

Länsförsäkringar Bank

INTERIM REPORT JANUARY – JUNE 2003

Summary

- Lending to the general public rose 58% to SEK 25.3 billion (16.0) and deposits from the general public increased 24% to SEK 16.6 billion (13.4).
- The number of customers rose by 59,000 to 427,000 (368,000).
- Operating income before loan losses amounted to SEK 36.9 M (12.9) and after loan losses to SEK 12.4 M (2.3).
- Revenues increased 20% to SEK 374.3 M (312.0). This increase was nearly twice as large as the cost increase of 11% to SEK 339.3 M (306.9).
- Net interest income rose 28% to SEK 315.7 M (246.3).
- Return on equity amounted to 1.8% (0.5).
- Mortgage loans increased by 149% to SEK 12.2 billion (4.9).
- The office network is being expanded successively and today there are 82 advisory offices (75).
- The portion of household insurance customers in Länsförsäkringar that are also bank customers amounted to 10.1% (6.5).

Tomas Johansson, Managing Director Länsförsäkringar Bank:

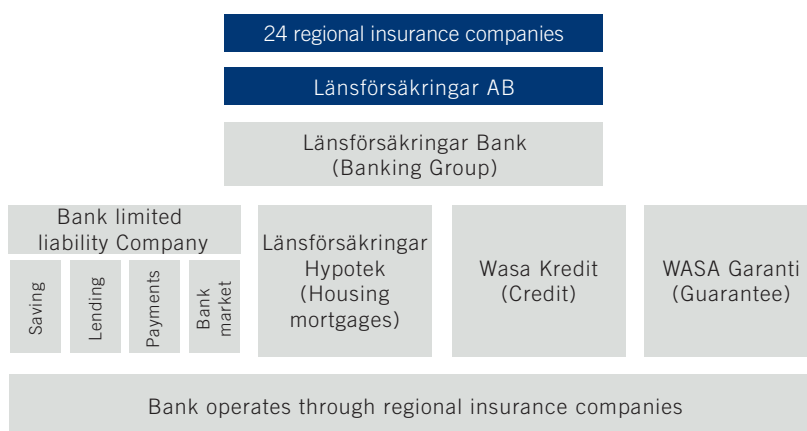
”Länsförsäkringar’s bank operations continued to develop positively. The number of customers is increasing successively, earnings development is favorable and revenues are rising faster than expenses. In the area of mortgage financing, development is very strong. We are also seeing a distinct trend in that Länsförsäkringar is currently a bank people change to, not solely a bank used as a complement.”

*Figures in parantheses refer to the first six months of 2002.



Key figures

Group	Jan–June 2003	Jan–June 2002	Full-year 2002
Return on equity, %	1.8	0.5	1.9
Investment margin, %	2.6	3.0	3.0
Interest margin, %	2.4	2.8	2.8
I/C ratio before loan losses	1.10	1.02	1.01
I/C ratio after loan losses	1.03	0.98	0.99
Capital adequacy, %	8.72	8.36	8.08
Tier 1 ratio, %	8.19	7.06	7.45
Percentage of doubtful receivables, %	0.17	0.14	0.15
Provision ratio for doubtful receivables, %	80.35	83.70	83.35
Parent Company			
Return on equity, %	neg	neg	neg
Investment margin, %	1.3	1.9	1.8
Interest margin, %	1.1	1.7	1.6
I/C ratio before loan losses	0.85	0.79	0.84
I/C ratio after loan losses	0.83	0.77	0.82
Capital adequacy, %	28.44	22.17	24.30
Tier 1 ratio, %	26.69	18.61	22.40
Percentage of doubtful receivables, %	0.02	0.00	0.04
Provision ratio for doubtful receivables, %	94.04	100.00	90.28



Länsförsäkringar's organization is based on 24 local, independent and customer-owned regional insurance companies in cooperation. The regional insurance companies jointly own Länsförsäkringar AB. In turn, Länsförsäkringar AB owns Länsförsäkringar Bank (Bank Group), with the subsidiaries Länsförsäkringar Hypotek, Wasa Kredit, WASA Garanti and the Parent Company. 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.

Group

Ownership and the Group's structure

The bank is owned by Länsförsäkringar AB (publ) (556549-7020). Banking is a core operation of the Länsförsäkring Alliance. The banking group comprises the Parent Company Länsförsäkringar Bank AB (publ) (516401-9878) and wholly owned subsidiaries Länsförsäkringar Hypotek AB (556244-1781), Wasa Kredit AB (556311-9204) and WASA Garanti Försäkring AB (516401-7831).

Total assets

The Group's total assets amounted at the end of the first half-year to SEK 26.7 billion (17.1), up 56%. Lending to the general public rose 58%, or SEK 9.3 billion to SEK 25.3 billion (16.0). Deposits from the general public increased 24%, or SEK 3.2 billion to SEK 16.6 billion (13.4).

Borrowing and issued securities rose 400%, or SEK 5.6 billion to SEK 7.0 billion (1.4). The borrowing program started by the bank comprises a commercial paper program with a limit of SEK 6 billion and an MTN program with a limit of SEK 3 billion. Borrowing through certificates amounted at June 30, 2003 to SEK 4.2 billion and borrowing via the MTN program to SEK 1.6 billion.

Capital adequacy and rating

At June 30, 2003, capital adequacy was 8.72% (8.36). The tier 1 ratio amounted to 8.19% (7.06). During the first six months, the bank received an unconditional shareholder contribution of SEK 383 M. The target level for capital adequacy is 9.25%.

Länsförsäkringar Bank has received the ratings K1/BBB+/Stable from the Standard & Poor's credit rating institute.

Earnings and profitability

Consolidated operating profit before loan losses amounted to SEK 36.9 M (12.9), and after loan losses to SEK 12.4 M (2.3), of which the insurance operations' profit was SEK 2.0 M (7.8). This corresponds to a return on average equity before taxes of 1.8% (0.5). Revenues rose nearly twice as much as costs during the first six months, compared with the same period in 2002.

Revenues

Net interest income rose 28% and amounted to SEK 315.7 M (246.3). The increase is attributable mainly to higher volumes. The Group's investment margin, that is, net interest as a percentage of average total assets, amounted to 2.6% (3.0).

Net commission revenues declined to SEK 10.7 M (14.4). Other operating revenues declined by slightly less than 7% to SEK 47.9 M (51.4).

Expenses

Administration expenses rose 11%, or by SEK 32.4 M to SEK 339.3 M (306.9). The cost increase is largely related to increased volumes as well as to increased depreciation/amortization.

The I/C ratio, that is, income in relation to costs, was 1.10 (1.02) before loan losses and 1.03 (0.98) after loan losses.

Loan losses

Provisions were made after individual review and group-wise appraisal. The Group's loan losses amounted, net, to SEK 24.5 M (10.6). One explanation for the increase is that the larger volumes result in higher provisions.

Credit quality

The quality of the bank's lending is highly favorable. Among other indicators, this is confirmed by the annual reviews of the

loan portfolios (credit scoring) reported by UC (leading business and credit information agency in Sweden).

Loans more than 60 days overdue for payment amount to 0.38% (0.48) of the total portfolio. Work is continuously under way to enhance efficiency and increase the security in loan processing.

Full-range bank

Today, Länsförsäkringar offers a full range of bank products and bank services to private individuals and farmers. To facilitate customers being able to combine their banking and insurance activities, Länsförsäkringar offers attractive combination solutions. Work to create greater awareness about Länsförsäkringar's banking operations continues to be a priority. The portion of household insurance customers in Länsförsäkringar that are also bank customers has risen from 6.5% to 10.1% since mid-year 2002. A distinct trend is that Länsförsäkringar is currently a bank that people change to and not solely a bank used as a complement.

It has been decided that BGC Holding AB is to acquire 10% of the share capital in Finansiell ID-Teknik BID AB. In the beginning of 2004 the bank's customers will be able to order BankID electronically through the Internet bank, which among other benefits permits submission of tax returns via the Internet.

Significant events after the end of the period

Syndicated loan

Länsförsäkringar Bank has assumed a syndicated loan on the international capital market. The loan is divided into a term loan and a revolving credit. The loan was oversubscribed by EUR 50 M whereby the loan limit was increased to EUR 150 M.

The loan agreement pertains to borrowing during a three-year period. The lead managers are Bayern LB, Danske Bank and HSH Nordbank. In addition, 11 other European banks are included as lenders.

Länsförsäkringar Bank entered into such a loan agreement as a consequence of the strong growth of the mortgage market, which resulted in an increased need for borrowing on the capital market. This contributes to financing of the bank's expansion over the long term.

Parent Company

Deposits and borrowing, and certain lending, occurs in the Parent Company. Lending to the general public amounted to SEK 6.6 billion (5.3). Lending to and deposits from the general public amounted to SEK 16.7 billion (13.5). Most of the lending operations are conducted through Länsförsäkringar Hypotek and Wasa Kredit. The banking group's administrative costs are incurred mainly within the Parent Company.

Subsidiaries

Länsförsäkringar Hypotek

Länsförsäkringar Hypotek began operations in 2001. Mortgage loans rose during the most recent 12-month period by 149%, or SEK 7.3 billion to SEK 12.2 billion (4.9). The number of housing loan customers increased from 20,000 to 44,000. The loans average size amounts to about SEK 300,000. Most of the lending, more than 87%, pertains to house financing. The remainder is tenant-owner and leisure home financing.

Wasa Kredit

Wasa Kredit is a finance company whose operations focus on the markets for cars, computers and major appliances. Wasa Kredit's operating profit was SEK 29.1 M (25.1).

The lending volume amounted to SEK 6.6 billion (5.9).

New contracts in the first half-year amounted to SEK 2,198 M, distributed among 29,800 contracts, an increase of 13% compared with the year-earlier period. The volume in car financing was largely unchanged. The increase was primarily in unsecured credits and in the leisure sector (towable RVs, caravans, motorcycles, snow scooters and trailers). The margin on new contracts was slightly more than 0.5 percentage points higher compared with the corresponding period in the preceding year.

WASA Garanti

WASA Garanti has a number of risk commitment run-off activities remaining related to credit guarantees, rental loss insurance and surety receivables due that arose during the finance and property crisis in the 1990s. In addition, there is a portfolio of leasing guarantees, related primarily to farming. The stock is declining successively as a result of restrictive new approvals. Profit before appropriations and taxes amounted to SEK 2.0 M (7.8).

The plan is to liquidate WASA Garanti during the year and transfer existing business to the bank.

Income statements

(SEK 000s)		Group			Parent Company		
		Jan–June 2003	Jan–June 2002	Full-year 2002	Jan–June 2003	Jan–June 2002	Full-year 2002
Interest income		749,346	505,263	1,143,218	491,551	372,104	824,184
Interest expenses	Note 2	–433,668	–258,916	–605,399	–343,169	–227,186	–534,632
Net interest income		315,678	246,347	537,819	148,382	144,918	289,552
Dividends received		–	–	20	–	–	28,496
Commission revenues		52,107	40,446	85,094	26,229	18,790	40,179
Commission expenses		–41,421	–26,010	–57,508	–28,893	–18,588	–42,608
Net profit/loss from financial transactions		–	–206	–206	–	–206	–206
Other operating revenues		47,926	51,423	84,111	54,818	32,056	73,994
Total operating revenues		374,290	312,000	649,330	200,536	176,970	389,407
General administrative expenses		–299,736	–271,515	–563,859	–205,879	–196,447	–395,402
Depreciation/amortization and write-downs of tangible and intangible fixed assets		–27,317	–21,489	–46,327	–23,746	–18,713	–47,350
Other operating expenses		–12,288	–13,915	–30,864	–6,027	–8,835	–18,333
Total expenses before loan losses		–339,341	–306,919	–641,050	–235,652	–223,995	–461,085
Profit/loss before loan losses		34,949	5,081	8,280	–35,116	–47,025	–71,678
Loan losses, net	Note 3	–24,503	–10,583	–13,155	–7,404	–6,661	–11,980
Profit/loss from banking business		10,446	–5,502	–4,875	–42,520	–53,686	–83,658
Profit from insurance business		1,959	7,779	24,386	–	–	–
Total operating profit/loss		12,405	2,277	19,511	–42,520	–53,686	–83,658
Tax on the period's profit/loss		–	–	406	15,378	12,768	32,701
NET PROFIT/LOSS FOR THE PERIOD		12,405	2,277	19,917	–27,142	–40,918	–50,957
Earnings per share, SEK (No. of shares = 8,398,708)		1.48	0.27	2.37	–3.23	–4.87	–6.07

Since the conditions for utilizing Group contributions will exist at year-end, no current tax will be charged.

The tax effect of Group contributions received has not been taken into consideration as per June 30, 2003/June 30, 2002.

Balance sheets

(SEK 000s)	Group			Parent Company		
	June 30, 2003	June 30, 2002	Dec 31, 2002	June 30, 2003	June 30, 2002	Dec 31, 2002
Assets						
Cash and central bank account balances	13,571	22,140	68,774	13,571	22,140	68,774
Lending to credit institutions	86,786	88,130	1,408,026	16,558,148	8,663,334	13,081,425
Lending to the public Note 4	25,344,223	15,988,219	19,861,343	6,565,326	5,256,844	5,818,526
Shares and participations	500	500	500	500	500	500
Shares and participations in Group companies	–	–	–	1 056 900	814 151	806 900
Bonds and other interest-bearing securities	798,488	501,814	499,154	798,488	501,814	499,154
Assets in the insurance business	6,763	12,036	12,185	–	–	–
Intangible assets	102,214	96,495	108,518	102,214	96,495	108,518
Tangible assets	29,213	29,397	29,752	9,357	9,338	10,727
Other assets	245,221	221,307	235,507	78,547	65,319	74,065
Prepaid expenses and accrued income	115,876	99,823	77,921	67,406	46,426	50,761
ASSETS	26,742,855	17,059,861	22,301,680	25,250,457	15,476,361	20,519,350
Liabilities, provisions and shareholders' equity						
Liabilities to credit institutions	495,213	431,180	266,751	518,468	441,857	352,145
Deposits and borrowing from the public	17,762,298	14,730,614	16,377,917	16,695,975	13,513,164	14,831,584
Securities issued	5,899,087	45,663	3,705,523	5,899,087	45,663	3,705,523
Debt in the insurance business	5,423	14,297	5,394	–	–	–
Other liabilities	141,263	150,012	234,265	36,883	49,662	173,785
Accrued expenses and prepaid income	640,452	482,026	308,116	357,362	292,182	69,489
Provisions	17,965	17,960	17,965	–	–	–
Subordinated debt	180,000	180,000	180,000	180,000	180,000	180,000
Shareholders' equity Note 5						
Share capital (8,398,708 shares with a par value of SEK 100 each)	839,871	839,871	839,871	839,871	839,871	839,871
Restricted reserves	12,072	12,072	12,072	12,072	12,072	12,072
Profit/loss carried forward	736,806	153,889	333,889	737,881	142,808	405,838
Profit/loss for the period	12,405	2,277	19,917	–27,142	–40,918	–50,957
Total shareholders' equity	1,601,154	1,008,109	1,205,749	1,562,682	953,833	1,206,824
LIABILITIES, PROVISIONS AND SHAREHOLDERS' EQUITY	26,742,855	17,059,861	22,301,680	25,250,457	15,476,361	20,519,350
Memorandum items						
Assets pledged for own debt	705,964	510,650	500,915	700,000	500,000	490,000
Contingent liabilities	24,647	18,337	23,986	20,101	18,337	19,440
Commitments	5,282,297	1,539,911	2,902,213	4,598,483	3,830,432	4,445,249

Cash flow statements

(SEK 000s)	Group		Parent Company	
	Jan–June 2003	Jan–June 2002	Jan–June 2003	Jan–June 2002
Liquid funds at the beginning of the period	1 210 049	960 953	1 031 974	899 537
Operating activities				
Operating profit/loss	12,405	2,277	–42,520	–53,686
Adjustments for items not included in cash flow				
Booked non-chargeable tax	–	–	15,378	12,768
Depreciation/amortization charged against earnings	27,317	21,489	23,746	18,713
	39,722	23,766	–3,396	–22,205
Increase in lending to the public	–5,482,880	–3,535,412	–746,800	–762,259
Decrease in securities holdings	–	–	–	–
Increase in deposits and borrowing from the public	1,384,381	1,438,083	1,864,391	1,064,101
Increase in lending to subsidiaries	–	–	–4,772,424	–2,180,290
Change in other assets	–47,669	16,150	–21,127	42,832
Change in other liabilities	239,334	154,221	150,971	139,884
Cash flow from operating activities	–3,867,112	–1,903,192	–3,528,385	–1,717,937
Investing activities				
Increase in subordinated debentures	–	100,000	–	100,000
Change in fixed assets	–319,808	869,283	–315,406	888,665
Increase in shares in subsidiaries	–	–	–250,000	–200,000
Change in assets in the insurance business	5,422	24,373	–	–
Change in liabilities in the insurance operations	29	–492	–	–
Cash flow from investing activities	–314,357	993,164	–565,406	788,665
Financing activities				
Shareholder contributions received	383,000	–	383,000	–
Group contributions received	–	–	–	–
Change in issued securities	2,193,564	–371,835	2,193,564	–371,835
Cash flow from financing activities	2,576,564	–371,835	2,576,564	–371,835
Cash flow for the period	–1,604,905	–1,281,863	–1,517,227	–1,301,107
Liquid funds at end of period	–394,856	–320,910	–485,253	–401,570
Liquid funds include:				
Cash and central bank account balances	13,571	22,140	13,571	22,140
Other lending to/deposits in credit institutions	86,786	88,130	19,644	18,147
Liabilities to credit institutions	–495,213	–431,180	–518,468	–441,857
	–394,856	–320,910	–485,253	–401,570
Interest received amounted to	722,122	505,157	483,987	401,574
Interest paid amounted to	131,935	55,834	80,410	13,974
Taxes paid amounted to	1,577	2,019	839	539
Gross investment during the period	17,919	44,636	17,072	25,250

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 2002 Annual Report.

NOTE 2 INTEREST EXPENSES

(SEK 000s)	Group			Parent Company		
	Jan–June 2003	Jan–June 2002	Full-year 2002	Jan–June 2003	Jan–June 2002	Full-year 2002
Interest expenses	433,668	258,916	605,399	343,169	227,186	534,632
of which, fee for depositor guarantee	4,245	3,750	7,534	4,245	3,750	7,534

NOTE 3 LOAN LOSSES, NET

(SEK 000s)	Group			Parent Company		
	Jan–June 2003	Jan–June 2002	Full-year 2002	Jan–June 2003	Jan–June 2002	Full-year 2002
Specific provision for individually appraised loan receivables						
Write-off of confirmed loan losses during the period	2,037	2,478	2,899	2,037	2,478	3,117
Reversed provisions for possible loan losses reported in the interim report as confirmed losses	14,373	–1,016	–1,861	–687	–1,016	–2,079
Provision for possible loan losses during the period	–898	3,635	10,253	1,581	2,877	3,892
Payment received for prior confirmed loan losses	–3,200	–4,256	–10,337	–310	–216	–407
Reversed provisions, no longer required for possible loan losses	–2,118	–9,551	–33,061	–1,435	–5,142	–6,916
Net expenses during the period for individually appraised loan receivables	10,194	–8,710	–32,107	1,186	–1,019	–2,393
Group-wise provisions for individually appraised receivables	–	–	–	–	–	–
Homogenous groups, appraised by group, of loan receivables of limited value and similar credit risk						
Write-off of confirmed loan losses during the period	–	–	20,597	–	–	2,229
Payment received for previously confirmed loan losses	–	–	–6,960	–	–	–13
Allocation/dissolution of provisions for loan losses	14,309	19,293	31,625	6,218	7,680	12,157
Net expenses for the period for homogenous loan receivables appraised by group	14,309	19,293	45,262	6,218	7,680	14,373
Net expenses for the period for loan losses	24,503	10,583	13,155	7,404	6,661	11,980

NOTE 4 LENDING TO THE PUBLIC

(SEK 000s)	Group			Parent Company		
	June 30 2003	June 30 2002	Dec 31 2002	June 30 2003	June 30 2002	Dec 31 2002
Loan receivables, gross						
Public sector	130,306	63,244	91,645	–	–	–
Corporate sector	3,594,723	2,985,714	3,182,795	304,093	217,721	243,772
Household sector	21,792,728	13,092,566	16,735,067	6,337,457	5,107,200	5,645,609
Other	4,097	4,221	3,791	1,682	1,204	1,366
Total	25,521,854	16,145,745	20,013,298	6,643,232	5,326,125	5,890,747
Less:						
Specific provisions for individually appraised receivables						
Corporate sector	–26,917	–9,636	–21,932	–247	–247	–247
Household sector	–53,357	–25,034	–37,457	–18,669	–20,741	–19,204
	–80,274	–34,670	–59,389	–18,916	–20,988	–19,451
Provisions for homogenous groups of loan receivables appraised by group						
Corporate sector	–11,997	–26,340	–12,494	–1,736	–3,058	–1,138
Household sector	–85,360	–96,516	–80,072	–57,254	–45,235	–51,632
	–97,357	–122,856	–92,566	–58,990	–48,293	–52,770
Total provisions	–177,631	–157,526	–151,955	–77,906	–69,281	–72,221
Loan receivables, net book value						
Public sector	130,306	63,244	91,645	–	–	–
Corporate sector	3,555,809	2,949,738	3,148,369	302,110	214,416	242,387
Household sector	21,654,011	12,971,016	16,617,538	6,261,534	5,041,224	5,574,773
Other	4,097	4,221	3,791	1,682	1,204	1,366
	25,344,223	15,988,219	19,861,343	6,565,326	5,256,844	5,818,526
Doubtful loan receivables						
Corporate sector	64,420	41,530	42,264	1,983	916	1,479
Household sector	156,662	135,502	140,056	80,864	68,366	78,520
	221,082	177,032	182,320	82,847	69,282	79,999
Nonperforming loan receivables included among doubtful loan receivables						
Corporate sector	35,444	23,988	18,919	889	247	247
Household sector	92,760	72,407	71,423	42,874	39,258	42,080
	128,204	96,395	90,342	43,763	39,505	42,327

Definitions:

Nonperforming receivables are claims for which interest, amortization and overdrafts are more than 60 days past due.

A **doubtful receivable** is a nonperforming claim or receivable for which it is likely that payments will not be continued in accordance with the terms of the contract, and for which the value of the security provided does not cover, by a satisfactory margin, both the principal and the interest, including compensation for any delays.

NOTE 5 SHAREHOLDERS' EQUITY

(SEK 000s)	Group			Parent Company		
	June 30 2003	June 30 2002	Dec 31 2002	June 30 2003	June 30 2002	Dec 31 2002
Restricted shareholders' equity						
Share capital	839,871	839,871	839,871	839,871	839,871	839,871
Statutory reserve	2,371	2,371	2,371	2,371	2,371	2,371
Share premium reserve	9,701	9,701	9,701	9,701	9,701	9,701
	851,943	851,943	851,943	851,943	851,943	851,943
Unrestricted shareholders' equity						
Profit carried forward	736,806	153,889	333,889	737,881	142,808	405,838
Net profit/loss for the year	12,405	2,277	19,917	-27,142	-40,918	-50,957
	749,211	156,166	353,806	710,739	101,890	354,881
Total shareholders' equity	1,601,154	1,008,109	1,205,749	1,562,682	953,833	1,206,824
Change in shareholders' equity						
Opening shareholders' equity	1,205,749	1,005,832	1,005,832	1,206,824	994,751	994,751
Group contributions received	-	-	-	-	-	115,320
Tax effect of Group contributions received	-	-	-	-	-	-32,290
Received unconditional shareholders' contribution from Parent Company	383,000	-	180,000	383,000	-	180,000
Net profit/loss for the period	12,405	2,277	19,917	-27,142	-40,918	-50,957
Closing shareholders' equity	1,601,154	1,008,109	1,205,749	1,562,682	953,833	1,206,824

NOTE 6 DERIVATIVES

(SEK 000s)	Book value		Actual value	
	Group	Parent Company	Group	Parent Company
Derivatives with positive value				
Interest-related	775,000	-	843	-
Derivatives with negative value				
Interest-related	4,000,000	300,000	56,410	4,695

This interim report is unaudited.
Stockholm August 27, 2003

Tomas Johansson
Managing Director

Forthcoming financial reports:

Interim report for January – September 2003 will be published on October 24, 2003



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