

Länsförsäkringar Hypotek

INTERIM REPORT JANUARY – JUNE 2005

Summary

- Operating income amounted to SEK 16.4 M (16.4).
- Lending to the public amounted to SEK 27.2 billion (20.5), up 33% since June 2004.
- The market share in terms of lending for private homes and tenant-owned apartments rose to 2.7% (2.4).
- Capital adequacy was 12.33% (10.07) and the Tier 1 ratio 9.98% (8.15).
- A capital contribution of SEK 315 M was received in the form of an unconditional shareholders' contribution.
- Loan losses remain at a low level. Recovered amounts exceeded losses by SEK 1.7 M (0.5).
- The number of home mortgage customers increased by 24% to 77,000 (62,000).

Figures in parentheses pertain to January – June 2004.



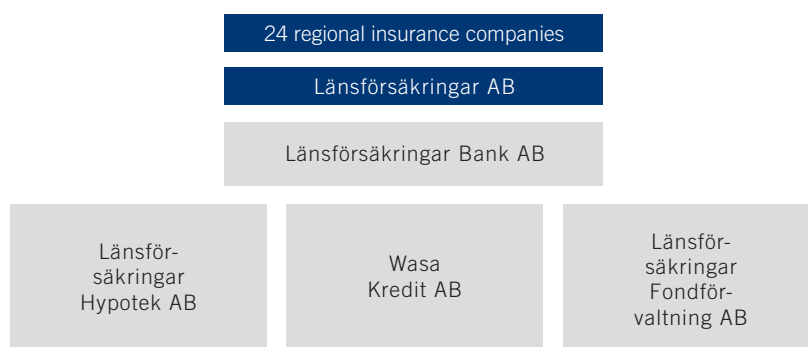
Key figures

	Jan. 1–June 30, 2005	Jan. 1–June 30, 2004	Full-year 2004
Return on equity, % ¹⁾	1.78	3.01	2.35
Return on total capital, %	0.26	0.18	0.13
Investment margin, %	0.69	0.85	0.78
Interest margin, %	0.53	0.65	0.57
Cost/income ratio before loan losses	0.84	0.91	0.85
Cost/income ratio after loan losses	0.82	0.90	0.83
Capital adequacy, %	12.33	10.07	11.28
Tier 1 ratio, %	9.98	8.15	9.12
Percentage of doubtful receivables, gross, %	0.12	0.16	0.14
Provision ratio for doubtful receivables, %	110.41	108.39	107.05

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

Quarterly development

SEK 000s	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004
Interest income	307,086	291,395	284,395	272,199	252,710
Interest expense	-262,532	-248,243	-241,099	-236,169	-213,043
Net interest income	44,554	43,152	43,296	36,030	39,667
Net commission income	232	198	204	193	217
Net income from financial transactions	4,600	–	–	–	–
Other revenue	6	-30	56	-7	35
Total operating revenue	49,392	43,320	43,556	36,216	39,919
General administration expenses	-39,703	-38,182	-36,553	-34,930	-33,575
Other expenses	-74	-69	-1	0	63
Total expenses before loan losses	-39,777	-38,251	-36,554	-34,930	-33,512
Income before loan losses	9,615	5,069	7,002	1,286	6,407
Loan losses	879	838	835	1,426	-94
Operating income	10,494	5,907	7,837	2,712	6,313



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 second quarter amounted to SEK 27.5 billion (20.7), an increase of 33%.

Lending to the public rose by 33%, or SEK 6.7 billion, to SEK 27.2 billion (20.5).

Borrowing rose by 31%, or SEK 6.0 billion, to SEK 25.3 billion (19.3).

Capital adequacy

The capital adequacy ratio amounted to 12.33% (10.07) and the Tier 1 ratio was 9.98% (8.15). During the first half 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% (+/- 0.5) and for the Tier 1 ratio 8.5% (+/- 0.5)

Earnings and profitability

The company's operating income amounted to SEK 14.7 M (15.9) before loan losses and SEK 16.4 M (16.4) after loan losses. This corresponds to a return on average equity of 1.8% (3.0) after tax.

Revenue

Despite stiff competition and declining margins, net interest income rose by 13% to SEK 87.7 M (77.7). The company's investment margin, that is, net interest income as a percentage of average total assets, was 0.69% (0.85). The increase in net interest income is attributable to higher lending volumes.

Expenses

Operating expenses rose by 25%, or SEK 15.8 M, to SEK 78.0 M (62.2). The increase is attributable to increased provisions for the regional insurance companies as a result of higher lending volumes.

The cost/income ratio was 0.84 (0.91) before loan losses and 0.82 (0.90) after loan losses.

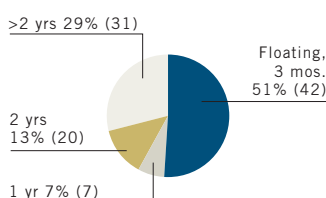
Loan losses

Provisions were made based on group-wise valuation and, to a limited extent only, on individual appraisal. Loan losses remain at a low level. Recovered amounts exceeded losses by SEK 1.7 M (0.5).

Lending

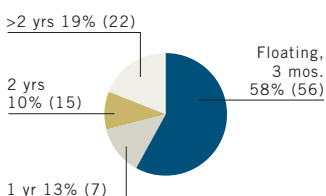
Lending to the private market increased during the first six months of the year and new lending amounted to SEK 5.5 billion (5.3). The proportion of loans with floating interest rates has risen by 11% over the most recent 12-month period.

Fixed-interest terms,
loan portfolio, June 30, 2005



Figures in parentheses
pertain to January - June 2004.

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



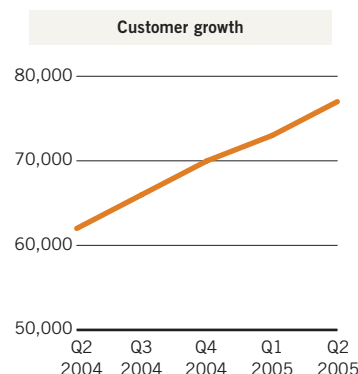
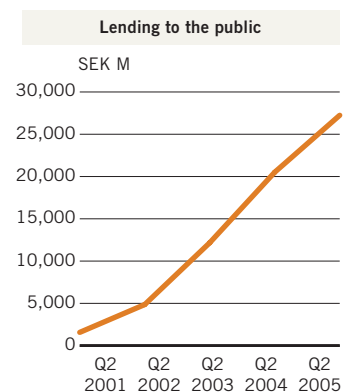
Figures in parentheses
pertain to January - June 2004.

Interest-rate risk

A 1-percentage point rise in the market rate of interest at June 30, 2005 would have resulted in a reduction of SEK 6.6 M in the value of Länsförsäkringar Hypotek's interest-bearing assets and liabilities, including derivatives.

Mortgage market

Despite stiff competition in the mortgage market, growth has continued, resulting in rising market share. The company's 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.



Income statement

SEK 000s		Jan. 1–June 30, 2005	Jan. 1–June 30, 2004	Full-year 2004
Interest income	Note 2	598,481	487,199	1,043,793
Interest expense	Note 3	–510,775	–409,532	–886,800
Net interest income		87,706	77,667	156,993
Commission revenue		695	606	1,252
Commission expense		–265	–233	–482
Net income from financial transactions		4,600	–	–
Other operating revenue		–24	96	145
Total operating revenue		92,712	78,136	157,908
General administration expenses		–77,885	–62,198	–133,681
Other expenses		–143	0	–1
Total expenses before loan losses		–78,028	–62,198	–133,682
Income before loan losses		14,684	15,938	24,226
Loan losses, net	Note 4	1,717	501	2,762
Operating income		16,401	16,439	26,988
Change in tax allocation reserve		–	–	4,750
Tax on income for the period		–4,592	–4,603	–8,886
NET PROFIT FOR THE PERIOD		11,809	11,836	22,852

Balance sheet

SEK 000s		June 30, 2005	June 30, 2004	Dec. 31, 2004
Assets				
Lending to credit institutions		230,852	105,584	52,126
Lending to the public	Note 5	27,243,531	20,508,763	23,746,307
Other assets		659	576	2,386
Prepaid expenses and accrued income		31,718	40,622	42,558
TOTAL ASSETS		27,506,760	20,655,545	23,843,377
Liabilities and shareholders' equity				
Liabilities to credit institutions		24,340,584	18,324,938	21,062,783
Borrowing from the public		937,114	939,915	938,352
Other liabilities		12,073	13,341	5,084
Accrued expenses and prepaid income		303,475	198,088	324,453
Subordinated debt		362,614	222,114	288,614
TOTAL LIABILITIES		25,955,860	19,698,396	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	856,161	1,116,837
Net profit for the period		11,809	11,836	22,852
Total shareholders' equity		1,550,900	952,399	1,224,091
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		27,506,760	20,655,545	23,843,377
Memorandum items				
Assets pledged		none	none	none
Contingent liabilities		none	none	none
Commitments				
loans approved but not disbursed		140,120	168,815	115,853
interest-rate swap agreements		7,330,000	10,100,000	11,200,000
		7,470,120	10,268,815	11,315,853

Cash-flow statement

SEK 000s	Jan. 1–June 30, 2005	Jan. 1–June 30, 2004
Liquid funds, January 1	52,126	42,723
Operating activities		
Operating income	16,401	16,439
Adjustment for items not included in cash flow		
Booked non-chargeable tax	–4,592	–4,603
	11,809	11,836
Increase in lending to the public	–3,497,224	–4,331,007
Change in other assets	12,568	–8,674
Change in other liabilities	–13,990	67,604
Cash flow from operating activities	–3,486,837	–4,260,241
Investing activities		
Change in fixed assets	–	–
Cash flow from investing activities	–	–
Financing activities		
Change in borrowing from the public	–1,238	–201,494
Change in other borrowing	3,277,801	4,136,482
Group contribution	–	–
Increase in subordinated loan	74,000	182,114
Shareholders' contribution received	315,000	206,000
Cash flow from financing activities	3,665,563	4,323,102
Cash flow for the period	178,726	62,861
Liquid funds, June 30	230,852	105,584
Interest received amounted to	609,321	474,904
Interest paid amounted to	541,319	347,630
Liquid funds include:		
Other lending to credit institutions	230,852	105,584

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–June 30, 2005	Jan. 1–June 30, 2004	Full-year 2004
Interest income, lending to the public	468,634	390,163	824,887
Interest income, Swedish credit institutions	129,843	97,036	218,905
Interest income, other	4	–	1
Total interest income	598,481	487,199	1,043,793
Average interest rate, lending to the public	3.6%	4.3%	4.1%

NOTE 3 INTEREST EXPENSE

SEK 000s	Jan. 1–June 30, 2005	Jan. 1–June 30, 2004	Full-year 2004
Interest expense, borrowing from credit institutions	481,094	378,002	826,553
Interest expense, borrowing from the public	24,857	29,442	53,974
Interest expense, subordinated debt	4,824	2,088	6,273
Total interest expense	510,775	409,532	886,800

NOTE 4 LOAN LOSSES, NET

SEK 000s	Jan. 1–June 30, 2005	Jan. 1–June 30, 2004	Full-year 2004
Specific provision for individually appraised loan receivables			
Write-off of confirmed loan losses during the period	1,399	445	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	–	529	856
Payment received for prior confirmed loan losses	–3,837	–3,056	–6,390
Reversed provisions no longer required for probable loan losses	–312	–906	–1,971
Net expense during the period for individually appraised receivables	–4,126	–2,988	–6,829
Group-wise provision 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	2,409	2,487	4,067
Net expense for the period for loan receivables appraised by group	2,409	2,487	4,067
Net expense for the period for loan losses	–1,717	–501	–2,762

All data pertains to receivables from the general public.

NOTE 5 LENDING TO THE PUBLIC

SEK 000s	June 30, 2005	June 30, 2004	Dec. 31, 2004
Loan receivables, gross			
Commercial sector	165,985	178,155	175,886
Household sector	27,110,208	20,361,574	23,602,309
Other	4,777	4,910	4,830
Total	27,280,970	20,544,639	23,783,025
Less:			
Specific provisions for individually appraised loan receivables			
Commercial sector	-7,515	-9,031	-8,891
Household sector	-2,304	-3,214	-2,616
Total individual provisions	-9,819	-12,245	-11,507
Provisions for group-wise appraised homogenous groups of loan receivables			
Commercial sector	-11	-18	-13
Household sector	-27,609	-23,613	-25,198
Total group-wise provisions	-27,620	-23,631	-25,211
Total provisions	-37,439	-35,876	-36,718
Loan receivables, net			
Commercial sector	158,459	169,106	166,982
Household sector	27,080,295	20,334,747	23,574,495
Other	4,777	4,910	4,830
Total loan receivables, net	27,243,531	20,508,763	23,746,307
Doubtful loans receivables			
Commercial sector	11,082	13,365	12,490
Household sector	22,827	19,734	22,111
Total doubtful loans receivables	33,909	33,099	34,601
Non-performing receivables included among doubtful receivables			
Commercial sector	3,072	4,369	4,369
Household sector	16,413	10,486	14,218
Total non-performing receivables included among doubtful receivables	19,485	14,855	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	June 30, 2005	June 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	14,067	14,067	14,067
Non-restricted equity			
Profit brought forward	1,454,689	856,161	1,116,837
Net profit for the period	11,809	11,836	22,852
Total non-restricted equity	1,466,498	867,997	1,139,689
Total shareholders' equity	1,550,900	952,399	1,224,091
Change in shareholders' equity			
Opening balance	1,224,091	734,563	734,563
Unconditional shareholders' contribution from Parent Company	315,000	206,000	489,500
Group contribution paid			-31,700
Tax effect of Group contribution paid			8,876
Net profit for the period	11,809	11,836	22,852
Closing balance	1,550,900	952,399	1,224,091

NOTE 7 DERIVATIVE INSTRUMENTS

SEK 000s	Nominal value	Fair value
Derivative instruments with positive value		
Interest-rate derivatives	900,000	6,529
Derivative instruments with negative value		
Interest-rate derivatives	6,430,000	281,917

This interim report is unaudited.

Stockholm, August 30, 2005.

Anders Borgcrantz

President

Reporting dates:

Interim report, January–September October 25, 2005



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