

# Länsförsäkringar Hypotek

INTERIM REPORT, JANUARY – SEPTEMBER 2004

## Summary

- Operating income amounted to SEK 19.2 M (38.7).
- Mortgage lending rose by 53% since September 2003 to SEK 22.0 billion (14.4).
- The market share for lending to private homes and tenant-owned apartments increased to 2.4% (1.8).
- The number of home mortgage customers amounted to 47,000.
- Capital adequacy was 12.2% (9.9) and the Tier 1 ratio 9.9% (9.4).
- New lending during the first nine months of the year totaled SEK 7.5 billion (7.4).
- Loan losses remain at a low level. Loan recoveries exceeded losses by SEK 1.9 M (2.1).

Figures in parentheses pertain to January–September 2003.

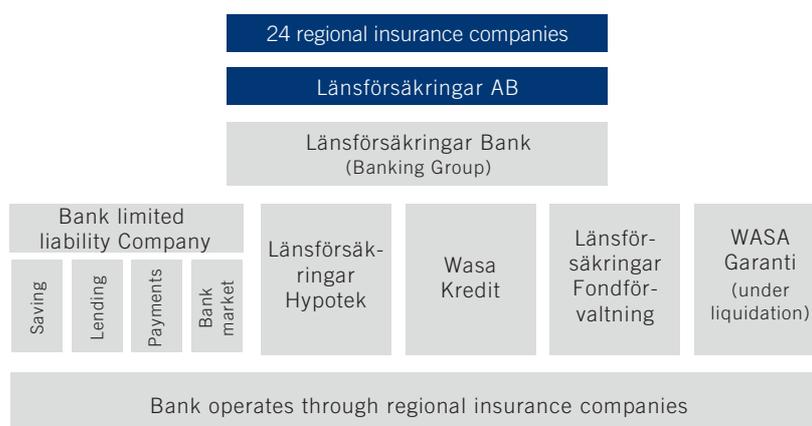


## Key figures

	Jan. 1–Sep. 30, 2004	Jan. 1–Sep. 30, 2003	Full-year 2003
Return on equity, %	3.09	10.58	7.30
Investment margin, %	1.18	1.49	0.98
Interest margin, %	0.58	0.76	0.75
Cost/income ratio before loan losses	0.85	0.56	0.64
Cost/income ratio after loan losses	0.83	0.54	0.59
Capital adequacy, %	12.18	9.89	8.68
Tier 1 ratio, %	9.87	9.38	8.23
Percentage of doubtful receivables, gross, %	0.15	0.09	0.22
Percentage of doubtful receivables, net, %	-0.02	0.00	0.02
Provision ratio for doubtful receivables, %	111.38	96.57	93.00

## Quarterly development

SEK M	Q3 2004	Q2 2004	Q1 2004	Q4 2003	Q3 2003
Interest income	272,200	252,710	234,489	211,124	192,559
Interest expense	-236,169	-213,043	-196,489	-173,938	-161,136
<b>Net interest income</b>	<b>36,031</b>	<b>39,667</b>	<b>38,000</b>	<b>37,186</b>	<b>31,423</b>
Net commission income	193	217	156	162	155
Other revenue	-9	35	61	22	23
<b>Total operating revenue</b>	<b>36,215</b>	<b>39,919</b>	<b>38,217</b>	<b>37,370</b>	<b>31,601</b>
General administration expenses	-34,930	-33,575	-28,623	-29,776	-18,394
Other expenses	0	63	-63	-6	-4
<b>Total expenses before loan losses</b>	<b>-34,930</b>	<b>-33,512</b>	<b>-28,686</b>	<b>-29,782</b>	<b>-18,398</b>
<b>Income before loan losses</b>	<b>1,285</b>	<b>6,407</b>	<b>9,531</b>	<b>7,588</b>	<b>13,203</b>
Loan losses	1,426	-94	595	3,812	1,683
<b>Operating income</b>	<b>2,711</b>	<b>6,313</b>	<b>10,126</b>	<b>11,400</b>	<b>14,886</b>



Länsförsäkringar's 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 (Bank Group), with the parent company and the subsidiaries Länsförsäkringar Hypotek, Wasa Kredit, Länsförsäkringar Fondförvaltning and WASA Garanti. 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 at September 30, 2004 amounted to SEK 22.4 billion (14.5), an increase of 55%. Lending to the public rose by 53%, or SEK 7.6 billion, to SEK 22.0 billion (14.4). The growth in volume entails that Länsförsäkringar is continuing to increase its share of the Swedish mortgage market, with market share rising by 0.6 percentage points since September 2003. Borrowing rose by 53%, or SEK 7.1 billion, to SEK 20.6 billion (13.5).

### Capital adequacy

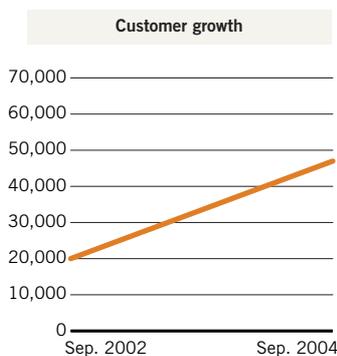
The capital adequacy ratio amounted to 12.2% (9.9) and the Tier 1 ratio was 9.9% (9.4). The Parent Company Länsförsäkringar Bank made an unconditional shareholders' contribution of SEK 490 M and a subordinated loan of SEK 249 M during the period.

The target level for capital adequacy is 10.5% and for the Tier 1 ratio 8.5%. A deviation of ±0.5 percentage points is allowed for both targets.

### Earnings and profitability

The company's operating income amounted to SEK 17.2 M (36.6) before loan losses and SEK 19.2 M (38.7) after loan losses. The decline is due to short-term effects of the company's refinancing agreement with the Parent Company and to altered allocation principles between the Parent Company and the subsidiary.

The return on average equity amounted to 3.1% (10.6).



### Satisfied customers

Länsförsäkringar's banking operations are unmatched in terms of satisfied customers, according to the Swedish Quality Index compiled annually by the Stockholm School of Economics. Länsförsäkringar was awarded the highest grades in all categories of the survey: image, expectations, product quality, service quality, value for money, satisfaction and loyalty. The flow of new customers remains strong. At the end of the period, Länsförsäkringar had 47,000 home mortgage customers.

### Increased market share

Lending by Länsförsäkringar Hypotek has a favorable geographical spread nationwide, with a natural concentration to urban areas. Approximately 45% of lending takes place through the regional insurance companies in Stockholm, Skåne, Gothenburg and Bohuslän, Älvsborg and Dalarna. The market share for private homes and tenant-owned apartments rose from 1.8% to 2.4%.

### Revenues

Net interest income rose by 36% to SEK 113.7 M (83.5), primarily due to higher volumes.

Länsförsäkringar Hypotek has a refinancing agreement with the Parent Company, comprising an interest computation model and a model for managing interest-rate risk based on a Groupwide approach. This model and approach can affect the company's net interest income/expense both negatively and positively for short periods. The corresponding effects then arise in the Parent Company. The company's investment margin, that is, net interest income as a percentage of average total assets, amounted to 1.2% (1.5).

### Expenses

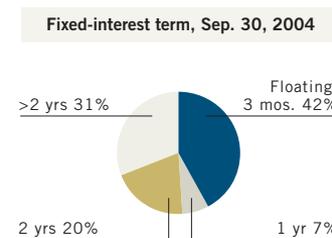
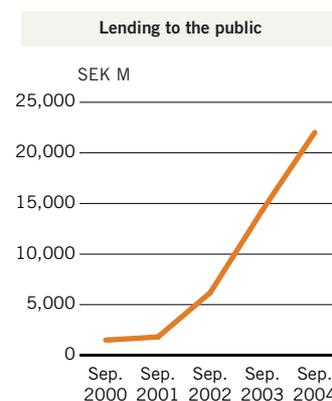
Operating expenses rose by SEK 49.6 M to SEK 97.1 M (47.5), an increase attributable mostly to higher distribution costs. The cost/income ratio was 0.9% (0.6) before loan losses and 0.8% (0.5) after loan losses.

### Loan losses

Provisions were made based on groupwise valuation and, to a limited extent only, on individual appraisal. The company's loan losses (expected and confirmed) amounted, net, to a gain of SEK 1.9 M (gain: 2.1). The loan portfolio mainly comprises private homes and tenant-owned apartments and only a minor portion of leisure homes.

### Interest-rate risk

An increase of 1 percentage point in market interest rates would have resulted in a reduction of approximately SEK 14.5 M in the value of Länsförsäkringar Hypotek's interest-bearing assets and liabilities (including derivatives) at September 30, 2004.



## Income statement

SEK 000s		Jan. 1–Sep. 30, 2004	Jan. 1–Sep. 30, 2003	Full-year 2003
Interest income	Note 2	759,399	493,347	704,471
Interest expense	Note 3	–645,701	–409,801	–583,739
<b>Net interest income</b>		<b>113,698</b>	<b>83,546</b>	<b>120,732</b>
Commission revenue		918	729	1,008
Commission expense		–352	–317	–434
Other operating revenue		87	147	169
<b>Total operating revenue</b>		<b>114,351</b>	<b>84,105</b>	<b>121,475</b>
General administration expenses		–97,128	–47,466	–77,242
Other expenses		0	–10	–16
<b>Total expenses before loan losses</b>		<b>–97,128</b>	<b>–47,476</b>	<b>–77,258</b>
<b>Income before loan losses</b>		<b>17,223</b>	<b>36,629</b>	<b>44,217</b>
Loan losses, net	Note 4	1,927	2,082	5,894
<b>Operating income</b>		<b>19,150</b>	<b>38,711</b>	<b>50,111</b>
Change in tax allocation reserve		–	–	4,450
Tax on income for the period		–5,362	–10,839	–15,262
<b>NET PROFIT FOR THE PERIOD</b>		<b>13,788</b>	<b>27,872</b>	<b>39,299</b>

## Balance sheet

SEK 000s	Sep. 30, 2004	Sep. 30, 2003	Dec. 31, 2003
<b>Assets</b>			
Lending to credit institutions	358,289	93,056	42,723
Lending to the public	Note 5 22,023,080	14,351,074	16,177,756
Other assets	471	559	4,197
Prepaid expenses and accrued income	42,725	27,100	28,327
<b>ASSETS</b>	<b>22,424,565</b>	<b>14,471,789</b>	<b>16,253,003</b>
<b>Liabilities, provisions and shareholders' equity</b>			
Liabilities to credit institutions	19,688,021	12,379,358	14,188,456
Deposits from the public	939,133	1,142,150	1,141,409
Other liabilities	16,826	20,992	23,534
Accrued expenses and prepaid income	249,370	117,713	120,291
Subordinated debt	288,614	40,000	40,000
<b>LIABILITIES</b>	<b>21,181,964</b>	<b>13,700,213</b>	<b>15,513,690</b>
<b>Provisions</b>	<b>4,750</b>	<b>9,200</b>	<b>4,750</b>
<b>Shareholders' equity</b>			
Share capital, 70,335 shares with a par value of SEK 1,000 per share	Note 6 70,335	70,335	70,335
Premium reserve	12,965	12,965	12,965
Statutory reserve	1,102	1,102	1,102
Profit brought forward	1,139,661	650,102	610,862
Net profit for the period	13,788	27,872	39,299
<b>Total shareholders' equity</b>	<b>1,237,851</b>	<b>762,376</b>	<b>734,563</b>
<b>LIABILITIES, PROVISIONS AND SHAREHOLDERS' EQUITY</b>	<b>22,424,565</b>	<b>14,471,789</b>	<b>16,253,003</b>
<b>Memorandum items</b>			
Assets pledged on own debt	–	–	–
Contingent liabilities	–	–	–
Commitments			
loans approved but not disbursed	136,001	175,992	102,717
interest-rate swap agreement	10,650,000	4,500,000	5,900,000
	<b>10,786,001</b>	<b>4,675,992</b>	<b>6,002,717</b>

## Cash-flow statement

SEK 000s	Jan. 1–Sep. 30, 2004	Jan. 1–Sep. 30, 2003
Liquid funds, January 1	42,723	87,291
<b>Operating activities</b>		
Operating income	19,150	38,711
<b>Adjustment for items not included in cash flow</b>		
Booked non-chargeable tax	–5,362	–10,839
	<b>13,788</b>	<b>27,872</b>
Increase in lending to the public	–5,845,324	–6,509,638
Change in other assets	–10,672	–13,080
Change in other liabilities	122,371	87,253
<b>Cash flow from operating activities</b>	<b>–5,719,837</b>	<b>–6,407,593</b>
<b>Investing activities</b>		
Increase in debenture loans	248,614	–
Change in fixed assets	–	–
<b>Cash flow from investing activities</b>	<b>248,614</b>	<b>–</b>
<b>Financing activities</b>		
Borrowing from the public	–202,276	–499,781
Other borrowing	5,499,565	6,513,139
Shareholders' contribution received	489,500	400,000
<b>Cash flow from financing activities</b>	<b>5,786,789</b>	<b>6,413,358</b>
<b>Cash flow for the period</b>	<b>315,566</b>	<b>5,765</b>
<b>Liquid funds, Sep. 30</b>	<b>358,289</b>	<b>93,056</b>
<b>Liquid funds include:</b>		
Other lending to credit institutions	358,289	93,056
Interest received amounted to	745,002	478,181
Interest paid amounted to	536,348	345,617

## 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 2003 Annual Report.

### NOTE 2 INTEREST INCOME

SEK 000s	Jan. 1 – Sep. 30, 2004	Jan. 1 – Sep. 30, 2003	Full-year 2003
Interest income, lending to the public	601,993	415,599	591,244
Interest income, Swedish credit institutions	157,406	77,748	113,186
Interest income, other	–	–	41
<b>Total interest income</b>	<b>759,399</b>	<b>493,347</b>	<b>704,471</b>
Average interest rate, lending to the public	4.2%	5.0%	4.8%

### NOTE 3 INTEREST EXPENSE

SEK 000s	Jan. 1 – Sep. 30, 2004	Jan. 1 – Sep. 30, 2003	Full-year 2003
Interest expense, borrowing from credit institutions	600,089	352,340	510,949
Interest expense, deposits from the public	41,708	56,097	71,027
Interest expense, subordinated debt	3,904	1,364	1,763
<b>Total interest expense</b>	<b>645,701</b>	<b>409,801</b>	<b>583,739</b>

### NOTE 4 LOAN LOSSES, NET

SEK 000s	Jan. 1 – Sep. 30, 2004	Jan. 1 – Sep. 30, 2003	Full-year 2003
<b>Specific provision for individually appraised loan receivables</b>			
Write-off of confirmed loan losses during the period	453	1,964	2,032
Reversed provisions for expected loan losses reported in the interim accounts as confirmed losses	–	–2	–2
Provision for expected loan losses during the period	758	652	1,367
Payment received for prior confirmed loan losses	–4,770	–4,578	–10,093
Reversed provisions no longer required for expected loan losses	–1,734	–2,428	–2,446
<b>Net expense during the period for individually appraised receivables</b>	<b>–5,293</b>	<b>–4,392</b>	<b>–9,142</b>
<b>Groupwise provision for individually appraised receivables</b>			
	–	–	–
<b>Homogeneous groups, appraised by group, of loan receivables of limited value and similar credit risk</b>			
Allocation/dissolution of provisions for loan losses	3,366	2,310	3,248
<b>Net expense for the period for loan receivables appraised by group</b>	<b>3,366</b>	<b>2,310</b>	<b>3,248</b>
<b>Net expense for the period for loan losses</b>	<b>–1,927</b>	<b>–2,082</b>	<b>–5,894</b>

All data pertains to receivables from the general public.

**NOTE 5 LENDING TO THE PUBLIC**

SEK 000s	Sep. 30, 2004	Sep. 30, 2003	Dec. 31, 2003
<b>Loan receivables, gross</b>			
Commercial sector	184,823	205,038	185,139
Household sector	21,869,555	14,175,924	16,021,145
Other	4,858	1,944	4,938
<b>Total</b>	<b>22,059,236</b>	<b>14,382,906</b>	<b>16,211,222</b>
<b>Less:</b>			
<b>Specific provisions for individually appraised loan receivables</b>			
Commercial sector	-8,891	-8,878	-9,378
Household sector	-2,755	-2,747	-2,944
<b>Total individual provisions</b>	<b>-11,646</b>	<b>-11,625</b>	<b>-12,322</b>
<b>Provisions for groupwise appraised homogenous groups of loans receivable</b>			
Commercial sector	-16	-287	-271
Household sector	-24,494	-19,920	-20,873
<b>Total groupwise provisions</b>	<b>-24,510</b>	<b>-20,207</b>	<b>-21,144</b>
<b>Total provisions</b>	<b>-36,156</b>	<b>-31,832</b>	<b>-33,466</b>
<b>Loan receivables, net</b>			
Commercial sector	175,916	195,873	175,490
Household sector	21,842,306	14,153,257	15,997,328
Other	4,858	1,944	4,938
<b>Total loan receivables, net</b>	<b>22,023,080</b>	<b>14,351,074</b>	<b>16,177,756</b>
<b>Doubtful loans receivable</b>			
Commercial sector	12,504	14,271	14,078
Household sector	19,959	18,692	21,913
<b>Total doubtful loans receivable</b>	<b>32,463</b>	<b>32,963</b>	<b>35,991</b>
<b>Non-performing receivables included among doubtful receivables</b>			
Commercial sector	3,951	5,815	5,815
Household sector	11,073	11,073	11,167
<b>Total non-performing receivables included among doubtful receivables</b>	<b>15,024</b>	<b>16,888</b>	<b>16,982</b>

**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	Sep. 30, 2004	Sep. 30, 2003	Dec. 31, 2003
<b>Restricted equity</b>			
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
	<b>84,402</b>	<b>84,402</b>	<b>84,402</b>
<b>Non-restricted equity</b>			
Profit brought forward	1,139,661	650,102	610,862
Net profit for the period	13,788	27,872	39,299
	<b>1,153,449</b>	<b>677,974</b>	<b>650,161</b>
<b>Total shareholders' equity</b>	<b>1,237,851</b>	<b>762,376</b>	<b>734,563</b>
<b>Change in shareholders' equity</b>			
Opening balance	734,563	334,504	334,504
Group contribution paid			-54,500
Tax effect of Group contribution paid			15,260
Unconditional shareholders' contribution from Parent Company	489,500	400,000	400,000
Net profit for the period	13,788	27,872	39,299
<b>Closing balance</b>	<b>1,237,851</b>	<b>762,376</b>	<b>734,563</b>

**NOTE 7 DERIVATIVE INSTRUMENTS**

SEK 000s	Nominal value	Fair value
<b>Derivative instruments with positive value</b>		
Interest-rate derivatives	150,000	146
<b>Derivative instruments with negative value</b>		
Interest-rate derivatives	10,500,000	118,592

This interim report is unaudited.  
Stockholm, October 26, 2004.

**Bengt Jerning**  
*Managing Director*

**Reporting dates:**

Year-end report 2004: February 16, 2005



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