

# Länsförsäkringar Hypotek

INTERIM REPORT, JANUARY – JUNE 2004

## Summary

- Operating income totaled SEK 16.4 M (23.8). The change is due to temporary effects of the company's refinancing agreement with the parent company and to altered allocation principles between the parent company and the subsidiary.
- Mortgage lending, which has more than quadrupled in two years, rose by 69% during the period to SEK 20.5 billion (12.2).
- The market share for private homes and tenant-owned apartments increased to 2.4% (1.5).
- The number of home mortgage customers rose by 41% and amounted to 62,000 (44,000).
- Capital adequacy was 10.1% (9.4) and the Tier 1 ratio 8.2% (8.8).
- New lending rose by 8% during the first six months of the year and amounted to SEK 5.3 billion (4.9) for the period.
- Loan losses remain at a low level. Loan recovery exceeded losses by SEK 0.5 M.

### **Bengt Jerning, Managing Director, Länsförsäkringar Hypotek:**

Länsförsäkringar's home mortgage operations continue to develop highly favorably, and our aim is to further strengthen our position in the Swedish mortgage market. Mortgage lending has more than quadrupled during the past two years, and we currently hold a market share of 2.4%. The lending volume increased by 69% and the number of mortgage customers rose by 41% to 62,000 compared with the corresponding period in 2003. Our hallmarks are price competitive mortgage offering and a strong local presence, where we quickly and simply provide our customers with good service.

Figures in parentheses pertain to January–June 2003.

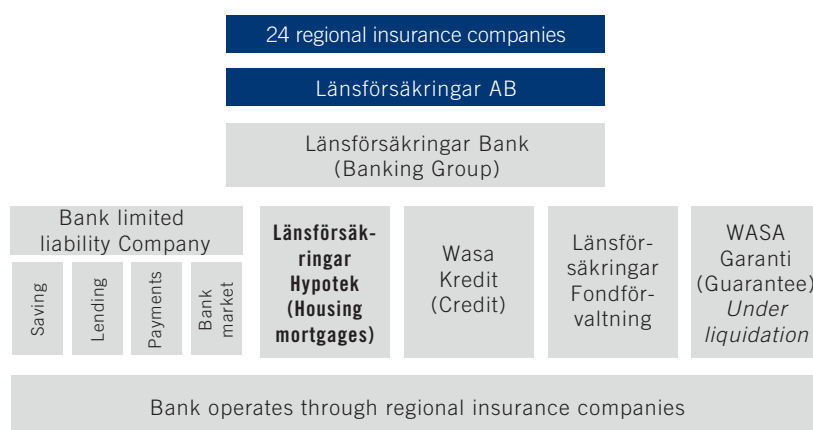


## Key figures

	Jan. 1–June 30, 2004	Jan. 1–June 30, 2003	Full-year 2003
Return on equity, %	3.01	7.39	7.30
Investment margin, %	0.85	1.03	0.98
Interest margin, %	0.65	0.79	0.75
Cost/income ratio before loan losses	0.91	0.55	0.64
Cost/income ratio after loan losses	0.90	0.55	0.59
Capital adequacy, %	10.07	9.39	8.68
Tier 1 ratio, %	8.15	8.80	8.23
Percentage of doubtful receivables, gross, %	0.16	0.36	0.22
Percentage of doubtful receivables, net, %	–0.01	0.09	0.02
Provision ratio for doubtful receivables, %	108.39	78.38	93.00

## Quarterly development

SEK M	Q2 2004	Q1 2004	Q4 2003	Q3 2003	Q2 2003
Interest income	252,710	234,489	211,124	192,559	169,167
Interest expense	–213,043	–196,489	–173,938	–161,136	–139,645
<b>Net interest income</b>	<b>39,667</b>	<b>38,000</b>	<b>37,186</b>	<b>31,423</b>	<b>29,522</b>
Net commission income	217	156	162	155	151
Other revenue	35	61	22	23	89
<b>Total operating revenue</b>	<b>39,919</b>	<b>38,217</b>	<b>37,370</b>	<b>31,601</b>	<b>29,762</b>
General administration expenses	–33,575	–28,623	–29,776	–18,394	–15,378
Other expenses	63	–63	–6	–4	–3
<b>Total expenses before loan losses</b>	<b>–33,512</b>	<b>–28,686</b>	<b>–29,782</b>	<b>–18,398</b>	<b>–15,381</b>
<b>Income before loan losses</b>	<b>6,407</b>	<b>9,531</b>	<b>7,588</b>	<b>13,203</b>	<b>14,381</b>
Loan losses	–94	595	3,812	1,683	867
<b>Operating income</b>	<b>6,313</b>	<b>10,126</b>	<b>11,400</b>	<b>14,886</b>	<b>15,248</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 on June 30, 2004 amounted to SEK 20.7 billion (12.2), an increase of 69%. Lending to the public rose by 69%, or SEK 8.3 billion, to SEK 20.5 billion (12.2). Borrowing rose by 68%, or SEK 7.8 billion, to SEK 19.3 billion (11.5).

## Capital adequacy

The capital adequacy ratio amounted to 10.1% (9.4) and the Tier 1 ratio was 8.2% (8.8). During the period, the company received SEK 206 M as an unconditional shareholders' contribution and SEK 182 M in the form of a subordinated loan from Länsförsäkringar Bank.

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

## Earnings and profitability

The company's operating income amounted to SEK 15.9 M (23.4) before loan losses and SEK 16.4 M (23.8) after loan losses. This corresponds to a return on average equity of 3.0% (7.4).

## Strengthened market position

The flow of new customers is strong. The number of home mortgage customers rose by 41% to 62,000. Approximately 40% of lending occurs in Stockholm, Malmö, Gothenburg, Älvsborg and Halland. The balance of lending has a favorable geographical spread nationwide, with concentration to urban areas. Länsförsäkringar's communi-

cations during the spring focused on mortgages and contributed further to increasing knowledge about Länsförsäkringar's price-competitive mortgage offering. The market share for private homes and tenant-owned apartments rose from 1.5% to 2.4%.

## Revenues

Net interest income rose by 49% to SEK 77.7 M (52.1). The increase is attributable to higher volumes. The company has a re-financing 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 0.9% (1.0).

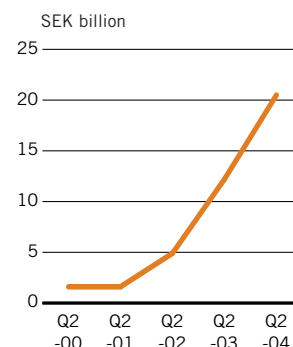
## Expenses

Operating expenses rose by SEK 33.1 M to SEK 62.2 M (29.1), an increase attributable mostly to higher sales costs. The cost/income ratio, that is, costs in relation to income, was 0.9% (0.6) before loan losses and 0.9% (0.6) after loan losses.

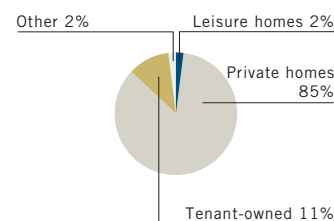
## Loan losses

Provisions were made based on groupwise valuation and, to a limited extent only, on individual appraisal. The company's loan losses (both probable and confirmed) amounted, net, to a gain of SEK 0.5 M (gain: 0.4). The loan portfolio mainly comprises private homes and tenant-owned apartments and only a minor portion of leisure homes.

Mortgage lending

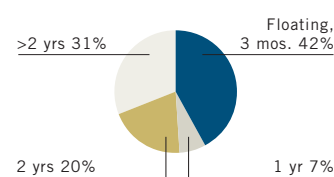


Product distribution

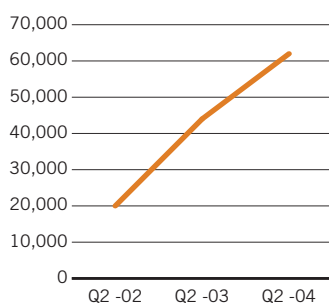


The loan portfolio comprises mainly private homes and tenant-owned apartments and only a minor portion of leisure homes.

Fixed-interest term, June 30, 2004



Customer development



## Income statement

SEK 000s		Jan. 1–June 30, 2004	Jan. 1–June 30, 2003	Full-year 2003
Interest income	Note 2	487,199	300,788	704,471
Interest expense	Note 3	–409,532	–248,665	–583,739
<b>Net interest income</b>		<b>77,667</b>	<b>52,123</b>	<b>120,732</b>
Commission revenue		606	466	1,008
Commission expense		–233	–209	–434
Other operating revenue		96	124	169
<b>Total operating revenue</b>		<b>78,136</b>	<b>52,504</b>	<b>121,475</b>
General administration expenses		–62,198	–29,072	–77,242
Other expenses		0	–6	–16
<b>Total expenses before loan losses</b>		<b>–62,198</b>	<b>–29,078</b>	<b>–77,258</b>
<b>Income before loan losses</b>		<b>15,938</b>	<b>23,426</b>	<b>44,217</b>
Loan losses, net	Note 4	501	399	5,894
<b>Operating income</b>		<b>16,439</b>	<b>23,825</b>	<b>50,111</b>
Change in tax allocation reserve		–	–	4,450
Tax on income for the period		–4,603	–6,671	–15,262
<b>NET PROFIT FOR THE PERIOD</b>		<b>11,836</b>	<b>17,154</b>	<b>39,299</b>

## Balance sheet

SEK 000s		June 30, 2004	June 30, 2003	Dec. 31, 2003
<b>Assets</b>				
Lending to credit institutions		105,584	25,539	42,723
Lending to the public	Note 5	20,508,763	12,169,235	16,177,756
Other assets		576	2,789	4,197
Prepaid expenses and accrued income		40,622	26,663	28,327
<b>ASSETS</b>		<b>20,655,545</b>	<b>12,224,226</b>	<b>16,253,003</b>
<b>Liabilities and shareholders' equity</b>				
Liabilities to credit institutions		18,324,938	10,329,788	14,188,456
Deposits from the public		939,915	1,142,900	1,141,409
Other liabilities		13,341	11,350	23,534
Accrued expenses and prepaid income		198,088	89,330	120,291
Subordinated debt		222,114	40,000	40,000
<b>LIABILITIES</b>		<b>19,698,396</b>	<b>11,613,368</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>				
	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		856,161	500,102	610,862
Net profit for the period		11,836	17,154	39,299
<b>Total shareholders' equity</b>		<b>952,399</b>	<b>601,658</b>	<b>734,563</b>
<b>LIABILITIES, PROVISIONS AND SHAREHOLDERS' EQUITY</b>		<b>20,655,545</b>	<b>12,224,226</b>	<b>16,253,003</b>
<b>Memorandum items</b>				
Assets pledged on own debt		–	–	–
Contingent liabilities		–	–	–
Commitments				
loans approved but not disbursed		168,815	277,850	102,717
interest-rate swap agreement		10,100,000	3,700,000	5,900,000
		<b>10,268,815</b>	<b>3,977,850</b>	<b>6,002,717</b>

## Cash-flow statement

SEK 000s	Jan. 1–June 30, 2004	Jan. 1–June 30, 2003
<b>Liquid funds, January 1</b>	<b>42,723</b>	<b>87,291</b>
<b>Operating activities</b>		
Operating income	16,439	23,825
<b>Adjustment for items not included in the cash flow</b>		
Booked non-chargeable tax	–4,603	–6,671
	<b>11,836</b>	<b>17,154</b>
Increase in lending to the public	–4,331,007	–4,327,799
Change in other assets	–8,674	–14,873
Change in other liabilities	67,604	49,228
<b>Cash flow from operating activities</b>	<b>–4,260,241</b>	<b>–4,276,290</b>
<b>Investing activities</b>		
Increase in subordinated loans	182,114	–
Change in fixed assets	–	–
<b>Cash flow from investing activities</b>	<b>182,114</b>	<b>–</b>
<b>Financing activities</b>		
Borrowing from the public	–201,494	–499,031
Other borrowing	4,136,482	4,463,569
Shareholders' contribution received	206,000	250,000
<b>Cash flow from financing activities</b>	<b>4,140,988</b>	<b>4,214,538</b>
<b>Cash flow for the period</b>	<b>62,861</b>	<b>–61,752</b>
<b>Liquid funds, June 30</b>	<b>105,584</b>	<b>25,539</b>
<b>Liquid funds include:</b>		
Other lending to credit institutions	105,584	25,539
Interest received amounted to	474,904	286,059
Interest paid amounted to	347,630	210,303
Tax paid amounted to	–	–
Gross investments during the year	–	–

## 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 – June 30, 2004	Jan. 1 – June 30, 2003	Full-year 2003
Interest income, lending to the public	390,163	258,063	591,244
Interest income, Swedish credit institutions	97,036	42,725	113,186
Interest income, other	–	–	41
<b>Total interest income</b>	<b>487,199</b>	<b>300,788</b>	<b>704,471</b>
Average interest rate, lending to the public	4.3%	5.2%	4.8%

### NOTE 3 INTEREST EXPENSE

SEK 000s

	Jan. 1 – June 30, 2004	Jan. 1 – June 30, 2003	Full-year 2003
Interest expense, borrowing from credit institutions	378,002	206,534	510,949
Interest expense, deposits from the public	29,442	41,175	71,027
Interest expense, subordinated debt	2,088	956	1,763
<b>Total interest expense</b>	<b>409,532</b>	<b>248,665</b>	<b>583,739</b>

### NOTE 4 LOAN LOSSES, NET

SEK 000s

	Jan. 1 – June 30, 2004	Jan. 1 – June 30, 2003	Full-year 2003
<b>Specific provision of individually appraised loan receivables</b>			
Write-off of confirmed loan losses during the period	445	–	2,032
Reversed provisions for probable loan losses reported in the year-end accounts as confirmed losses	–	–	–2
Provision for probable loan losses during the period	529	653	1,367
Payment received for prior confirmed loan losses	–3,056	–2,890	–10,093
Reversed provisions no longer required for probable loan losses	–906	–683	–2,446
<b>Net expense during the period for individually appraised loan receivables</b>	<b>–2,988</b>	<b>–2,920</b>	<b>–9,142</b>
<b>Groupwise provision for individually appraised loan receivables</b>	<b>–</b>	<b>–</b>	<b>–</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	2,487	2,521	3,248
<b>Net expense for the period for loan receivables appraised by group</b>	<b>2,487</b>	<b>2,521</b>	<b>3,248</b>
<b>Net expense for the period for loan losses</b>	<b>–501</b>	<b>–399</b>	<b>–5,894</b>

All data pertains to receivables from the general public.

**NOTE 5 LENDING TO THE PUBLIC**

SEK 000s	June 30, 2004	June 30, 2003	Dec. 31, 2003
<b>Loan receivables, gross</b>			
Commercial sector	178,155	211,743	185,139
Household sector	20,361,574	11,988,867	16,021,145
Other	4,910	2,415	4,938
<b>Total</b>	<b>20,544,639</b>	<b>12,203,025</b>	<b>16,211,222</b>

**Less:****Specific provisions for individually appraised receivables**

Commercial sector	-9,031	-3,376	-9,378
Household sector	-3,214	-9,996	-2,944
<b>Total individual provisions</b>	<b>-12,245</b>	<b>-13,372</b>	<b>-12,322</b>

**Provisions for groupwise appraised homogenous groups of loans receivable**

Commercial sector	-18	-1,548	-271
Household sector	-23,613	-18,870	-20,873
<b>Total groupwise provisions</b>	<b>-23,631</b>	<b>-20,418</b>	<b>-21,144</b>
<b>Total provisions</b>	<b>-35,876</b>	<b>-33,790</b>	<b>-33,466</b>

**Loan receivables, net**

Commercial sector	169,106	206,819	175,490
Household sector	20,334,747	11,960,001	15,997,328
Other	4,910	2,415	4,938
<b>Total loan receivables, net</b>	<b>20,508,763</b>	<b>12,169,235</b>	<b>16,177,756</b>

**Doubtful loans receivable**

Commercial sector	13,365	16,805	14,078
Household sector	19,734	27,428	21,913
<b>Total doubtful loans receivable</b>	<b>33,099</b>	<b>44,233</b>	<b>35,991</b>

**Non-performing receivables included among doubtful receivables**

Commercial sector	4,369	4,724	5,815
Household sector	10,486	14,732	11,167
<b>Total non-performing receivables included among doubtful receivables</b>	<b>14,855</b>	<b>19,456</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	June 30, 2004	June 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	856,161	500,102	610,862
Net profit for the period	11,836	17,154	39,299
	<b>867,997</b>	<b>517,256</b>	<b>650,161</b>
<b>Total shareholders' equity</b>	<b>952,399</b>	<b>601,658</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	206,000	250,000	400,000
Net profit for the period	11,836	17,154	39,299
<b>Closing balance</b>	<b>952,399</b>	<b>601,658</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	4,000,000	8,182
<b>Derivative instruments with negative value</b>		
Interest-rate derivatives	6,100,000	80,063

This interim report is unaudited.

Stockholm, August 30, 2004.

**Bengt Jerning**

*Managing Director*

**Reporting dates:**

Interim report, January–September: October 26, 2004



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