

Länsförsäkringar Hypotek

INTERIM REPORT, JANUARY – MARCH 2004

Summary

- Operating income rose 17% and amounted to SEK 10.1 M (8.6).
- Mortgage lending increased 78% to SEK 17.9 billion (10.0).
- The market share for private homes and tenant-owned apartments rose to 2.08% (1.30).
- 10.4% (9.8) of private-homeowner customers are also bank customers.
- The number of home mortgage customers rose 47% and amounted to 56,000 (38,000).
- The capital adequacy was 10.6% (8.6) and the Tier 1 ratio 8.6% (7.9).
- New lending amounted to SEK 9.3 billion (7.2).

Bengt Jerling, Managing Director, Länsförsäkringar Hypotek:

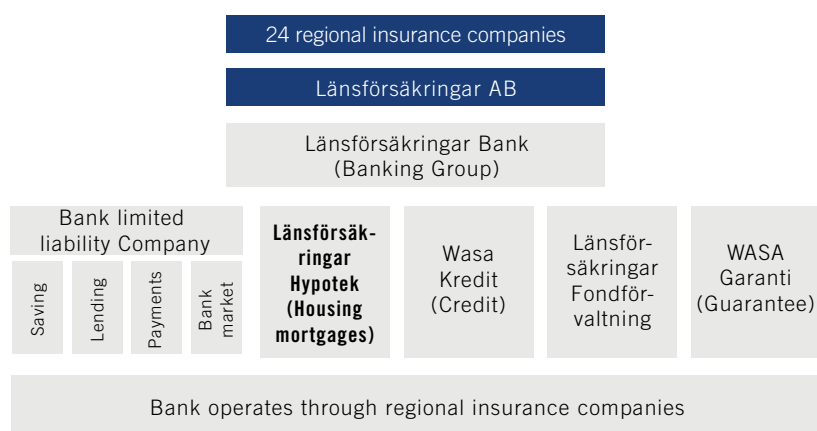
Home mortgage operations continue to develop highly favorably. Mortgage lending increased 78% and the number of home mortgage customers rose from 38,000 to 56,000. Since the mortgage operations began in 2001, Länsförsäkringar has continually strengthened its position on the market. Our hallmarks are value for price mortgage loans and a strong local presence.

Figures in parentheses pertain to January – March 2003.



Key figures

	Jan. 1–Mar. 31, 2004	Jan. 1–Mar. 31, 2003	Full-year 2003
Return on equity, %	3.77	6.25	7.30
Investment margin, %	0.89	1.00	0.98
Interest margin, %	0.67	0.79	0.75
Cost/income ratio before loan losses	0.75	0.60	0.64
Cost/income ratio after loan losses	0.74	0.62	0.59
Capital adequacy, %	10.58	8.61	8.68
Tier 1 ratio, %	8.57	7.94	8.23
Percentage of doubtful receivables, gross, %	0.20	0.41	0.22
Percentage of doubtful receivables, net, %	0.01	0.09	0.10
Provision ratio for doubtful receivables, %	96.39	78.38	93.00



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 amounted at the end of the first quarter to SEK 18.0 billion (10.1), an increase of 79%

Lending to the public increased 78%, or SEK 7.9 billion, to SEK 17.9 billion (10.0)

Borrowing rose 76%, or SEK 7.2 billion, to SEK 16.7 billion (9.5).

Capital adequacy

The capital adequacy ratio amounted to 10.58% (8.61). The Tier 1 ratio was 8.57% (7.94). During the period the company received SEK 120 M as an unconditional shareholders' contribution and a debenture loan of SEK 161 M from Länsförsäkringar Bank.

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 before loan losses was SEK 9.5 M (9.0) and after loan losses SEK 10.1 M (8.6). This corresponds to a return on average equity of 3.8% (6.3).

Strengthened market position

The flow of new customers is strong. The number of home mortgage customers rose 47% and amounted to 56,000. The metropolitan regions of Stockholm, Gothenburg and Malmö account for 30% of lending. The balance of lending has a favorable

geographical spread nationwide, with concentration to urban areas. Länsförsäkringar's nationwide communications during the spring focuses on mortgages and contributes further to increasing knowledge about Länsförsäkringar's price-competitive mortgage offering. The market share for private homes and tenant-owned apartments rose from 1.30% to 2.08%.

Revenues

Interest income rose 68% and amounted to SEK 38.0 M (22.6). The increase is attributable to a combination of volume increase with higher refinancing expenses resulting in a lower margin. 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 109%, or by SEK 15.0 M, to SEK 28.7 M (13.7).

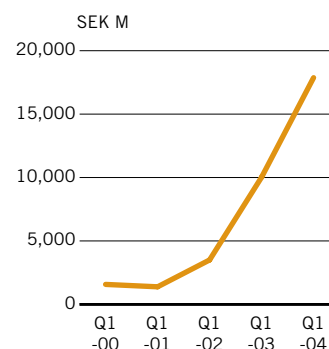
The increase is attributable mostly to increased costs for administration and sales.

The cost/income ratio, that is, costs in relation to income, was 0.75% (0.60) before loan losses and 0.74% (0.62) after loan losses.

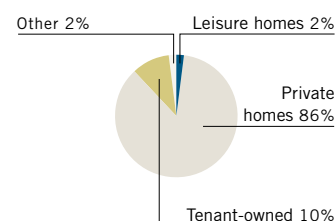
Loan losses

Provisions were made based partly on group-wise valuation and partly on individual appraisal. The company's loan losses (both probable and confirmed) amounted, net, to a gain of SEK 0.6 M (loss: 0.5).

Mortgage lending

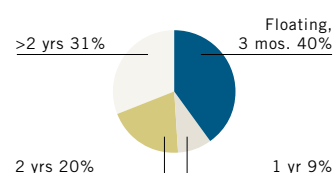


Product distribution

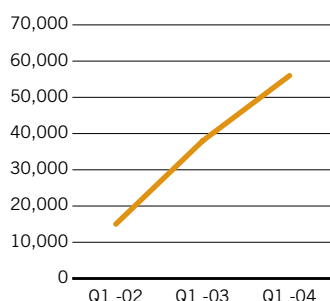


The loan portfolio comprises mainly private homes and tenant-owned apartments and only a minor share of leisure homes.

Fixed-interest term, March 31, 2004



Customer development



Income statement

SEK 000s		Jan. 1–Mar. 31, 2004	Jan. 1–Mar. 31, 2003	Full-year 2003
Interest income	Note 2	234,489	131,621	704,471
Interest expense	Note 3	–196,489	–109,020	–583,739
Net interest income		38,000	22,601	120,732
Commission revenue		276	221	1,008
Commission expense		–120	–115	–434
Other operating revenue		61	35	169
Total operating revenue		38,217	22,742	121,475
General administration expenses		–28,623	–13,694	–77,242
Other expenses		–63	–3	–16
Total expenses before loan losses		–28,686	–13,697	–77,258
Income before loan losses		9,531	9,045	44,217
Loan losses, net	Note 4	595	–468	5,894
Operating income		10,126	8,577	50,111
Change in tax allocation reserve		–	–	4,450
Tax on income for the period		–2,835	–2,402	–15,262
NET PROFIT FOR THE PERIOD		7,291	6,175	39,299

Balance sheet

SEK 000s		Mar. 31, 2004	Mar. 31, 2003	Dec. 31, 2003
Assets				
Lending to credit institutions		148,029	22,019	42,723
Lending to the public	Note 5	17,868,059	10,038,496	16,177,756
Other assets		1,172	1,517	4,197
Prepaid expenses and accrued income		27,541	15,325	28,327
ASSETS		18,044,801	10,077,357	16,253,003
Liabilities and shareholders' equity				
Liabilities to credit institutions		15,624,887	7,852,440	14,188,456
Deposits from the public		1,140,667	1,639,882	1,141,409
Other liabilities		17,510	5,664	23,534
Accrued expenses and prepaid income		194,133	89,492	120,291
Subordinated debt		201,000	40,000	40,000
LIABILITIES		17,178,197	9,627,478	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		770,161	350,102	610,862
Net profit for the period		7,291	6,175	39,299
Total shareholders' equity		861,854	440,679	734,563
LIABILITIES, PROVISIONS AND SHAREHOLDERS' EQUITY		18,044,801	10,077,357	16,253,003
Memorandum item				
Assets pledged on own debt		–	–	–
Contingent liabilities		–	–	–
Commitments				
loans approved but not disbursed		126,624	434,843	102,717
interest-rate swap agreement		6,300,000	2,600,000	5,900,000
		6,426,624	3,034,843	6,002,717

Cash-flow statement

SEK 000s	Jan. 1–Mar. 31, 2004	Jan. 1–Mar. 31, 2003
Liquid funds, January 1	42,723	87,291
Operating activities		
Operating income	10,126	8,577
Adjustment for items not included in the cash flow		
Booked non-chargeable tax	–2,835	–2,402
	7,291	6,175
Increase in lending to the public	–1,690,303	–2,197,060
Change in other assets	3,811	–2,263
Change in other liabilities	67,818	43,704
Cash flow from investing activities	–1,611,383	–2,149,444
Investing activities		
Increase in debenture loans	161,000	–
Change in fixed assets	–	–
Cash flow from investing activities	161,000	–
Financing activities		
Borrowing from the public	–742	–2,049
Other borrowing	1,436,431	1,986,221
Shareholders' contribution received	120,000	100,000
Cash flow from financing activities	1,555,689	2,084,172
Cash flow for the period	105,306	–65,272
Liquid funds, March 31	148,029	22,019
Liquid funds include:		
Other lending to credit institutions	148,029	22,019
Owed to credit institutions	–15,624,887	–7,852,440
	–15,476,858	–7,830,421
Interest received amounted to	235,275	128,231
Interest paid amounted to	131,936	68,791
Tax paid amounted to	–	–
Gross investments during the year	–	–

Notes

NOTE 1 ACCOUNTING PRINCIPLES

D 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 – Mar. 31, 2004	Jan. 1 – Mar. 31, 2003	Full-year 2003
Interest income, lending to the public	190,191	116,617	591,244
Interest income, Swedish credit institutions	44,298	15,004	113,186
Interest income, other	–	0	41
Total interest income	234,489	131,621	704,471
Average interest rate, lending to the public	4.5%	5.3%	4.8%

NOTE 3 INTEREST EXPENSE

SEK 000s

	Jan. 1 – Mar. 31, 2004	Jan. 1 – Mar. 31, 2003	Full-year 2003
Interest expense, borrowing from credit institutions	181,164	87,484	510,949
Interest expense, deposits from the public	14,931	21,049	71,027
Interest expense, subordinated debt	394	487	1,763
Total interest expense	196,489	109,020	583,739

NOTE 4 LOAN LOSSES, NET

SEK 000s

	Jan. 1 – Mar. 31, 2004	Jan. 1 – Mar. 31, 2003	Full-year 2003
Specific provision of individually appraised loan receivables			
Write-off of confirmed loan losses during the period	117	–	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	110	250	1,367
Payment received for prior confirmed loan losses	–1,357	–964	–10,093
Reversed provisions no longer required for probable loan losses	–253	–25	–2,446
Net expense during the period for individually appraised receivables	–1,383	–739	–9,142
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	788	1,207	3,248
Net expense for the period for loan receivables appraised by group	788	1,207	3,248
Net expense for the period for loan losses	–595	468	–5,894

All data pertains to receivables from the general public

NOTE 5 LENDING TO THE PUBLIC

SEK 000s	Mar. 31, 2004	Mar. 31, 2003	Dec. 31, 2003
Loan receivables, gross			
Commercial sector	183,107	216,609	185,139
Household sector	17,714,152	9,852,198	16,021,145
Other	4,910	2,420	4,938
Total	17,902,169	10,071,227	16,211,222
Less:			
Specific provisions for individually appraised receivables			
Commercial sector	-9,378	-9,559	-9,378
Household sector	-2,801	-4,068	-2,944
	-12,179	-13,627	-12,322
Provisions for group-wide appraised homogenous groups of loans receivable			
Commercial sector	-18	-1,445	-271
Household sector	-21,913	-17,658	-20,873
	-21,931	-19,103	-21,144
Total provisions	-34,110	-32,730	-33,466
Loan receivables, net			
Commercial sector	173,711	205,605	175,490
Household sector	17,689,438	9,830,472	15,997,328
Other	4,910	2,420	4,938
	17,868,059	10,038,497	16,177,756
Doubtful loans receivable			
Commercial sector	14,271	14,522	14,078
Household sector	21,115	27,238	21,913
	35,386	41,760	35,991
Non-performing receivables included among doubtful receivables			
Commercial sector	4,369	4,724	5,815
Household sector	10,649	10,673	11,167
	15,018	15,397	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	Mar. 31, 2004	Mar. 31, 2003	Dec. 31, 2003
Restricted equity			
Share capital	70,335	70,335	70,335
Statutory reserve	12,965	12,965	12,965
Share premium reserve	1,102	1,102	1,102
	84,402	84,402	84,402
Non-restricted equity			
Profit brought forward	770,161	350,102	610,862
Net profit for the period	7,291	8,577	39,299
	777,452	358,679	650,161
Total shareholders' equity	861,854	443,081	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	120,000	100,000	400,000
Net profit for the period	7,291	8,577	39,299
Closing balance	861,854	443,081	734,563

NOTE 7 DERIVATIVE INSTRUMENTS

SEK 000s	Nominal value	Fair value
Derivate instruments with positive value		
Interest-rate derivatives	–	–
Derivate instruments with negative value		
Interest-rate derivatives	6,300,000	167,394

This interim report is unaudited.

Stockholm, April 23, 2004

Bengt Jerning

Managing Director

Reporting dates:

The interim report, January – June

August 30, 2004

The interim report, January – September

October 26, 2004

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