

# Länsförsäkringar Bank

INTERIM REPORT JANUARY – JUNE 2005

## Summary

- Operating income before loan losses rose by 39% to SEK 102.3 M (73.7). Operating income after loan losses amounted to SEK 69.1 M (56.4).
- Revenue was up 10% to SEK 641.8 M (581.3).
- Administration expenses increased by 6% to SEK 539.5 M (507.6).
- Net interest income rose by 11% to SEK 434.7 M (392.9).
- Return on equity after standard tax was 3.9% (4.1).
- Lending to the public increased by 22% to SEK 43.1 billion (35.4). Deposits from the public rose 7% to SEK 19.4 billion (18.1).
- Mortgage lending by the subsidiary Länsförsäkringar Hypotek rose by 33% to SEK 27.2 billion (20.5).
- A capital contribution of SEK 300 M was received in the form of an unconditional shareholders' contribution.
- Capital adequacy was 11.93% (10.98) and the Tier 1 ratio 9.49% (8.40).
- Länsförsäkringar gained 37,000 new bank customers since June 2004, bringing the total number of bank customers to 583,000 (546,000).

### **Tomas Johansson, President and CEO, Länsförsäkringar Bank:**

Länsförsäkringar's banking operations continues to develop positively. Volumes are rising sharply, earnings are improving and we are focused on continued expansion and investments in the market in the year ahead. Our offering will become ever broader in the autumn now that the mutual fund operations are fully integrated with the bank.

Figures in parentheses pertain to January – June 2004.



## Key figures

Group	Jan. 1–June 30, 2005	Jan. 1–June 30, 2004	Full-year 2004
Return on equity, % <sup>1)</sup>	3.86	4.11	4.31
Return on total capital, %	0.31	0.63	0.33
Investment margin, %	1.92	2.21	2.18
Interest margin, %	1.75	2.01	2.02
Cost/income ratio before loan losses	0.84	0.87	0.86
Cost/income ratio after loan losses	0.89	0.90	0.90
Capital adequacy, %	11.93	10.98	11.37
Tier 1 ratio, %	9.49	8.40	9.00
Percentage of doubtful receivables, gross, %	0.55	0.53	0.63
Provision ratio for doubtful receivables, %	95.89	105.47	76.33

### Parent Company

Return on equity, % <sup>1)</sup>	neg	neg	neg
Return on total capital, %	neg	neg	neg
Investment margin, %	0.80	1.02	1.01
Interest margin, %	0.67	0.85	0.86
Cost/income ratio before loan losses	1.09	1.05	1.07
Cost/income ratio after loan losses	1.11	1.06	1.08
Capital adequacy, %	49.04	41.06	45.64
Tier 1 ratio, %	39.12	31.63	36.45
Percentage of doubtful receivables, gross, %	0.21	0.25	0.23
Provision ratio for doubtful receivables, %	99.23	96.23	98.47

<sup>1)</sup> For comparability reasons, the return at June 30, 2004 and December 31, 2004 has been adjusted for standard tax.

## Quarterly development, Group

SEK M	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004
Net interest income	215.8	218.9	225.3	211.4	210.0
Net commission income	73.3	57.2	54.6	57.2	48.9
Other revenue	37.7	38.9	45.0	38.8	43.9
<b>Total revenue</b>	<b>326.8</b>	<b>315.0</b>	<b>324.9</b>	<b>307.4</b>	<b>302.8</b>
Personnel costs	–63.3	–55.3	–72.2	–52.0	–59.0
Other costs	–211.9	–208.9	–200.4	–210.0	–202.0
<b>Total costs</b>	<b>–275.2</b>	<b>–264.2</b>	<b>–272.6</b>	<b>–262.0</b>	<b>–261.0</b>
<b>Income before loan losses</b>	<b>51.6</b>	<b>50.8</b>	<b>52.3</b>	<b>45.4</b>	<b>41.8</b>
Loan losses	–16.9	–16.4	–16.2	–11.3	–13.4
<b>Operating income</b>	<b>34.7</b>	<b>34.4</b>	<b>36.1</b>	<b>34.1</b>	<b>28.4</b>

## Group

### Total assets

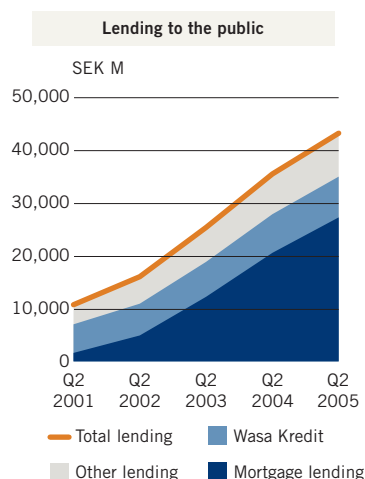
The Group's total assets after the second quarter amounted to SEK 47.0 billion (39.6), an increase of 19%.

Lending to the public increased by 22%, or SEK 7.7 billion, to SEK 43.1 billion (35.4).

Deposits from the public rose by 7%, or SEK 1.2 billion, to SEK 19.4 billion (18.1).

### Mortgage market

Despite stiff competition in the mortgage market, growth has continued and market share has been gained. Market share (private homes and tenant-owned apartments) amounted to 2.7% (2.4). New lending (gross) rose by 17% compared with the year-earlier period. Länsförsäkringar accounts for 7% of the total growth in the mortgage market. Lending by the subsidiary Länsförsäkringar Hypotek rose 33% to SEK 27.2 billion (20.5).



### Lending portfolio

Housing loans account for 71% (67) of the loan portfolio.

Lending portfolio, Group				
SEK M	June 30, 2005	%	June 30, 2004	%
Mortgages	30,823	71	23,912	67
Installment plans	3,389	8	3,344	9
Unsecured loans	3,231	7	2,868	8
Leasing	2,916	7	2,750	8
Agriculture	2,549	6	2,284	6
Apartment buildings	199	0.5	234	1
Other	209	0.5	200	1
Lending to the public, gross	43,316	100	35,592	100
Provisions	-230		-200	
<b>Lending to the public, net</b>	<b>43,086</b>		<b>35,392</b>	

### Funding

To reduce refinancing risks and achieve optimal pricing for the bank's funding, the bank strives to spread its funding across geographical markets and products. Borrowing and issued securities increased by 48%, or SEK 7.1 billion, to SEK 22.0 billion (14.9).

	Limit	Utilized at June 30, 2005
Commercial papers	SEK 15 billion	SEK 1.5 billion
MTN (Medium Term Note)	SEK 20 billion	SEK 10.4 billion
EMTN (Euro Medium Term Note)	EUR 1.5 billion	EUR 1.0 billion

### Capital adequacy

At June 30, 2005, the capital adequacy ratio was 11.93% (10.98) and the Tier 1 ratio 9.49% (8.40). Unconditional shareholders' contributions amounting to SEK 300 M were received during the year from the owner company, Länsförsäkringar AB.

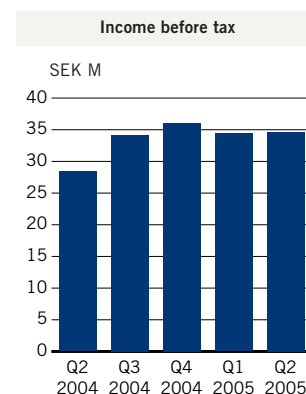
The target level for capital adequacy is 10.5% (+/-0.5) and for the Tier 1 ratio 8.5% (+/-0.5).

### Rating

The credit ratings are unchanged since May 2004. The ratings from Standard & Poor's are A- (stable) for long-term borrowing and A-2/K-1 for short-term borrowing. The ratings from Moody's are A3 (stable) for long-term borrowing and Prime-2 for short-term borrowing.

### Earnings and profitability

The Group's operating income amounted to SEK 102.3 M (73.7) before loan losses and SEK 69.1 M (56.4) after loan losses. This corresponds to a return on average equity of 3.9% (4.1).



### Revenue

Net interest income rose by 11% to SEK 434.7 M (392.9). This was accomplished despite stiff competition in the lending market leading to declining margins, particularly for mortgage operations. The increase in net interest income is primarily attributable to higher volumes. The Group's investment margin, defined as net interest income as a percentage of average total assets, amounted to 1.9% (2.2).

Net commission income rose by 28% to SEK 130.4 M (102.0). The increase was largely attributable to higher mutual fund commission. The fund management company accounts for 83% of net commission income.

Net income from financial transactions amounted to SEK 9.4 M (14.1).

Other operating revenue amounted to SEK 67.2 M (72.3). The reduction in operating revenue is due to an altered product mix in the fund company. The change will not impact earnings since costs have been reduced by an equal extent.

### Expenses

Operating expenses rose by 6%, or SEK 31.8 M, to SEK 539.4 M (507.6),

mainly as a result of the bank's further expansion and the related increase in volumes.

The cost/income ratio was 0.84 (0.87) before loan losses and 0.89 (0.90) after loan losses.

### Loan losses

Depending on the product, provisions were mostly made after group-wise appraisal and only to a limited extent after individual review. The Group's net loan losses (both probable and confirmed) increased to SEK 33.2 M (17.3), mainly as a result of increased provisions in Wasa Kredit for a growing stock of unsecured loans. Loan losses remain at a low level relative to the overall loan portfolio.

### Interest-rate risk

A 1-percentage point rise in the market rate of interest at June 30, 2005 would have resulted in an increase of SEK 3.8 M in the value of Länsförsäkringar Bank's interest-bearing assets and liabilities, including derivatives.

### Stock index bonds

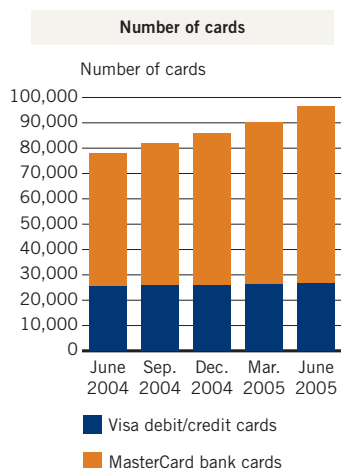
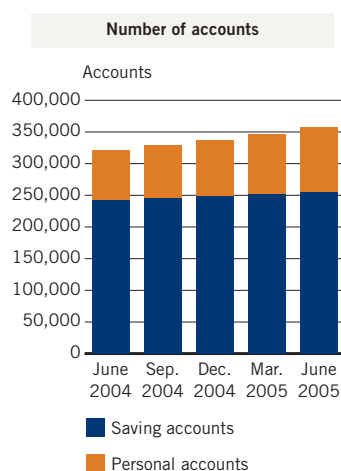
At the end of 2004, Länsförsäkringar launched two stock index bonds for the first time, with two different investment orientations – World and China & Japan. A third stock index bond – New Europe – was launched in the spring.

### Full-service bank

Länsförsäkringar's range of products and services caters for customers' every need in terms of their everyday finances. The development during the period, with a marked increase in the number of cards issued and accounts opened, is evidence that customers are broadening their business with Länsförsäkringar.

There has been a significant 11% total increase in the number of personal and savings accounts opened since June 30, 2004. The greatest increase has been in the number of personal accounts, up 27%. Market share, measured as deposits from households, has risen to 3.0%.

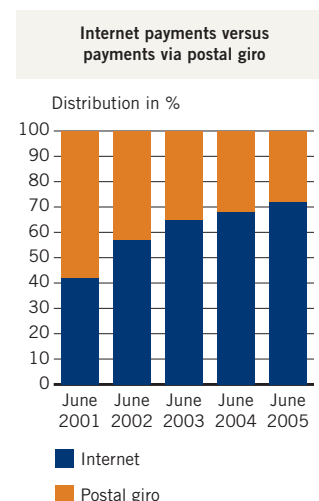
The card stock has risen by 24% since June 2004, with the MasterCard bank card accounting for the greatest increase, 33%.



### Internet bank

In May, Länsförsäkringar conducted a survey among its Internet customers. The results were very pleasing, revealing that 93% of Internet customers are satisfied with the service offered.

The Internet is becoming an increasingly important channel of customer communication. Some 70% of all payments arranged through the bank are made via the Internet. A total of 302,000 customers are now connected to the Internet bank, which is 10% more than at the end of June 2004. The number of loan applications received via the Internet is up 62% from the corresponding period of 2004. About 30% of all approved loan applications were received online. The number of Bank-ID users has more than doubled during the first half of the year ahead of this year's tax return.



### Spring campaign

An extensive advertising campaign was implemented during the spring, aimed at increasing awareness of Länsförsäkringar Bank, attracting new customers and broadening the commitments of existing customers.

The results of the campaign are clear and have led to increased sales. The recognition that Länsförsäkringar is a bank is 34%, an increase of 26%. The percentage of customers who would consider choosing Länsförsäkringar as their bank supplier has risen by 31%.

## Parent Company

Deposits, funding and some of the Group's lending are conducted by the Parent Company. Lending to the public amounted to SEK 8.1 billion (7.5) during the period, while deposits from the public totaled SEK 19.4 billion (18.1). Most of the Group's lending operations are conducted through Länsförsäkringar Hypotek and Wasa Kredit. The major portion of the Bank Group's administration expenses is contained within the Parent Company.

## Subsidiaries

### Länsförsäkringar Hypotek AB

Mortgage lending rose by 33%, or SEK 6.7 billion, to SEK 27.2 billion (20.5). Market share in terms of loans for private homes and tenant-owned apartments has risen by 17% since June 2004 and currently amounts to 2.7%. The number of mortgage customers increased by 24% to 77,000. Most of the lending, approximately 85%, relates to financing private homes. Financing for tenant-owned apartments accounts for 13%, with leisure homes and other financing accounting for the remaining 2%. First-lien mortgages are carried by Länsförsäkringar Hypotek and second-lien mortgages by the bank. Länsförsäkringar Hypotek reported operating income of SEK 16.4 M (16.4).

SEK M	June 30, 2005	June 30, 2004
Total assets	27,506.8	20,655.5
Lending volume	27,243.5	20,508.8
Operating income	16.4	16.4
Return on equity, %	1.8	3.0

### Wasa Kredit AB

Wasa Kredit is a finance company conducting leasing and financing operations as well as unsecured lending in the Swedish market. The leasing and financing operations focus primarily on the cars, computers and heavy machinery markets as well as the leisure segment, including trailers and boats. Wasa Kredit's operating income before appropriations and tax amounted to SEK 55.5 M (43.2).

The lending volume totaled SEK 7.7 billion (7.3). Some 43% of lending pertains to car financing, 20% to unsecured loans, 16% to machinery financing and the remainder to supplier financing and leisure.

SEK M	June 30, 2005	June 30, 2004
Total assets	8,076.7	7,642.8
Lending volume	7,738.2	7,347.1
Operating income	55.5	43.2
Return on equity, %	17.2	15.3

### Länsförsäkringar Fondförvaltning AB

Länsförsäkringar Fondförvaltning manages SEK 49 billion (38) in 34 (35) mutual funds with different investment orientations.

Länsförsäkringar's mutual funds are marketed by the regional insurance companies and through insurance brokers and are available both as direct fund saving and as various unit-linked products. Länsförsäkringar's mutual funds can also be linked to premium, contractual and occupational pension plans.

Mutual funds are an increasingly important aspect of Länsförsäkringar's savings offering, regardless of whether the customer invests in funds directly or through unit-linked insurance. The funds' performance improved in the first half of 2005, partly as a result of the stock market rally, a weaker Swedish krona and falling interest rates. The top performers among Länsförsäkringar's funds were the Real Estate Fund and the Growth Market Fund, which grew 39.2% and 25.4% respectively.

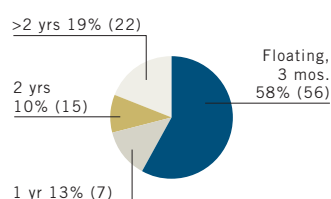
In terms of new sales, Länsförsäkringar Fondförvaltning holds a market share of slightly more than 6%.

Income before tax and appropriations amounted to SEK 25.5 M (13.4).

Länsförsäkringar is the fifth largest player within unit-linked management in Sweden, with a market share of 4.2% (3.9).

SEK M	June 30, 2005	June 30, 2004
Total assets	146.7	91.0
Assets under management	48,576	37,944
Net inflow	2,780	2,233
Operating income	25.5	13.4
Return on equity, %	68.9	69.3

Fixed-interest terms,  
new lending, June 30, 2005



Figures in parentheses  
pertain to January - June 2004.

## Income statements

SEK 000s		Group			Parent Company		
		Jan. 1–June 30 2005	Jan. 1–June 30 2004	Full-year 2004	Jan. 1–June 30 2005	Jan. 1–June 30 2004	Full-year 2004
Interest income	Note 2	1,088,848	986,222	2,051,056	667,214	639,301	1,284,119
Interest expense	Note 3	–654,117	–593,285	–1,221,319	–492,423	–466,142	–915,693
<b>Net interest income</b>		<b>434,731</b>	<b>392,937</b>	<b>829,737</b>	<b>174,791</b>	<b>173,159</b>	<b>368,426</b>
Dividends received		–	–	3,140	–	–	87
Commission revenue		322,649	278,815	556,238	48,647	54,556	91,404
Commission expense		–192,213	–176,853	–342,519	–48,142	–53,323	–99,530
Net income from financial transactions		9,430	14,058	14,811	4,830	14,058	14,811
Other operating revenue		67,181	72,319	152,245	79,669	69,888	147,939
<b>Total operating revenue</b>		<b>641,778</b>	<b>581,276</b>	<b>1,213,652</b>	<b>259,795</b>	<b>258,338</b>	<b>523,137</b>
General administration expenses		–500,267	–475,898	–976,005	–262,331	–254,122	–525,054
Depreciation/amortization and write-downs of tangible and intangible fixed assets		–16,102	–19,099	–37,074	–10,525	–13,550	–25,325
Other operating expenses		–23,081	–12,624	–29,153	–9,845	–3,593	–9,060
<b>Total expenses before loan losses</b>		<b>–539,450</b>	<b>–507,621</b>	<b>–1,042,232</b>	<b>–282,701</b>	<b>–271,265</b>	<b>–559,439</b>
<b>Income before loan losses</b>		<b>102,328</b>	<b>73,655</b>	<b>171,420</b>	<b>–22,906</b>	<b>–12,927</b>	<b>–36,302</b>
Loan losses, net	Note 4	–33,245	–17,273	–44,787	–5,462	–3,772	–8,016
<b>Operating income</b>		<b>69,083</b>	<b>56,382</b>	<b>126,633</b>	<b>–28,368</b>	<b>–16,699</b>	<b>–44,318</b>
Tax on income for the period		–19,343	–	59,371	7,943	20,464	107,399
<b>NET PROFIT/LOSS FOR THE PERIOD</b>		<b>49,740</b>	<b>56,382</b>	<b>186,004</b>	<b>–20,425</b>	<b>3,765</b>	<b>63,081</b>
Earnings per share, SEK		5.21	5.90	19.48	–2.14	0.39	6.61

Conditions for receiving and paying Group contributions will exist at year-end. Accordingly, no current tax will be charged.  
The tax effect of Group contributions received has been taken into account as per June 30, 2005/June 30, 2004.

## Balance sheets

SEK 000s	Group			Parent Company		
	June 30, 2005	June 30, 2004	Dec. 31, 2004	June 30, 2005	June 30, 2004	Dec. 31, 2004
<b>Assets</b>						
Cash and central bank account balances	58,040	108,637	146,399	58,040	67,705	72,253
Eligible Treasury bills	–	–	–	–	–	–
Lending to credit institutions	1,554,757	1,122,158	1,577,252	33,275,507	26,418,339	29,923,518
Lending to the public	Note5 43,086,316	35,392,308	39,426,458	8,104,610	7,536,480	8,005,721
Shares and participations	5,234	3,833	5,234	5,234	3,833	5,234
Shares and participations in Group companies	–	–	–	2,181,400	1,572,900	1,911,400
Bonds and other interest-bearing securities	1,694,455	2,409,082	1,197,721	1,694,455	2,409,082	1,197,721
Intangible assets	88,316	85,833	82,005	74,652	69,329	67,680
Tangible assets	14,769	21,949	17,297	2,222	6,423	3,421
Other assets	317,648	240,599	307,363	122,583	61,100	111,253
Prepaid expenses and accrued income	157,348	212,944	255,869	199,270	153,486	242,051
<b>ASSETS</b>	<b>46,976,883</b>	<b>39,597,343</b>	<b>43,015,598</b>	<b>45,717,973</b>	<b>38,298,677</b>	<b>41,540,252</b>
<b>Liabilities, provisions and shareholders' equity</b>						
Liabilities to credit institutions	742,721	1,519,963	705,489	974,095	1,626,517	758,572
Deposits and borrowing from the public	20,292,404	19,070,604	19,537,770	19,388,292	18,130,689	18,599,418
Securities issued	21,025,226	14,882,792	18,154,567	21,025,226	14,882,792	18,154,567
Other liabilities	214,338	192,780	375,765	44,680	115,770	198,651
Accrued expenses and prepaid income	839,952	845,260	728,603	408,608	429,920	230,707
Provisions	20,966	23,967	21,806	5,582	7,253	6,422
Subordinated debt	1,050,000	1,050,000	1,050,000	1,050,000	1,050,000	1,050,000
<b>Shareholders' equity</b> <span>Note 6</span>						
Share capital (9,548,708 shares, par value of SEK 100 each)	954,871	954,871	954,871	954,871	954,871	954,871
Restricted reserves	58,039	55,051	51,631	18,380	12,072	12,072
Profit brought forward	1,728,626	945,673	1,249,092	1,868,664	1,085,028	1,511,891
Net profit/loss for the period	49,740	56,382	186,004	–20,425	3,765	63,081
<b>Total shareholders' equity</b>	<b>2,791,276</b>	<b>2,011,977</b>	<b>2,441,598</b>	<b>2,821,490</b>	<b>2,055,736</b>	<b>2,541,915</b>
<b>LIABILITIES, PROVISIONS AND SHAREHOLDERS' EQUITY</b>	<b>46,976,883</b>	<b>39,597,343</b>	<b>43,015,598</b>	<b>45,717,973</b>	<b>38,298,677</b>	<b>41,540,252</b>
<b>Memorandum items</b>						
Assets pledged for own liabilities	500,000	300,000	500,000	500,000	300,000	500,000
Contingent liabilities	55,413	63,016	61,843	55,413	60,865	59,724
Commitments						
Loans approved but not disbursed	500,475	701,193	419,870	146,323	279,520	129,843
Unutilized overdraft facilities	843,645	707,544	715,417	5,468,089	5,573,726	8,666,357
Interest-rate swap agreements	7,830,000	13,350,000	13,050,000	1,800,000	6,050,000	4,650,000
Currency swap agreements	10,000,850	5,389,998	5,465,350	10,000,850	5,389,998	5,465,350
<b>Total commitments</b>	<b>19,174,970</b>	<b>20,148,735</b>	<b>19,650,637</b>	<b>17,415,262</b>	<b>17,293,244</b>	<b>18,911,550</b>

## Cash-flow statements

SEK 000s	Group		Parent Company	
	Jan. 1–June 30 2005	Jan. 1–June 30 2004	Jan. 1–June 30 2005	Jan. 1–June 30 2004
<b>Liquid funds, January 1</b>	<b>1,018,162</b>	<b>–679,712</b>	<b>683,325</b>	<b>–814,459</b>
<b>Operating activities</b>				
Operating income	69,083	56,382	–28,368	–16,699
<b>Adjustment for items not included in cash flow</b>				
Booked non-chargeable tax	–19,343	–	7,943	20,464
Depreciation/amortization charged against earnings	16,102	19,099	10,525	13,550
	<b>65,842</b>	<b>75,481</b>	<b>–9,900</b>	<b>17,315</b>
Increase in lending to the public	–3,659,858	–5,348,584	–98,889	–487,187
Increase in deposits and borrowing from the public	754,634	916,381	788,874	1,117,875
Increase in lending to subsidiaries	–	–	–3,324,896	–4,804,701
Change in other assets	88,236	–119,025	31,450	–83,013
Change in other liabilities	–50,918	274,868	23,090	155,857
<b>Cash flow from operating activities</b>	<b>–2,802,064</b>	<b>–4,200,879</b>	<b>–2,590,271</b>	<b>–4,083,854</b>
<b>Investing activities</b>				
Change in fixed assets	–516,619	–1,189,576	–513,032	–1,169,822
Increase in shares in subsidiaries	–	–	–270,000	–321,000
Acquisition of Länsförsäkringar Fondförvaltning AB	–	–91,352	–	–
Liquidation of Wasa Garanti Försäkringsaktiebolag	–62	–	–	–
Change in assets in insurance operations	–	21	–	–
Change in liabilities in insurance operations	–	–5,400	–	–
<b>Cash flow from investing activities</b>	<b>–516,681</b>	<b>–1,286,307</b>	<b>–783,032</b>	<b>–1,490,822</b>
<b>Financing activities</b>				
Shareholders' contribution received	300,000	–	300,000	–
New share issue	–	115,000	–	115,000
Change in securities issued	2,870,659	5,762,730	2,870,659	5,762,730
<b>Cash flow from financing activities</b>	<b>3,170,659</b>	<b>5,877,730</b>	<b>3,170,659</b>	<b>5,877,730</b>
<b>Cash flow for the period</b>	<b>–148,086</b>	<b>390,544</b>	<b>–202,644</b>	<b>303,054</b>
<b>Liquid funds, June 30</b>	<b>870,076</b>	<b>–289,168</b>	<b>480,681</b>	<b>–511,405</b>
<b>Liquid funds include:</b>				
Cash and central bank account balances	58,040	108,637	58,040	67,705
Other lending to/deposits in credit institutions	1,554,757	1,122,158	1,396,736	1,047,407
Liabilities to credit institutions	–742,721	–1,519,963	–974,095	–1,626,517
	<b>870,076</b>	<b>–289,168</b>	<b>480,681</b>	<b>–511,405</b>
Interest received amounted to	1,180,193	924,258	701,647	562,077
Interest paid amounted to	686,399	304,125	343,423	207,441
Gross investments during the period	18,814	6,491	16,723	5,420



## Notes

### NOTE 1 ACCOUNTING PRINCIPLES

This interim report is prepared in accordance with recommendation RR20 of the Swedish Financial Accounting Standards Council. The accounting principles and methods of computation remain unchanged compared with the 2004 Annual Report.

### NOTE 2 INTEREST INCOME

SEK 000s	Group			Parent Company		
	Jan. 1–June 30 2005	Jan. 1–June 30– 2004	Full-year 2004	Jan. 1–June 30 2005	Jan. 1–June 30 2004	Full-year 2004
Interest income, lending to credit institutions	164,315	163,353	340,325	470,766	441,565	884,256
Interest income, lending to the public	906,548	797,635	1,668,878	178,507	172,510	358,018
Interest income, interest-bearing securities	17,945	25,226	39,838	17,941	25,226	39,838
Other interest income	40	8	2,015	–	–	2,007
<b>Total interest income</b>	<b>1,088,848</b>	<b>986,222</b>	<b>2,051,056</b>	<b>667,214</b>	<b>639,301</b>	<b>1,284,119</b>
Average rate of interest on lending to the public during the period	4.4%	4.8%	4.7%	4.7%	4.8%	4.8%

### NOTE 3 INTEREST EXPENSE

SEK 000s	Group			Parent Company		
	Jan. 1–June 30 2005	Jan. 1–June 30– 2004	Full-year 2004	Jan. 1–June 30 2005	Jan. 1–June 30 2004	Full-year 2004
Interest expense, liabilities to credit institutions	208,239	179,846	411,341	71,451	82,154	159,689
Interest expense, deposits and borrowing from the public	162,579	192,021	347,342	137,722	162,580	293,368
Interest expense, interest-bearing securities	260,308	188,727	407,492	260,308	188,727	407,492
Interest expense, subordinated debt	18,206	28,812	47,406	18,206	28,812	47,406
Other interest expense, including government deposit insurance	4,785	3,879	7,738	4,736	3,869	7,738
<b>Total interest expense</b>	<b>654,117</b>	<b>593,285</b>	<b>1,221,319</b>	<b>492,423</b>	<b>466,142</b>	<b>915,693</b>
Average rate of interest on lending to the public during the period	1.4%	1.8%	1.5%	1.4%	1.8%	1.5%

**NOTE 4 LOAN LOSSES, NET**

SEK 000s	Group			Parent Company		
	Jan. 1–June 30 2005	Jan. 1–June 30– 2004	Full-year 2004	Jan. 1–June 30 2005	Jan. 1–June 30 2004	Full-year 2004
<b>Specific provision for individually appraised loan receivables</b>						
Write-off of confirmed loan losses during the period	2,564	1,065	22,211	1,165	620	1,163
Reversed provisions for probable loan losses reported in the interim accounts as confirmed losses	–2,000	–389	–635	–624	–389	–635
Provision for probable loan losses during the period	25,251	15,113	7,676	362	1,052	1,541
Payment received for prior confirmed loan losses	–7,889	–6,874	–11,733	–698	–228	–644
Reversed provisions no longer required for probable loan losses	–1,233	–2,055	–4,904	–921	–1,149	–2,933
<b>Net expense during the period for individually appraised loan receivables</b>	<b>16,693</b>	<b>6,860</b>	<b>12,615</b>	<b>–716</b>	<b>–94</b>	<b>–1,508</b>
<b>Group-wise provisions for individually appraised receivables</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Homogenous groups, appraised by group, of loan receivables of limited value and similar credit risk</b>						
Write-off of confirmed loan losses during the period	4,494	1,710	23,830	4,494	1,710	5,765
Payment received for previously confirmed loan losses	–1,247	–1,489	–4,169	–7	–22	–2
Allocation/dissolution of provisions for loan losses	15,417	12,235	16,214	3,803	4,221	7,464
<b>Net expense for the period for homogenous loan receivables appraised by group</b>	<b>18,664</b>	<b>12,456</b>	<b>35,875</b>	<b>8,290</b>	<b>5,909</b>	<b>13,227</b>
<b>Net expense for the period for fulfillment of guarantees</b>	<b>–2,112</b>	<b>–2,043</b>	<b>–3,703</b>	<b>–2,112</b>	<b>–2,043</b>	<b>–3,703</b>
<b>Net expense for the period for loan losses</b>	<b>33,245</b>	<b>17,273</b>	<b>44,787</b>	<b>5,462</b>	<b>3,772</b>	<b>8,016</b>

**NOTE 5 LENDING TO THE PUBLIC**

SEK 000s	Group			Parent Company		
	Jun.30, 2005	Jun.30, 2004	Dec.31, 2004	Jun.30, 2005	Jun.30, 2004	Dec.31, 2004
<b>Loan receivables, gross</b>						
Public sector	126,661	122,219	108,682	–	–	–
Commercial sector	3,974,668	3,791,760	3,912,000	445,447	365,587	433,531
Household sector	39,206,322	31,669,689	35,587,228	7,738,300	7,247,212	7,650,583
Other	8,143	8,328	8,309	3,366	3,418	3,479
<b>Total</b>	<b>43,315,794</b>	<b>35,591,996</b>	<b>39,616,219</b>	<b>8,187,113</b>	<b>7,616,217</b>	<b>8,087,593</b>
<b>Less:</b>						
<b>Specific provisions for individually reserved loan receivables</b>						
Commercial sector	–43,430	–36,478	–25,563	–246	–247	–247
Household sector	–61,095	–52,419	–39,028	–13,989	–16,712	–15,171
	<b>–104,525</b>	<b>–88,897</b>	<b>–64,591</b>	<b>–14,235</b>	<b>–16,959</b>	<b>–15,418</b>
<b>Provisions for group-wise reserved loan receivables</b>						
Commercial sector	–15,153	–13,096	–16,813	–2,259	–1,967	–2,188
Household sector	–109,800	–97,695	–108,357	–66,009	–60,811	–64,266
	<b>–124,953</b>	<b>–110,791</b>	<b>–125,170</b>	<b>–68,268</b>	<b>–62,778</b>	<b>–66,454</b>
<b>Total provisions</b>	<b>–229,478</b>	<b>–199,688</b>	<b>–189,761</b>	<b>–82,503</b>	<b>–79,737</b>	<b>–81,872</b>
<b>Loan receivables, net</b>						
Public sector	126,661	122,219	108,682	–	–	–
Commercial sector	3,916,085	3,742,186	3,869,624	442,942	363,373	431,096
Household sector	39,035,427	31,519,575	35,439,843	7,658,302	7,169,689	7,571,146
Other	8,143	8,328	8,309	3,366	3,418	3,479
	<b>43,086,316</b>	<b>35,392,308</b>	<b>39,426,458</b>	<b>8,104,610</b>	<b>7,536,480</b>	<b>8,005,721</b>
<b>Doubtful receivables</b>						
Commercial sector	65,042	47,545	75,266	2,505	2,214	2,618
Household sector	174,280	141,793	173,356	80,638	80,643	80,527
	<b>239,322</b>	<b>189,338</b>	<b>248,622</b>	<b>83,143</b>	<b>82,857</b>	<b>83,145</b>
<b>Non-performing receivables included among doubtful receivables</b>						
Commercial sector	42,642	23,658	21,560	264	463	430
Household sector	116,335	81,860	84,905	50,552	48,885	49,011
	<b>158,977</b>	<b>105,518</b>	<b>106,465</b>	<b>50,816</b>	<b>49,348</b>	<b>49,441</b>

**Definitions:**

A **non-performing receivable** is a claim 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	Group			Parent Company		
	June 30 2005	June 30 2004	Dec. 31 2004	June 30 2005	June 30 2004	Dec. 31 2004
<b>Restricted equity</b>						
Share capital	954,871	954,871	954,871	954,871	954,871	954,871
Statutory reserve	8,779	2,371	2,371	8,679	2,371	2,371
Share premium reserve	9,701	9,701	9,701	9,701	9,701	9,701
Other reserves	39,559	42,979	39,559	–	–	–
	<b>1,012,910</b>	<b>1,009,922</b>	<b>1,006,502</b>	<b>973,251</b>	<b>966,943</b>	<b>966,943</b>
<b>Non-restricted equity</b>						
Profit brought forward	1,728,626	945,673	1,249,092	1,868,664	1,085,028	1,511,891
Net profit/loss for the year	49,740	56,382	186,004	–20,425	3,765	63,081
	<b>1,778,366</b>	<b>1,002,055</b>	<b>1,435,096</b>	<b>1,848,239</b>	<b>1,088,793</b>	<b>1,574,972</b>
<b>Total shareholders' equity</b>	<b>2,791,276</b>	<b>2,011,977</b>	<b>2,441,598</b>	<b>2,821,490</b>	<b>2,055,736</b>	<b>2,541,915</b>
<b>Change in shareholders' equity</b>						
Shareholders' equity, opening balance	2,441,598	1,931,947	1,931,947	2,541,915	1,936,971	1,936,971
Group contribution received	–	–	–	–	–	176,200
Tax effect of Group contribution received	–	–	–	–	–	–49,337
Unconditional shareholders' contribution from Parent Company	300,000	–	300,000	300,000	–	300,000
New share issue in Länsförsäkringar Bank AB	–	115,000	115,000	–	115,000	115,000
Changed Group structure	–62	–91,352	–91,353	–	–	–
Net profit/loss for the period	49,740	56,382	186,004	–20,425	3,765	63,081
<b>Shareholders' equity, closing balance</b>	<b>2,791,276</b>	<b>2,011,977</b>	<b>2,441,598</b>	<b>2,821,490</b>	<b>2,055,736</b>	<b>2,541,915</b>

## NOTE 7 DERIVATIVE INSTRUMENTS

SEK 000s	Nominal value		Fair value	
	Group	Parent Company	Group	Parent Company
<b>Derivative instruments with positive value</b>				
Interest-rate derivatives	1,400,000	900,000	6,601	6,529
Currency derivatives	10,000,850	10,000,850	376,811	376,811
<b>Derivative instruments with negative value</b>				
Interest-rate derivatives	6,430,000	900,000	281,917	6,529
Currency derivatives	–	–	–	–

Stockholm, August 30, 2005

**Tomas Johansson**

*Managing Director*

### Review report

We have reviewed this interim report in accordance with the recommendation issued by FAR. A review is considerably limited in scope compared with an audit. Nothing has come to our attention that causes us to believe that the interim report does not comply with the requirements of the Swedish Annual Accounts for Credit Institutions and Securities Companies Act.

Stockholm, August 30, 2005

**Johan Bäckström**

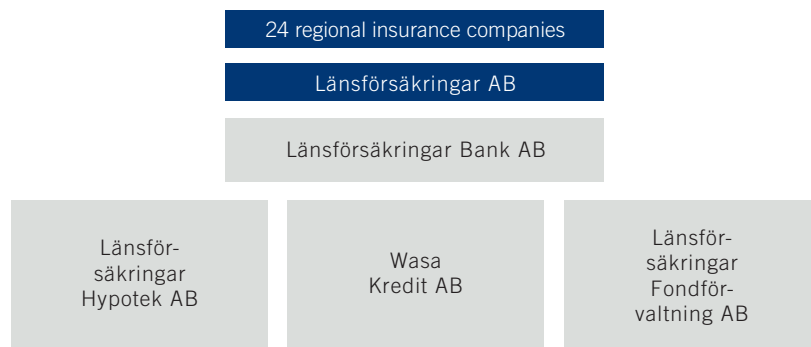
*Authorized Public Accountant*

**Lars-Ola Andersson**

*Authorized Public Accountant, Appointed by Finansinspektionen*

**Reporting dates:**

Interim report, January–September October 25, 2005



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.

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