

Länsförsäkringar Hypotek

YEAR-END REPORT 2005

Summary

- Lending increased by 30%, from SEK 24 billion to 31 billion.
- The market share in terms of lending for private homes and tenant-owned apartments rose by 16% from 2.5% to 2.9%.
- The number of home mortgage customers increased by 19% to 83,000 (70,000).
- Operating income amounted to SEK 23 M (27).
- Net interest income increased by 6% to SEK 166 M (157).
- Credit losses remain at a low level.
- Capital adequacy was 12.07% (11.28) and the Tier 1 ratio 10.00% (9.12).
- Länsförsäkringar's mortgage loan customers were more satisfied than retail customers at other mortgage lenders according to the Swedish Quality Index (SKI) for the Swedish mortgage market in 2005.

Figures in parentheses pertain to 2004.

Anders Borgcrantz, President Länsförsäkringar Hypotek:

Fiscal year 2005 was yet another highly successful year for mortgage operations. Despite increasing competition, we continued to experience strong growth and had the most satisfied mortgage customers. The recipe for our success is based on close, personal advising. We will continue to develop this aspect. Our ambitions remain high. Our position as we enter 2006 is better than ever.



Key figures

	2005	2004	2003	2002	2001
Return on equity, %	1.1	2.0	6.2	9.4	9.5
Return on total capital, %	0.1	0.1	0.4	0.7	1.1
Investment margin, %	0.60	0.78	0.98	1.09	1.64
Interest margin, %	0.45	0.57	0.75	0.82	1.26
Cost/income ratio before loan losses	0.90	0.85	0.64	0.59	1.06
Cost/income ratio after loan losses	0.87	0.83	0.59	0.36	0.34
Capital adequacy, %	12.07	11.28	8.68	8.75	13.87
Tier 1 ratio, %	10.00	9.12	8.24	7.83	10.81
Percentage of doubtful receivables, gross %	0.09	0.14	0.22	0.57	2.56
Provision ratio for doubtful receivables, %	139.48	107.05	92.98	69.33	56.5

Quarterly development

SEK 000's	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004
Interest income	287 500	274 947	307 086	291 395	284 395
Interest expense	-248 264	-235 699	-262 532	-248 243	-241 099
Net interest income	39 236	39 248	44 554	43 152	43 296
Net commission income	74	218	232	198	204
Net income from financial transactions	905	–	4 600	–	–
Other revenue	27	0	6	-30	56
Total operating revenue	40 242	39 466	49 392	43 320	43 556
Personnel costs	-1 538	-522	–	–	–
General administration expenses	-36 325	-37 915	-39 703	-38 182	-36 553
Other expenses	-159	-33	-74	-69	-1
Total expenses before loan losses	-38 022	-38 470	-39 777	-38 251	-36 554
Income before loan losses	2 220	996	9 615	5 069	7 002
Loan losses	1 600	1 461	879	838	835
Operating income	3 820	2 457	10 494	5 907	7 837

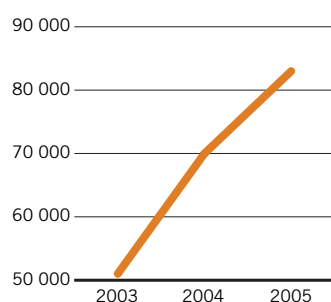
Strong market position

Länsförsäkringar's mortgage customers are more satisfied than retail customers at other mortgage lenders according to this year's edition of the Swedish Quality Index (SKI) for the Swedish mortgage market.

The number of mortgage customers increased by 19 percent and now totals 83,000.

Geographically, lending was spread throughout the country. Forty-five percent of all lending was originated through the regional insurance companies in Stockholm, Skåne, Halland, Dalarna and Älvsborg. Several of the regional insurance companies experienced very strong growth in relation to their customer base and the markets in which they operate.

Number of customers



Total assets

The company's total assets amounted to SEK 31 billion (24), an increase of 32%.

Lending to the public rose by 30%, or SEK 7 billion, to SEK 31 billion (24).

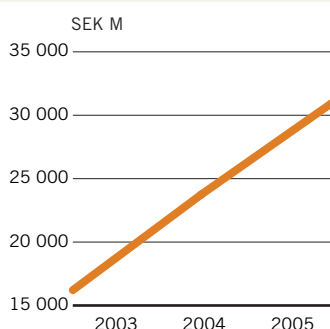
Borrowing rose by 32%, or SEK 7 billion, to SEK 29 billion (22).

Currently, 98% of the company's loans consist of loans for private homes and tenant-owned apartments, with the remaining 2% relating to loans for leisure homes and other.

Borrowing

The company is refinanced exclusively through the Parent Company in relation to the needs the company has regarding volumes and maturities. The goal is, within the framework of the risk mandate specified in the financial policy, to eliminate interest-rate risks. To the extent that interest-rate risks arise, interest swaps are used.

Lending to the public



Capital adequacy

The capital adequacy ratio amounted to 12.07% (11.28) and the Tier 1 ratio was 10.00% (9.12). During 2005, Länsförsäkringar Bank provided the company an unconditional shareholders' contribution of SEK 528 M and a subordinated loan of SEK 74 M.

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 18 M (24) before loan losses and SEK 23 M (27) after loan losses. The return on equity was 1.1% (2.4). The change is attributed to more intense competition.

Revenues

Net interest income rose by 6% to SEK 166 M (157), primarily due to higher volumes. The company has a refinancing agreement with the Parent Company. The agreement uses an interest computation model that reflects the actual interest expense.

Expenses

Operating expenses rose SEK 21 M, to SEK 155 M (134). The increase is largely attributable to increased selling expenses.

The cost/income ratio was 0.90 (0.85) before loan losses and 0.87 (0.83) after loan losses.

Loan losses

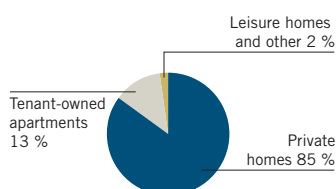
The company's loan losses (both probable and confirmed) amounted, net, to a gain of SEK 4.8 M (gain: 2.8). The loan portfolio mainly comprises private homes and tenant-owned apartments and only a minor portion of leisure homes. For new mortgages, Group-wide provisions are made based on a percentage of outstanding loan stock. Percentage rates are determined according to industry experience as well as specific experience with that product. The size of the provision is set with consideration given to a longer time period with varying interest rates and economic trends. For loans that are not originated by the regional insurance companies (old stock), individual provisions are made.

Länsförsäkringar Bank conducts, on behalf of the entire bank group, incremental adaptations to the new capital adequacy regulations, Basel II. A significant portion involves risk classification and risk control. The provision ratios that are now used will be analyzed and, when necessary, revised with consideration given to the outcomes of the analyses that are conducted with the Basel II work. It is anticipated that this will be completed during 2006.

Covered bonds

A study is currently under way in the banking group regarding the issuance of covered bonds. The study is intended to determine the conditions under which issues can be made and what this would mean for operations in terms of improved borrowing costs. The bank's position on this matter will be announced to the market during the second quarter of 2006. The use of covered bonds as a refinancing alternative could be a natural step given the strong growth and the very high quality of the assets in the bank's operations.

Product-portfolio, Dec. 31, 2005



Income statement

SEK 000s		2005	2004
Interest income	Note 2	1 160 928	1 043 793
Interest expense	Note 3	-994 738	-886 800
Net interest income		166 190	156 993
Commission revenue		1 388	1 252
Commission expense		-666	-482
Net income from financial transactions		5 505	-
Other operating revenue		3	145
Total operating revenue		172 420	157 908
General administration expenses		-154 517	-133 681
Other expenses		-3	-1
Total expenses before loan losses		-154 520	-133 682
Income before loan losses		17 900	24 226
Loan losses, net	Note 4	4 778	2 762
Operating income		22 678	26 988
Change in tax allocation reserve		-	4 750
Tax on income for the period		-6 356	-8 886
NET PROFIT FOR THE PERIOD		16 322	22 852

Balance sheet

SEK 000s	Dec. 31, 2005	Dec. 31, 2004
Assets		
Lending to credit institutions	409 230	52 126
Lending to the public Note 5	30 964 061	23 746 307
Other assets	625	2 386
Prepaid expenses and accrued income	45 434	42 558
TOTAL ASSETS	31 419 350	23 843 377
Liabilities and shareholders' equity		
Liabilities to credit institutions	28 142 917	21 062 783
Borrowing from the public	795 802	938 352
Other liabilities	4 581	5 084
Accrued expenses and prepaid income	361 367	324 453
Subordinated debt	362 614	288 614
TOTAL LIABILITIES	29 667 281	22 619 286
Shareholders' equity Note 6		
Share capital, 70,335 shares with a par value of SEK 1,000 per share	70 335	70 335
Statutory reserve	14 067	14 067
Profit brought forward	1 651 345	1 116 837
Net profit for the year	16 322	22 852
Total shareholders' equity	1 752 069	1 224 091
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	31 419 350	23 843 377
Memorandum items		
Assets pledged	none	none
Contingent liabilities	none	none
Commitments		
- loans approved but not disbursed	93 886	115 853
- interest-rate swap agreements	10 420 000	11 200 000
	10 513 886	11 315 853

Cash-flow statement

SEK 000s	2005	2004
Liquid funds, January 1	52 126	42 723
Operating activities		
Operating income	22 678	26 988
Adjustment for items not included in cash flow		
Booked non-chargeable tax	-6 356	-8 876
	16 322	18 112
Increase in lending to the public	-7 217 754	-7 568 551
Change in other assets	-1 115	-12 420
Change in other liabilities	42 767	194 578
Cash flow from operating activities	-7 159 780	-7 368 281
Investing activities		
Change in fixed assets	-	-
Cash flow from investing activities	-	-
Financing activities		
Change in borrowing from the public	-142 550	-203 057
Change in other borrowing	7 080 134	6 874 327
Group contribution	-22 700	-31 700
Increase in subordinated loan	74 000	248 614
Shareholders' contribution received	528 000	489 500
Cash flow from financing activities	7 516 884	7 377 684
Cash flow for the year	357 104	9 403
Liquid funds, December 31	409 230	52 126
Interest received amounted to	1 158 052	1 029 562
Interest paid amounted to	980 565	706 180
Tax paid amounted to	-	10
Liquid funds include:		
Other lending to credit institutions	409 230	52 126

Notes

NOTE 1 ACCOUNTING PRINCIPLES

This 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	2005	2004
Interest income, lending to the public	942 907	824 887
Interest income, Swedish credit institutions	218 016	218 905
Interest income, other	5	1
Total interest income	1 160 928	1 043 793
Average interest rate, lending to the public	3.5%	4.1%

NOTE 3 INTEREST EXPENSE

SEK 000s	2005	2004
Interest expense, borrowing from credit institutions	937 524	826 553
Interest expense, borrowing from the public	47 426	53 974
Interest expense, subordinated debt	9 788	6 273
Total interest expense	994 738	886 800

NOTE 4 LOAN LOSSES, NET

SEK 000s	2005	2004
Specific provision for individually appraised loan receivables		
Write-off of confirmed loan losses during the period	1 722	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	286	856
Payment received for prior confirmed loan losses	-8 285	-6 390
Reversed provisions no longer required for probable loan losses	-1 511	-1 971
Net expense during the period for individually appraised receivables	-9 164	-6 829
Group-wise provisions 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	4 386	4 067
Net expense for the period for loan receivables appraised by group	4 386	4 067
Net expense for the period for loan losses	-4 778	-2 762

All data pertains to receivables from the general public.

NOTE 5 LENDING TO THE PUBLIC

SEK 000s	Dec. 31, 2005	Dec. 31, 2004
Loan receivables, gross		
Commercial sector	168 361	175 886
Household sector	30 829 479	23 602 309
Other	4 724	4 830
Total	31 002 564	23 783 025
Less:		
Specific provisions for individually appraised loan receivables		
Commercial sector	-6 729	-8 891
Household sector	-2 177	-2 616
Total individual provisions	-8 906	-11 507
Provisions for group-wise appraised homogenous groups of loan receivables		
Commercial sector	-15	-13
Household sector	-29 582	-25 198
Total group-wise provisions	-29 597	-25 211
Total provisions	-38 503	-36 718
Loan receivables, net		
Commercial sector	161 617	166 982
Household sector	30 797 720	23 574 495
Other	4 724	4 830
Total loan receivables, net	30 964 061	23 746 307
Doubtful receivables		
Commercial sector	7 882	12 490
Household sector	19 722	21 811
Total doubtful receivables	27 604	34 301
Non-performing receivables included among doubtful receivables		
Commercial sector	2 922	4 369
Household sector	13 597	14 218
Total non-performing receivables included among doubtful receivables	16 519	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	Dec. 31, 2005	Dec. 31, 2004
Restricted equity		
Share capital	70 335	70 335
Statutory reserve	14 067	14 067
Total restricted equity	84 402	84 402
Non-restricted equity		
Profit brought forward	1 651 345	1 116 837
Net profit for the year	16 322	22 852
Total non-restricted equity	1 667 667	1 139 689
Total shareholders' equity	1 752 069	1 224 091
Change in shareholders' equity		
Opening balance	1 224 091	734 563
Unconditional shareholders' contribution from Parent Company	528 000	489 500
Group contribution paid	-22 700	-31 700
Tax effect of Group contribution paid	6 356	8 876
Net profit for the period	16 322	22 852
Closing balance	1 752 069	1 224 091

NOTE 7 DERIVATIVE INSTRUMENTS

SEK 000s	Nominal value	Fair value
Derivative instruments with positive value		
Interest-rate derivatives	4 270 000	26 517
Derivative instruments with negative value		
Interest-rate derivatives	6 150 000	140 139

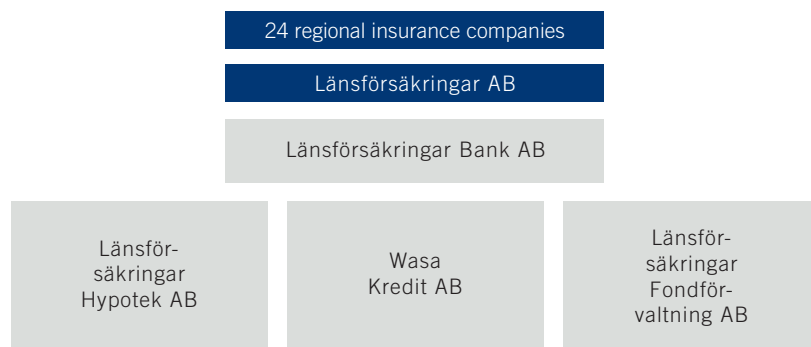
This preliminary year-end report is unaudited.
 Stockholm, February 14, 2006.



Anders Borgcrantz
President

Reporting dates:

Interim report, January-March	April 25, 2006
Interim report, January-June	August 29, 2006
Interim report, January-September	October 23, 2006



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. There are a total of 85 offices. 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.

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