

Länsförsäkringar Hypotek

INTERIM REPORT JANUARY–MARCH 2007

Summary

- Lending increased by 18%, from SEK 32 billion to SEK 38 billion.
- The market share of new lending in the mortgage market was approximately 6% during the period. During March the share was approximately 8%.
- Operating income amounted to SEK 12.3 M (8.5).
- Net interest income rose by 23% and amounted to SEK 52.7 M (43.0).
- Capital adequacy was 10.6% (11.6) and the Tier 1 ratio 9.0% (9.7), calculated according to Basel I
- On March 23, 2007, the Swedish Financial Supervisory Authority (Finansinspektionen) approved the company's application for a license to issue covered bonds.
- The number of customers rose to 92,000 (85,000).

Figures in parentheses pertain to January-March 2006

All comparative figures have been restated in accordance with IFRS.

Anders Borgcrantz, President of Länsförsäkringar Hypotek:

"We had an encouraging start to the year. We doubled sales in March and have captured market shares. In addition, we received a license from Finansinspektionen to issue covered bonds, an important milestone for us. This strengthens our position in the market and ensures that we can continue to offer customers attractive prices for mortgage loans. Since it was founded, Länsförsäkringar has been involved in pressuring prices, improving terms and conditions for customers and providing a major contribution to today's competitive situation. We will continue to be a challenger on the Swedish mortgage market."



Key figures

	Jan. 1, 2007– March 31, 2007	Jan. 1, 2006– March 31, 2006	Full-year 2006
Return on equity, %	1.80	1.34	1.41
Return on total capital, %	0.13	0.10	0.10
Investment margin, %	0.55	0.50	0.51
Cost/income ratio before loan losses	0.53	0.65	0.69
Cost/income ratio after loan losses	0.53	0.62	0.57
Capital adequacy, %, calculated according to Basel I	10.64	11.62	11.25
Tier 1 ratio, %, calculated according to Basel I	8.98	9.65	9.49
Percentage of doubtful receivables, gross, %	0.10	0.10	0.10
Percentage of doubtful receivables, net, %	0.01	–0.02	0.01
Provision ratio for doubtful receivables, %	93.66	122.69	91.51

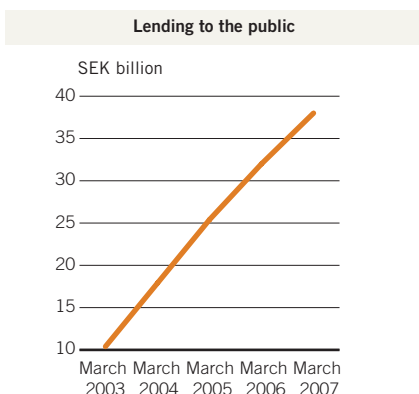
Quarterly development

SEK 000s	Q 1 2007	Q 4 2006	Q 3 2006	Q 2 2006	Q 1 2006
Net interest income	52,714	48,566	47,526	43,097	42,957
Net income from financial transactions	1,084	–847	1,228	3,726	3,969
Net commission income	–27,668	–27,935	–28,213	–25,771	–25,525
Other revenue	54	12	37	49	53
Total revenue	26,184	19,796	20,578	21,101	21,454
Personnel costs	–1,376	–1,289	–1,574	–1,986	–1,400
Other operating expenses	–12,628	–13,238	–12,716	–12,494	–12,502
Total expenses before loan losses	–14,004	–14,527	–14,290	–14,480	–13,902
Income before loan losses	12,180	5,269	6,288	6,621	7,552
Loan losses	141	3,070	3,366	2,893	676
Operating income	12,321	8,339	9,654	9,514	8,228

Total assets

The company's total assets amounted to SEK 39.2 billion (36.5), an increase of 7.4%.

Lending to the public rose by 18.2% or SEK 5.9 billion to SEK 38.3 billion (32.4). Borrowing rose by 6.2% or SEK 2.1 billion to SEK 36.0 billion (33.9).



Capital adequacy

The capital adequacy ratio amounted to 10.6% (11.6) and the Tier 1 ratio amounted to 9.0% (9.7), calculated according to Basel I.

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 12.2 M (7.6) before loan losses and SEK 12.3 M (8.2) after loan losses, corresponding to a return on equity, after standard tax, of 1.8% (1.3).

Revenues

Net interest income rose by 22.7% and amounted to SEK 52.7 M (43.0), despite intense competition and shrinking margins. The company's investment margin amounted to 0.6% (0.5). The increase in net interest income is attributable to a higher volume of lending.

Expenses

Operating expenses rose by 0.7%, or SEK 0.1 M, to SEK 14.0 M (13.9).

The cost/income ratio was 0.53 (0.65) before loan losses and 0.53 (0.62) after loan losses.

Loan losses

Provisions have been established based on the appraisal of groups of loans, and only to a minor extent on the appraisal of individual loans. The low level of losses remained. Loan recoveries exceeded losses by SEK +0.1 M (+0.7).

Interest-rate risk

On March 31, 2007, an increase of market interest rates by 1 percentage point would have caused an increase in the value of Länsförsäkringar Hypotek's interest-bearing assets and liabilities, including derivatives, of SEK 19.8 M (2.5).

Covered bonds

On March 23, 2007, Finansinspektionen approved Länsförsäkringar Hypotek application for a license to issue covered bonds in accordance with the Swedish Covered Bonds (Issuance) Act (2003:1223).

Covered bonds will be issued at the earliest at the end of the second quarter or during the third quarter. The company's bond borrowing will subsequently be covered. The goal is to achieve a triple-A rating for the covered borrowing.

The company will offer holders of bonds issued under Länsförsäkringar Banks benchmark program, MTN program and EMTN program, and bonds issued under the basic prospectus for bond loans, the opportunity to exchange their bonds for corresponding bonds in Länsförsäkringar Hypotek. This offer does not encompass securities issued under Länsförsäkringar Banks commercial paper programs. The company will provide information on the date that the exchange will take place.

IFRS

Länsförsäkringar Hypotek prepares its financial statements in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies, Finansinspektionen's regulations and regulatory code (FFFS 2006:16) and Recommendation RR32:06 issued by the Swedish Financial Accounting Standards Council. The changes resulting from the application of international accounting standards – IFRS – have led to the restatement of comparative figures for the full-year 2006 and the first quarter 2006.

Financial instruments

Financial instruments covered by IAS 39 are valued at either fair value or accrued acquisition value, depending on the classification of the instrument.

All derivatives instruments are reported at fair value. Lending and financial liabilities are reported at accrued acquisition value, with the exception of those to which hedge accounting is applied

Hedge accounting

In accordance with IAS 39, all derivatives shall be reported at fair value. Hedge accounting at fair value entails that both the hedged item and the hedge instrument are valued at fair value. The change in fair value is recognized in the income statement.

The effectiveness of the hedge relationship is measured and evaluated and any ineffectiveness in the hedge affects the income statement.

Compensation for interest-rate differences

The compensation customers pay in conjunction with the premature redemption of fixed-period lending was previously reported as interest income allocated over the remaining term of the loan. This compensation is recognized in income in its entirety as "Net gains/losses on financial items at fair value" when payment is received.

Allocation of fees

Certain fees charged to customers in conjunction with credit issuing will be reported as interest income instead of commission revenues, as previously.

Fees charged in conjunction with borrowing (classified as transaction costs) will be reported as interest expenses over the term of the issued security.

Income statement

SEK 000s		Jan. 1, 2007– March 31, 2007	Jan. 1, 2006– March 31, 2006	Full-year 2006
Interest income	Note 1	536,455	312,252	1,484,803
Interest expense	Note 2	–483,741	–269,295	–1,302,657
Net interest income		52,714	42,957	182,146
Commission revenue	Note 3	355	332	1,568
Commission expense	Note 4	–28,023	–25,857	–109,012
Net income from financial transactions	Note 5	1,084	3,969	8,076
Other operating revenue		54	53	151
Total operating revenue		26,184	21,454	82,929
Personnel costs		–1,376	–1,400	–6,249
Other expenses		–12,393	–12,443	–50,935
Other operating expenses		–235	–59	–15
Total expenses before loan losses		–14,004	–13,902	–57,199
Income before loan losses		12,180	7,552	25,730
Loan losses, net	Note 6	141	676	10,005
Operating income		12,321	8,228	35,735
Tax on income for the period		–3,450	–2,304	–10,009
NET PROFIT FOR THE PERIOD		8,871	5,924	25,726

Balance sheet

SEK 000s		March 31, 2007	March 31, 2006	Dec. 31, 2006
Assets				
Lending to credit institutions		360,109	3,976,080	174,456
Lending to the public	Note 7	38,335,642	32,429,334	36,448,215
Derivatives	Note 8	153,058	64,867	140,997
Other assets		12,128	3,490	51
Prepaid expenses and accrued income		334,551	28,869	119,169
TOTAL ASSETS		39,195,488	36,502,640	36,882,888
Liabilities and shareholders' equity				
Liabilities to credit institutions		35,535,564	33,082,052	33,496,785
Borrowing from the public		436,488	795,317	437,281
Derivatives	Note 8	94,414	101,588	73,106
Other liabilities		14,675	23,519	24,252
Accrued expenses and deferred income		777,930	360,352	523,918
Subordinated debt		362,614	362,614	362,614
TOTAL LIABILITIES		37,221,685	34,725,442	34,917,956
Shareholders' equity				
Share capital, 70,335 shares		70,335	70,335	70,335
Restricted reserves		14,067	14,067	14,067
Profit brought forward		1,880,530	1,686,872	1,854,804
Net profit for the period		8,871	5,924	25,726
Total shareholders' equity		1,973,803	1,777,198	1,964,932
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		39,195,488	36,502,640	36,882,888
Memorandum items				
For own liabilities, assets pledged		none	none	none
Contingent liabilities		none	none	none
Commitments loans				
approved but not disbursed		93,822	134,852	105,827
interest-rate swaps agreements		25,140,000	10,850,000	18,340,000
		25,233,822	10,984,852	18,445,827

Cash-flow statement

SEK 000s	Jan. 1, 2007– March 31, 2007	Jan. 1, 2006– March 31, 2006
Liquid funds, January 1	174,456	409,230
Operating activities		
Operating income	12,321	8,228
Adjustment for items not included in cash flow		
Booked non-chargeable tax	–3,450	–2,304
	8,871	5,924
Increase/decrease in lending to the public	–1,887,427	–1,349,497
Change in other assets	–239,520	–26,378
Change in other liabilities	265,743	–1,849
Cash flow from operating activities	–1,852,333	–1,371,800
Investing activities		
Change in fixed assets	–	–
Cash flow from investing activities	–	–
Financing activities		
Change in borrowing from the public	–793	–485
Change in other borrowing	2,038,779	4,939,135
Cash flow from financing activities	2,037,986	4,938,650
CASH FLOW FOR THE PERIOD	185,653	3,566,850
Liquid funds, March 31	360,109	3,976,080
Interest received amounted to	334,656	332,769
Interest paid amounted to	228,611	238,934
Liquid funds include:		
Other lending to credit institutions	360,109	3,976,080

Change in shareholders' equity

SEK 000s	Share capital	Restricted reserves	Non-restricted reserves	Profit for the period	Total
Opening balance, January 1, 2006	70,335	14,067	1,651,345	16,322	1,752,069
Unconditional shareholders' contribution received from Parent Company			200,000		200,000
Appropriation of profits in accordance with decision of Annual General Meeting			16,322	–16,322	
Group contribution paid			–44,540		–44,540
Tax effect of Group contribution paid			12,472		12,472
Net profit for the year				32,059	32,059
Closing balance, December 31, 2006	70,335	14,067	1,835,599	32,059	1,952,060
Change to accounting principles due to the transition to IFRS			19,205	–6,333	12,872
Opening balance, January 1, 2007	70,335	14,067	1,854,804	25,726	1,964,932
Profit for the period				8,871	8,871
Closing balance, March 31, 2007	70,335	14,067	1,854,804	34,597	1,973,803

Notes

NOTE 1 INTEREST INCOME

SEK 000s	Jan. 1, 2007– March 31, 2007	Jan. 1, 2006– March 31, 2006	Full-year 2006
Interest income, lending to the public	361,496	256,276	1,175,396
Interest income, Swedish credit institutions	174,958	55,976	309,404
Interest income, other	1	–	3
Total interest income	536,455	312,252	1,484,803
Average interest rate, lending to the public	3,9%	3,3%	3,5%

NOTE 2 INTEREST EXPENSES

SEK 000s	Jan. 1, 2007– March 31, 2007	Jan. 1, 2006– March 31, 2006	Full-year 2006
Interest expense, borrowing from credit institutions	474,127	256,057	1,257,599
Interest expense, borrowing from the public	5,732	10,550	32,506
Interest expense, subordinated debt	3,882	2,688	12,551
Other interest expenses	–	–	1
Total interest expenses	483,741	269,295	1,302,657

NOTE 3 COMMISSION REVENUE

SEK 000s	Jan. 1, 2007– March 31, 2007	Jan. 1, 2006– March 31, 2006	Full-year 2006
Lending commission	355	332	1,568
Total	355	332	1,568

NOTE 4 COMMISSION EXPENSES

SEK 000s	Jan. 1, 2007– March 31, 2007	Jan. 1, 2006– March 31, 2006	Full-year 2006
Other commission	179	145	510
Remuneration to regional insurance companies	27,844	25,712	108,502
Total	28,023	25,857	109,012

NOTE 5 NET INCOME FROM FINANCIAL TRANSACTIONS

SEK 000s	Jan. 1, 2007– March 31, 2007	Jan. 1, 2006– March 31, 2006	Full-year 2006
<i>Change in fair value</i>			
Fixed-income derivatives	–17,973	78,629	170,647
Change in fair value, hedged item	18,421	–77,582	–171,597
Compensation for interest-rate differences	636	2,922	7,939
<i>Capital gains/losses</i>			
Interest-related instruments	–	–	1,087
Total	1,084	3,969	8,076

NOTE 6 LOAN LOSSES, NET

SEK 000s	Jan. 1, 2007– March 31, 2007	Jan. 1, 2006– March 31, 2006	Full-year 2006
Specific provision for individually appraised loan receivables			
Write-off of confirmed loan losses during the period	125	–	4,724
Reversed provisions for probable loan losses reported in the interim accounts as confirmed losses	–	–	–4,229
Provision for probable loan losses during the period	–	–	215
Payment received for prior confirmed loan losses	–1,483	–1,614	–10,627
Reversed provisions no longer required for probable loan losses	–88	–140	–3,015
Net expense during the period for individually appraised receivables	–1,446	–1,754	–12,932
Group-wise provisions for individually appraised receivables			
Allocation/dissolution of provisions for group-wise provisions	–	–	–
Group-wise appraised groups of loan receivables of limited value and similar credit risk			
Allocation/dissolution of provisions for loan losses	1,305	1,078	2,927
Net expense for the period for group-wise appraised loan receivables	1,305	1,078	2,927
Net expense for the period for loan losses	–141	–676	–10,005

All data pertains to receivables from the general public.

NOTE 7 LENDING TO THE PUBLIC

SEK 000s	March 31, 2007	March 31, 2006	Dec. 31 2006
Loan receivables, gross			
Commercial sector	191,248	162,555	174,028
Household sector	38,296,761	32,263,085	36,407,491
Other	2,858	4,696	3,024
	38,490,867	32,430,336	36,584,543
Less:			
Specific provisions for individually appraised loan receivables			
Commercial sector	–	–6,729	–
Household sector	–2,326	–2,037	–1,877
Total individual provisions	–2,326	–8,766	–1,877
Provisions for group-wise appraised groups of loan receivables			
Commercial sector	–9	–13	–8
Household sector	–34,252	–30,416	–33,063
Total group-wise provisions	–34,261	–30,429	–33,071
Total provisions	–36,587	–39,195	–34,948
Loan receivables, net			
Commercial sector	191,239	155,813	174,020
Household sector	38,260,183	32,230,632	36,372,551
Other	2,858	4,696	3,024
Change in value as a result of hedge accounting at fair value	–118,638	38,193	–101,380
Total loan receivables, net	38,335,642	32,429,334	36,448,215
Doubtful receivables			
Commercial sector	900	7,782	900
Household sector	38,162	35,341	37,290
Total doubtful receivables	39,062	43,123	38,190
Non-performing receivables included among doubtful receivables			
Commercial sector	900	2,922	1,007
Household sector	21,747	18,567	12,283
Total non-performing receivables included among doubtful receivables	22,647	21,489	13,290

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.

The change in accounting principles for the calculation of doubtful receivables also applies to the comparative figures.

NOTE 8 DERIVATIVE INSTRUMENTS

SEK 000s	Nominal value	Fair value
Derivative instruments with positive value		
Interest-rate derivatives	11,360,000	153,058
Derivative instruments with negative value		
Interest-rate derivatives	13,780,000	94,414

This interim report is unaudited.
Stockholm, April 24, 2007.



Anders Borgcrantz
President

Appendix

RESTATED CONSOLIDATED INCOME STATEMENT FIRST QUARTER 2006 IN CONJUNCTION WITH TRANSITION TO IFRS

SEK 000s	Income statement according to interim report	Restatement	Income statement restated in accordance with IFRS
Net interest income	46,909	-3,952	42,957
Net commission income	-25,525	–	-25,525
Net income from financial transactions	–	3,969	3,969
Other revenues	53	–	53
Total revenues	21,437	17	21,454
Personnel costs	-1,400	–	-1,400
Other expenses	-12,502	–	-12,502
Total expenses	-13,902	–	-13,902
Income before loan losses	7,535	17	7,552
Loan losses	922	-246	676
Operating income	8,457	-229	8,228
Taxes	-2,368	64	-2,304
Net profit for the year	6,089	-165	5,924

RESTATED CONSOLIDATED BALANCE SHEET DECEMBER 31 , 2006

SEK 000s	Balance sheet according to interim report	Restatement	Balance sheet restated in accordance with IFRS
Assets			
Lending to credit institutions	3,976,080	–	3,976,080
Lending to the public	32,391,141	38,193	32,429,334
Derivatives	–	64,867	64,867
Other assets	32,359	–	32,359
Total assets	36,399,580	103,060	36,502,640
Liabilities, provisions and shareholders' equity			
Liabilities to credit institutions	33,082,052	–	33,082,052
Borrowing from the public	795,317	–	795,317
Derivatives	–	101,588	101,588
Other liabilities and provisions	401,439	-17,568	383,871
Subordinated debt	362,614	–	362,614
Shareholders' equity	1,758,158	19,040	1,777,198
Total liabilities, provisions and shareholders' equity	36,399,580	103,060	36,502,640

Reporting dates in 2007:

Interim report, January – June

August 21

Interim report, January – September

October 23



The Länsförsäkringar Alliance organization is based on 24 local, independent and customer-owned regional insurance companies. The regional insurance companies jointly own Länsförsäkringar AB. In turn, Länsförsäkringar AB owns Länsförsäkringar Bank, with the subsidiaries Länsförsäkringar Hypotek, Wasa Kredit and Länsförsäkringar Fondförvaltning. Customer contact always occurs at the regional insurance companies. There are more than 90 offices. 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.

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