

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.

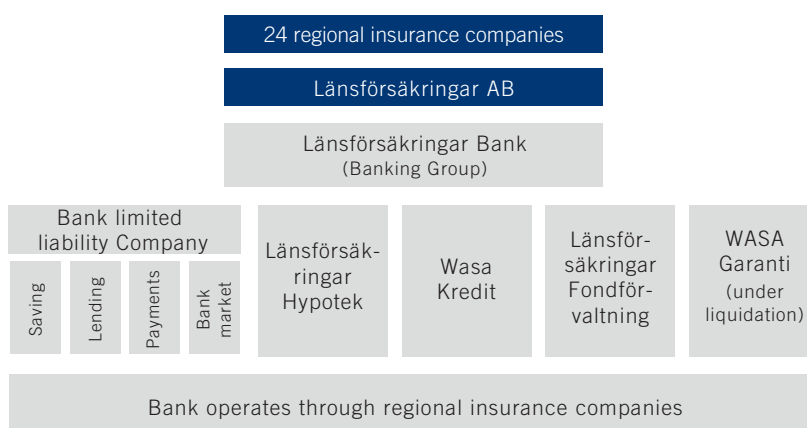


Key figures

	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
Net interest income	36,031	39,667	38,000	37,186	31,423
Net commission income	193	217	156	162	155
Other revenue	–9	35	61	22	23
Total operating revenue	36,215	39,919	38,217	37,370	31,601
General administration expenses	–34,930	–33,575	–28,623	–29,776	–18,394
Other expenses	0	63	–63	–6	–4
Total expenses before loan losses	–34,930	–33,512	–28,686	–29,782	–18,398
Income before loan losses	1,285	6,407	9,531	7,588	13,203
Loan losses	1,426	–94	595	3,812	1,683
Operating income	2,711	6,313	10,126	11,400	14,886



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

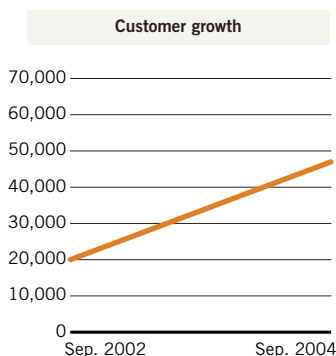
The capital adequacy ratio amounted to 12.2% (9.9) and the Tier 1 ratio was 9.9% (9.4). The Parent Company Länsförsäkringar Bank made an unconditional shareholders' contribution of SEK 490 M and a subordinated loan of SEK 249 M during the period.

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

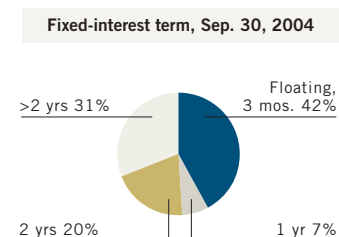
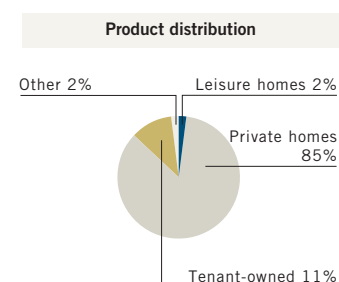
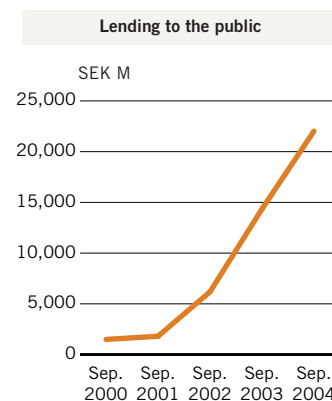
Operating expenses rose by SEK 49.6 M to SEK 97.1 M (47.5), an increase attributable mostly to higher distribution costs. The cost/income ratio was 0.9% (0.6) before loan losses and 0.8% (0.5) after loan losses.

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
Net interest income		113,698	83,546	120,732
Commission revenue		918	729	1,008
Commission expense		–352	–317	–434
Other operating revenue		87	147	169
Total operating revenue		114,351	84,105	121,475
General administration expenses		–97,128	–47,466	–77,242
Other expenses		0	–10	–16
Total expenses before loan losses		–97,128	–47,476	–77,258
Income before loan losses		17,223	36,629	44,217
Loan losses, net	Note 4	1,927	2,082	5,894
Operating income		19,150	38,711	50,111
Change in tax allocation reserve		–	–	4,450
Tax on income for the period		–5,362	–10,839	–15,262
NET PROFIT FOR THE PERIOD		13,788	27,872	39,299

Balance sheet

SEK 000s	Sep. 30, 2004	Sep. 30, 2003	Dec. 31, 2003
Assets			
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
ASSETS	22,424,565	14,471,789	16,253,003
Liabilities, provisions and shareholders' equity			
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
LIABILITIES	21,181,964	13,700,213	15,513,690
Provisions	4,750	9,200	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
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
Total shareholders' equity	1,237,851	762,376	734,563
LIABILITIES, PROVISIONS AND SHAREHOLDERS' EQUITY	22,424,565	14,471,789	16,253,003
Memorandum items			
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
	10,786,001	4,675,992	6,002,717

Cash-flow statement

SEK 000s	Jan. 1–Sep. 30, 2004	Jan. 1–Sep. 30, 2003
Liquid funds, January 1	42,723	87,291
Operating activities		
Operating income	19,150	38,711
Adjustment for items not included in cash flow		
Booked non-chargeable tax	–5,362	–10,839
	13,788	27,872
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
Cash flow from operating activities	–5,719,837	–6,407,593
Investing activities		
Increase in debenture loans	248,614	–
Change in fixed assets	–	–
Cash flow from investing activities	248,614	–
Financing activities		
Borrowing from the public	–202,276	–499,781
Other borrowing	5,499,565	6,513,139
Shareholders' contribution received	489,500	400,000
Cash flow from financing activities	5,786,789	6,413,358
Cash flow for the period	315,566	5,765
Liquid funds, Sep. 30	358,289	93,056
Liquid funds include:		
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
Total interest income	759,399	493,347	704,471
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
Total interest expense	645,701	409,801	583,739

NOTE 4 LOAN LOSSES, NET

SEK 000s	Jan. 1 – Sep. 30, 2004	Jan. 1 – Sep. 30, 2003	Full-year 2003
Specific provision for individually appraised loan receivables			
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
Net expense during the period for individually appraised receivables	–5,293	–4,392	–9,142
Groupwise 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	3,366	2,310	3,248
Net expense for the period for loan receivables appraised by group	3,366	2,310	3,248
Net expense for the period for loan losses	–1,927	–2,082	–5,894

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
Loan receivables, gross			
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
Total	22,059,236	14,382,906	16,211,222
Less:			
Specific provisions for individually appraised loan receivables			
Commercial sector	-8,891	-8,878	-9,378
Household sector	-2,755	-2,747	-2,944
Total individual provisions	-11,646	-11,625	-12,322
Provisions for groupwise appraised homogenous groups of loans receivable			
Commercial sector	-16	-287	-271
Household sector	-24,494	-19,920	-20,873
Total groupwise provisions	-24,510	-20,207	-21,144
Total provisions	-36,156	-31,832	-33,466
Loan receivables, net			
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
Total loan receivables, net	22,023,080	14,351,074	16,177,756
Doubtful loans receivable			
Commercial sector	12,504	14,271	14,078
Household sector	19,959	18,692	21,913
Total doubtful loans receivable	32,463	32,963	35,991
Non-performing receivables included among doubtful receivables			
Commercial sector	3,951	5,815	5,815
Household sector	11,073	11,073	11,167
Total non-performing receivables included among doubtful receivables	15,024	16,888	16,982

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
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
	84,402	84,402	84,402
Non-restricted equity			
Profit brought forward	1,139,661	650,102	610,862
Net profit for the period	13,788	27,872	39,299
	1,153,449	677,974	650,161
Total shareholders' equity	1,237,851	762,376	734,563
Change in shareholders' equity			
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
Closing balance	1,237,851	762,376	734,563

NOTE 7 DERIVATIVE INSTRUMENTS

SEK 000s	Nominal value	Fair value
Derivative instruments with positive value		
Interest-rate derivatives	150,000	146
Derivative instruments with negative value		
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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