Clemedtson	Bengt Jerning
Chairman of the Board	Board member	Board member	Board member

Christer Malm	Anders Borgcrantz
Board member	President

## Auditors' report on the review of the financial year-end information

To the board of directors of Länsförsäkringar Hypotek AB (publ)  
Org nr 556244-1781

### Introduction

I have conducted a review of the financial interim information of the year-end report for Länsförsäkringar Hypotek AB (publ), Corporate Registration Number 556244-1781, at December 31, 2011 and for the twelve-month period that ended on that date. The Board of Directors and the President are responsible for preparing and presenting this year-end report in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies. My responsibility is to express an opinion on this year-end report based on my review.

### Focus and scope of the 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 consists of making inquiries, primarily with 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 in Sweden. The procedures performed in a review do not enable me to obtain a level of assurance that would make me 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 year-end report has not, in all material aspects, been prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm, February 21, 2012

Johan Bäckström  
*Authorised Public Accountant*

## Appendix

### BORROWING PROGRAMMES

Programmes	Limit, Nominal	Issued in	Issued in	Remaining,	Remaining,	Remaining	Remaining
		2011	2010	Dec 31, 2011	Dec 31, 2010	average term,	average term,
	Nominal, SEK billion	Dec 31, 2011	Dec 31, 2010				
						Year	Year
Benchmark	Unlimited	11.7	25.8	53.9	53.7	2.6	2.8
Medium Term Covered Note	SEK 30 billion	4.8	7.6	10.1	13.8	1.2	1.1
Euro Medium Term Covered Note	EUR 4 billion	10.3	10.6	21.5	11.5	2.9	4.2
<b>Total</b>		<b>26.8</b>	<b>44.0</b>	<b>85.5</b>	<b>79.0</b>	<b>2.5</b>	<b>2.7</b>

### Borrowing by maturity

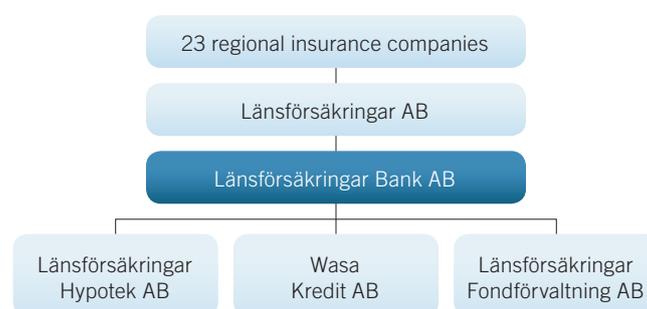
Years	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Nominal, SEK billion	11.4	16.0	27.6	12.0	18.2	–	0.3	–	0.1	85.5

## Financial calendar

Interim Report January-March 2012 ..... **April 23, 2012**

Interim Report January-June 2012 ..... **August 28, 2012**

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 21, 2012 at 11:30 a.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 3.4 million and the Länsförsäkringar Alliance has a joint total of approximately 5,800 employees.

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