

Länsförsäkringar Hypotek

INTERIM REPORT, JANUARY – SEPTEMBER 2005

Summary

- Operating income amounted to SEK 18.9 M (19.2).
- Net interest income increased by 12% to SEK 127.0 M (113.7).
- Return on equity after standard tax was 1.3% (3.1).
- Lending to the public amounted to SEK 29.1 billion (22.0), up 32% since September 2004.
- The market share in terms of lending for private homes and tenant-owned apartments rose to 2.8% (2.4).
- Capital adequacy was 11.6% (12.2) and the Tier 1 ratio 9.4% (9.9).
- A capital contribution of SEK 315 M was received in the form of an unconditional shareholders' contribution.
- The number of home mortgage customers increased by 25% to 79,000 (63,000).

Figures in parentheses pertain to January – September 2004.



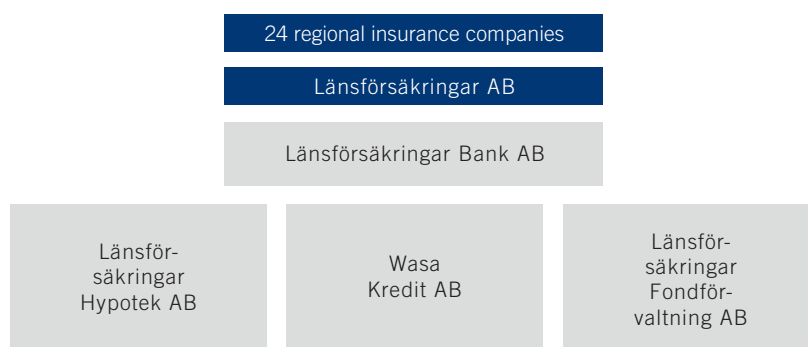
Key figures

	Jan. 1–Sept. 30, 2005	Jan. 1–Sept. 30, 2004	Full-year 2004
Return on equity, % ¹⁾	1.30	3.09	2.35
Return on total capital, %	0.09	0.13	0.13
Investment margin, %	0.64	1.18	0.78
Interest margin, %	0.48	0.58	0.57
Cost/income ratio before loan losses	0.88	0.85	0.85
Cost/income ratio after loan losses	0.86	0.83	0.83
Capital adequacy, %	11.56	12.18	11.28
Tier 1 ratio, %	9.35	9.87	9.12
Percentage of doubtful receivables, gross %	0.11	0.15	0.14
Percentage of doubtful receivables, net %	–0.02	–0.02	–0.01
Provision ratio for doubtful receivables, %	114.75	111.38	107.05

¹⁾For comparative reasons, return on equity as of September 30, 2004 and December 31, 2004 have been adjusted for standard tax.

Quarterly development

SEK 000's	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004
Interest income	274,947	307,086	291,395	284,395	272,199
Interest expense	–235,699	–262,532	–248,243	–241,099	–236,169
Net interest income	39,248	44,554	43,152	43,296	36,030
Net commission income	218	232	198	204	193
Net income from financial transactions	–	4,600	–	–	–
Other revenue	0	6	–30	56	–7
Total operating revenue	39,466	49,392	43,320	43,556	36,216
Personnel costs	–522	–	–	–	–
General administration expenses	–37,915	–39,703	–38,182	–36,553	–34,930
Other expenses	–33	–74	–69	–1	0
Total expenses before loan losses	–38,470	–39,777	–38,251	–36,554	–34,930
Income before loan losses	996	9,615	5,069	7,002	1,286
Loan losses	1,461	879	838	835	1,426
Operating income	2,457	10,494	5,907	7,837	2,712



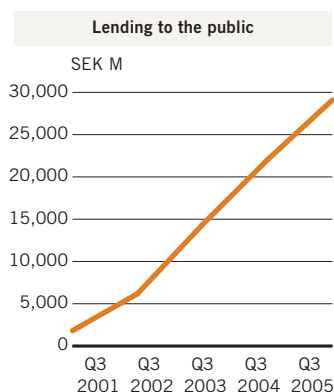
The Länsförsäkringar Alliance organization is based on 24 independent and customer-owned regional insurance companies. The regional insurance companies jointly own Länsförsäkringar AB. In turn, Länsförsäkringar AB owns Länsförsäkringar Bank AB (Bank Group), with the Parent Company and the subsidiaries Länsförsäkringar Hypotek AB, Wasa Kredit AB and Länsförsäkringar Fondförvaltning AB. Customer contact always occurs at the regional insurance companies. From the customer's viewpoint, the regional insurance companies operate as local banks, in the same manner as with non-life insurance and life assurance.

Total assets

The company's total assets after the third quarter amounted to SEK 29.2 billion (22.4), an increase of 30%.

Lending to the public rose by 32%, or SEK 7.1 billion, to SEK 29.1 billion (22.0).

Borrowing rose by 31%, or SEK 6.3 billion, to SEK 26.9 billion (20.6).



Capital adequacy

The capital adequacy ratio amounted to 11.6% (12.2) and the Tier 1 ratio was 9.4% (9.9). During the first nine months of the year, Länsförsäkringar Bank, the Parent Company, provided an unconditional shareholders' contribution of SEK 315 M and a subordinated loan of SEK 74 M.

The target level for capital adequacy is 10.5% ($\pm 0.5\%$) and for the Tier 1 ratio 8.5% ($\pm 0.5\%$).

Earnings and profitability

The company's operating income amounted to SEK 15.7 M (17.2) before loan losses and SEK 18.9 M (19.2) after loan losses. This corresponds to a return on average equity, adjusted for the standard tax rate, of 1.3% (3.1).

Revenue

Despite stiff competition and declining margins, net interest income rose by 12% to SEK 127.0 M (113.7). The company's

investment margin, that is, net interest income as a percentage of average total assets, was 0.6% (1.2).

The increase in net interest income is attributable to higher lending volumes.

Expenses

Operating expenses rose by 20%, or SEK 19.4 M, to SEK 116.5 M (97.1). The increase is attributable to increased selling expenses as a result of higher lending volumes.

The cost/income ratio was 0.88 (0.85) before loan losses and 0.86 (0.83) after loan losses.

Loan losses

Provisions were made based primarily on group-wise valuation. Loan losses remain at a low level. Recovered amounts exceeded losses by SEK 3.2 M (1.9).

Interest-rate risk

A 1-percentage point rise in the market rate of interest at September 30, 2005 would have resulted in an increase of SEK 11.8 M (14.5) in the value of Länsförsäkringar Hypotek's interest-bearing assets and liabilities, including derivatives.

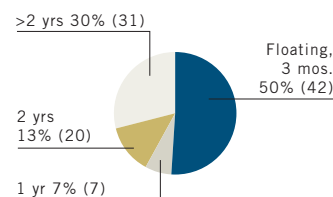
Mortgage market

Länsförsäkringar is well positioned in the highly competitive residential mortgage market, as demonstrated through increased market share. The company's market share (private homes and tenant-owned apartments) increased by 17% and amounted to 2.8%.

Currently, 98% of Länsförsäkringar's loans consist of loans for private homes and tenant-owned apartments, with the remaining 2% relating to loans for leisure homes and other.

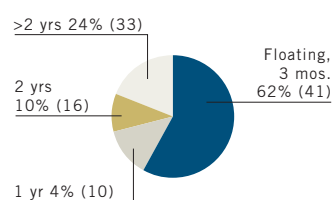
The Internet is an important channel both in terms of sales and customer communications. The number of loan applications received via the Internet has increased dramatically since September 2004, up 81%.

Fixed-interest terms, entire loan stock, Sept. 30, 2005



Figures in parentheses pertain to January - September 2004.

Fixed-interest terms, new lending, Sept. 30, 2005



Figures in parentheses pertain to January - September 2004.

Basel II

Länsförsäkringar Bank has chosen to implement the advanced internal ratings-based approach of Basel II, which provides significant opportunities for strategic and operational management of credit risk.

The Swedish Financial Supervisory Authority has now determined that Länsförsäkringar Bank's Basel application is complete, which means that Länsförsäkringar Bank is among the first companies to be in compliance with the new rules.

Income statement

SEK 000s		Jan. 1–Sept. 30, 2005	Jan. 1–Sept. 30, 2004	Full-year 2004
Interest income	Note 2	873,428	759,399	1,043,793
Interest expense	Note 3	–746,474	–645,701	–886,800
Net interest income		126,954	113,698	156,993
Commission revenue		1,047	918	1,252
Commission expense		–399	–352	–482
Net income from financial transactions		4,600	–	–
Other operating revenue		–24	87	145
Total operating revenue		132,178	114,351	157,908
General administration expenses		–116,322	–96,927	–133,681
Other expenses		–176	–201	–1
Total expenses before loan losses		–116,498	–97,128	–133,682
Income before loan losses		15,680	17,223	24,226
Loan losses, net	Note 4	3,178	1,927	2,762
Operating income		18,858	19,150	26,988
Change in tax allocation reserve		–	–	4,750
Tax on income for the period		–5,280	–5,362	–8,886
NET PROFIT FOR THE PERIOD		13,578	13,788	22,852

Balance sheet

SEK 000s		Sept. 30, 2005	Sept. 30, 2004	Dec. 31, 2004
Assets				
Lending to credit institutions		42,057	358,289	52,126
Lending to the public	Note 5	29,091,624	22,023,080	23,746,307
Other assets		3,727	471	2,386
Prepaid expenses and accrued income		36,638	42,725	42,558
TOTAL ASSETS		29,174,046	22,424,565	23,843,377
Liabilities and shareholders' equity				
Liabilities to credit institutions		26,118,386	19,688,021	21,062,783
Borrowing from the public		796,345	939,133	938,352
Other liabilities		14,363	16,826	5,084
Accrued expenses and prepaid income		329,669	249,370	324,453
Subordinated debt		362,614	288,614	288,614
TOTAL LIABILITIES		27,621,377	21,181,964	22,619,286
Untaxed reserves		–	4,750	–
Shareholders' equity				
	Note 6			
Share capital, 70,335 shares with a par value of SEK 1,000 per share		70,335	70,335	70,335
Share premium reserve		12,965	12,965	12,965
Statutory reserve		1,102	1,102	1,102
Profit brought forward		1,454,689	1,139,661	1,116,837
Net profit for the period		13,578	13,788	22,852
Total shareholders' equity		1,552,669	1,237,851	1,224,091
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		29,174,046	22,424,565	23,843,377
Memorandum items				
Assets pledged		none	none	none
Contingent liabilities		none	none	none
Commitments				
loans approved but not disbursed		64,712	136,001	115,853
interest-rate swap agreements		8,770,000	10,650,000	11,200,000
		8,834,712	10,786,001	11,315,853

Cash-flow statement

SEK 000s	Jan. 1–Sept. 30, 2005	Jan. 1–Sept. 30, 2004
Liquid funds, January 1	52,126	42,723
Operating activities		
Operating income	18,858	19,150
Adjustment for items not included in cash flow		
Booked non-chargeable tax	–5,280	–5,362
	13,578	13,788
Increase in lending to the public	–5,345,317	–5,845,324
Change in other assets	4,579	–10,672
Change in other liabilities	14,495	122,371
Cash flow from operating activities	–5,312,665	–5,719,837
Investing activities		
Change in fixed assets	–	–
Cash flow from investing activities	–	–
Financing activities		
Change in borrowing from the public	–142,007	–202,276
Change in other borrowing	5,055,603	5,499,565
Increase in subordinated loan	74,000	248,614
Shareholders' contribution received	315,000	489,500
Cash flow from financing activities	5,302,596	6,035,403
Cash flow for the period	–10,069	315,566
Liquid funds, September 30	42,057	358,289
Interest received amounted to	879,348	745,002
Interest paid amounted to	759,363	536,348
Liquid funds include:		
Other lending to credit institutions	42,057	358,289

Notes

NOTE 1 ACCOUNTING PRINCIPLES

This interim report is prepared in accordance with recommendation RR:20 of the Swedish Financial Accounting Standards Council. In all other respects, the accounting principles and methods of computation remain unchanged compared with the 2004 Annual Report.

NOTE 2 INTEREST INCOME

SEK 000s	Jan. 1–Sept. 30, 2005	Jan. 1–Sept. 30, 2004	Full-year 2004
Interest income, lending to the public	702,261	601,993	824,887
Interest income, Swedish credit institutions	171,163	157,406	218,905
Interest income, other	4	–	1
Total interest income	873,428	759,399	1,043,793
Average interest rate, lending to the public	3.5%	4.2%	4.1%

NOTE 3 INTEREST EXPENSE

SEK 000s	Jan. 1–Sept. 30, 2005	Jan. 1–Sept. 30, 2004	Full-year 2004
Interest expense, borrowing from credit institutions	702,256	600,089	826,553
Interest expense, borrowing from the public	36,935	41,708	53,974
Interest expense, subordinated debt	7,283	3,904	6,273
Total interest expense	746,474	645,701	886,800

NOTE 4 LOAN LOSSES, NET

SEK 000s	Jan. 1–Sept. 30, 2005	Jan. 1–Sept. 30, 2004	Full-year 2004
Specific provision for individually appraised loan receivables			
Write-off of confirmed loan losses during the period	1,678	453	676
Reversed provisions for probable loan losses reported in the interim accounts as confirmed losses	–1,376	–	–
Provision for probable loan losses during the period	274	758	856
Payment received for prior confirmed loan losses	–6,493	–4,770	–6,390
Reversed provisions no longer required for probable loan losses	–565	–1,734	–1,971
Net expense during the period for individually appraised receivables	–6,482	–5,293	–6,829
Group-wise provisions for individually appraised receivables			
	–	–	–
Homogeneous groups, appraised by group, of loan receivables of limited value and similar credit risk			
Allocation/dissolution of provisions for loan losses	3,304	3,366	4,067
Net expense for the period for loan receivables appraised by group	3,304	3,366	4,067
Net expense for the period for loan losses	–3,178	–1,927	–2,762

All data pertains to receivables from the general public.

NOTE 5 LENDING TO THE PUBLIC

SEK 000s	Sept. 30, 2005	Sept. 30, 2004	Dec. 31, 2004
Loan receivables, gross			
Commercial sector	170,263	184,823	175,886
Household sector	28,954,966	21,869,555	23,602,309
Other	4,750	4,858	4,830
Total	29,129,979	22,059,236	23,783,025
Less:			
Specific provisions for individually appraised loan receivables			
Commercial sector	-7,265	-8,891	-8,891
Household sector	-2,575	-2,755	-2,616
Total individual provisions	-9,840	-11,646	-11,507
Provisions for group-wise appraised homogenous groups of loan receivables			
Commercial sector	-14	-16	-13
Household sector	-28,501	-24,494	-25,198
Total group-wise provisions	-28,515	-24,510	-25,211
Total provisions	-38,355	-36,156	-36,718
Loan receivables, net			
Commercial sector	162,984	175,916	166,982
Household sector	28,923,890	21,842,306	23,574,495
Other	4,750	4,858	4,830
Total loan receivables, net	29,091,624	22,023,080	23,746,307
Doubtful receivables			
Commercial sector	10,832	12,504	12,490
Household sector	22,593	19,959	22,111
Total doubtful receivables	33,425	32,463	34,601
Non-performing receivables included among doubtful receivables			
Commercial sector	3,072	3,951	4,369
Household sector	15,491	11,073	14,218
Total non-performing receivables included among doubtful receivables	18,563	15,024	18,587

Definitions:

Non-performing receivables are loans for which interest payments, amortization or overdrafts are more than 60 days past due.

A **doubtful receivable** is a non-performing receivable or a receivable for which payments are unlikely to be made in accordance with the terms of the claim, and for which the value of the collateral is not adequate with a secure margin to cover both the principal and accrued interest, including penalties for possible late payments.

NOTE 6 SHAREHOLDERS' EQUITY

SEK 000s	Sept. 30, 2005	Sept. 30, 2004	Dec. 31, 2004
Restricted equity			
Share capital	70,335	70,335	70,335
Share premium reserve	12,965	12,965	12,965
Statutory reserve	1,102	1,102	1,102
Total reserves	84,402	84,402	84,402
Non-restricted equity			
Profit brought forward	1,454,689	1,139,661	1,116,837
Net profit for the period	13,578	13,788	22,852
Total non-restricted equity	1,468,267	1,153,449	1,139,689
Total shareholders' equity	1,552,669	1,237,851	1,224,091
Change in shareholders' equity			
Opening balance	1,224,091	734,563	734,563
Unconditional shareholders' contribution from Parent Company	315,000	489,500	489,500
Group contribution paid			-31,700
Tax effect of Group contribution paid			8,876
Net profit for the period	13,578	13,788	22,852
Closing balance	1,552,669	1,237,851	1,224,091

NOTE 7 DERIVATIVE INSTRUMENTS

SEK 000s	Nominal value	Fair value
Derivative instruments with positive value		
Interest-rate derivatives	1,890,000	7,880
Derivative instruments with negative value		
Interest-rate derivatives	6,880,000	218,488

This interim report is unaudited.

Stockholm, October 25, 2005.

Anders Borgcrantz

President

Reporting dates:

Year-end report 2005: February 14, 2006



For further information, contact:

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

Christer Baldhagen, Senior Vice President Corporate Communications, Länsförsäkringar AB, +46-8 588 415 01, +46-70 579 70 66