

Länsförsäkringar Hypotek

YEAR-END REPORT 2004

Summary

- Mortgage lending rose by SEK 7.6 billion to SEK 23.8 billion, an increase of 47%.
- Average new lending totaled SEK 844 M (815) per month.
- The market share for lending for private homes and tenant-owned apartments increased from 1.9% to 2.5%.
- The number of home mortgage customers increased by 37% to 70,000 (51,000).
- Operating income totaled SEK 27.0 M (50.1).
- Net interest income rose by 30% to SEK 157 M (121).
- Loan losses remain at a low level.
- Capital adequacy was 11.28% (8.68) and the Tier 1 ratio 9.12% (8.24).
- The average time required to process new loans was reduced by one-half during the year.

Figures in parentheses pertain to 2003.

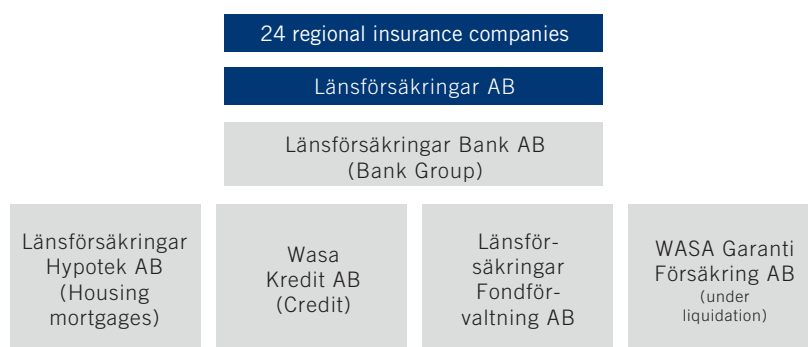


Key figures

	2004	2003	2002	2001	2000
Return on equity, %	2.35	6.74	9.37	9.52	8.67
Return on total capital, %	0.11	0.32	0.51	0.81	0.82
Investment margin, %	0.78	0.98	1.09	1.64	2.12
Interest margin, %	0.57	0.75	0.82	1.26	1.62
Cost/income ratio before loan losses	0.85	0.64	0.59	1.06	0.67
Cost/income ratio after loan losses	0.83	0.59	0.36	0.34	0.53
Capital adequacy, %	11.28	8.68	8.75	13.87	20.72
Tier 1 ratio, %	9.12	8.24	7.83	10.81	15.96
Percentage of doubtful receivables, %	-0.01	0.10	0.16	0.48	2.49
Provision ratio for doubtful receivables, %	106.12	92.98	69.33	56.5	56.50

Quarterly development

SEK M	Q4 2004	Q3 2004	Q2 2004	Q1 2004	Q4 2003
Interest income	284,395	272,199	252,710	234,489	211,124
Interest expense	-241,099	-236,169	-213,043	-196,489	-173,938
Net interest income	43,296	36,030	39,667	38,000	37,186
Net commission income	204	193	217	156	162
Other revenue	56	-7	35	61	22
Total operating revenue	43,556	36,216	39,919	38,217	37,370
General administration expenses	-36,553	-34,930	-33,575	-28,623	-29,776
Other expenses	-1	0	63	-63	-6
Total expenses before loan losses	-36,554	-34,930	-33,512	-28,686	-29,782
Income before loan losses	7,002	1,286	6,407	9,531	7,588
Loan losses	835	1,426	-94	595	3,812
Operating income	7,837	2,712	6,313	10,126	11,400



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 AB (Bank Group), with the Parent Company and the subsidiaries Länsförsäkringar Hypotek AB, Wasa Kredit AB, Länsförsäkringar Fondförvaltning AB and WASA Garanti AB. 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.

Managing Director's comments

The home mortgage operations performed favorably in 2004, and market share continued to increase. The flow of new customers continued, with 19,000 new customers choosing Länsförsäkringar Hypotek as their mortgage supplier. The lending volume grew to SEK 24 billion, representing three-fold volume increase in two years.

In 2004, Länsförsäkringar Hypotek achieved a strong increase in volume. Lending rose by SEK 7.6 billion. The company's market share also increased during the year, by 0.6%, and now amounts to 2.5%, which shows it is a competitive alternative for customers in the market for home financing.

The award "Sweden's most satisfied bank customers" clearly testifies to customers' appreciation of the company's business concept of local presence, value for price products and high expertise.

There are several reasons for the high growth – first of all, the focus on providing attractive financing options for homeowners. In addition, low interest rates, the high demand and property turnover, new construction and renovation projects, and rising prices for private homes and tenant-owned apartments contributed to the increase in volume.

According to Statistics Sweden, the average price for homes in Sweden is slightly more than SEK 1.3 M, up 47% since January 2000. Interest rates dropped further during the year and are now at their lowest level in several decades. The increase predicted in the spring did not occur and has been postponed.

Multiplying the average interest rate by total mortgage volume shows that borrowers' average interest expense is declining. Slightly over 70% of customers still opt for variable interest or short interest terms.

This trend could change, however, if interest

rates start to rise and customers choose to lock in all or portions of their mortgages.

Service

Our service locations for meeting customers are developing continuously and we are now established at 84 of the regional insurance companies' offices nationwide. Retail advisors at these locations can offer customers a wide range of bank and insurance products, which is a strength in interaction with local customers.

Länsförsäkringar Hypotek focuses on developing the service it provides to customers – particularly in terms of simplicity, availability and fast responses to customers applying for different forms of housing financing.

Satisfied customers

In the 2004 Swedish Quality Index (SQI) survey of customer satisfaction, Länsförsäkringar was awarded the highest grades in all categories of the survey. Customers have placed their trust in us: our job is now to manage this trust and build on it.

Credit quality

The trend of credit risk has been favorable. Loan recoveries exceeded credit losses. Naturally, the low interest rates combined with rising real-estate prices were a contributing factor. The proportion of doubtful loans, steadily declining, is now at a record low. Geographic spread is favorable and is

concentrated in urban areas with smooth-functioning secondary markets. Combined with the fact the lending is to private homes and tenant-owned apartments with good loan-to-value ratios, this suggests that the favorable trend will continue

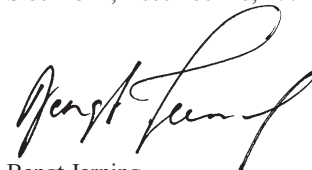
Challenges

We have several major challenges ahead: customers' demands for availability and range of options will increase. It must be easy for customers to contact and cooperate with us. Customers increasingly prefer to interact with us via Internet, and we are constantly developing new services that customers can easily take advantage of online.

We are also introducing improvements in other areas, the most recent being the launching of a single annual statement for mortgage and bank, which gives customers a better overall picture. At the same time, we are constantly enhancing personal customer service, in which the help of a knowledgeable advisor is particularly valuable in connection with property-purchasing decisions.

It is important that we continue to strengthen our market position. Länsförsäkringar Hypotek works constantly to develop the range of products and services at a pace with customer requirements. This, combined with our local presence, the strength of the Länsförsäkringar brand and customer base, makes us well prepared to meet the year ahead.

Stockholm, December 16, 2004



Bengt Jerning
Managing Director

Total assets

The company's total assets amounted to SEK 23.8 billion (16.3), an increase of 47%. Lending to the public rose by 47%, or SEK 7.6 billion, to SEK 23.8 billion (16.2). Borrowing rose by 44%, or SEK 6.7 billion, to SEK 22.0 billion (15.3).

Capital adequacy

The capital adequacy ratio amounted to 11.28% (8.68) and the Tier 1 ratio was 9.12% (8.24). The company received an unconditional shareholders' contribution of SEK 490 M and a subordinated loan of SEK 249 M from Länsförsäkringar Bank during the period. The target level for capital adequacy is 10.50% and for the Tier 1 ratio 8.50%. A deviation of ± 0.5 percentage points is allowed for both targets.

Earnings and profitability

The company's operating income amounted to SEK 24.2 M (44.2) before loan losses and SEK 27.0 M (50.1) after loan losses. This corresponds to a return on average equity of 2.4% (6.7). The change is due to both 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.

Increased market share

The flow of new customers remains strong. The number of home mortgage customers rose by 37%, amounting at the end of the

period to 70,000. Lending by Länsförsäkringar Hypotek has a favorable geographical spread nationwide, with a natural concentration to urban areas. Approximately 44% of lending takes place through the regional insurance companies in Stockholm, Malmö, Gothenburg, Älvsborg and Halland. During the spring, Länsförsäkringar's communications focused on housing mortgages and helped create public awareness of Länsförsäkringar's attractive mortgage offering. The market share for private homes and tenant-owned apartments rose from 1.9% to 2.5%.

Revenues

Net interest income rose by 30% to SEK 157.0 M (120.7), 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 during certain periods. The corresponding effects then arise in the Parent Company. The company has begun negotiation with the Parent Company with a view to changing the model to directly reflect the actual interest expense. The company's investment margin, that is, net interest income as a percentage of average total assets, amounted to 0.8% (1.0). The decline is primarily attributable to the increasingly challenging competition scenario.

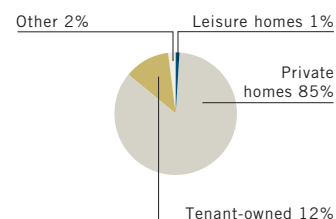
Expenses

Operating expenses rose by SEK 56.4 M to SEK 133.7 M (77.3), an increase attributable mostly to higher sales costs. The cost/income ratio was 0.85 (0.64) before loan losses and 0.83 (0.59) after loan losses.

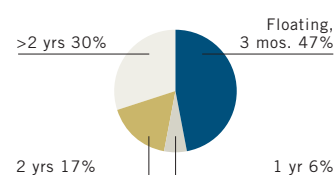
Loan losses

Provisions were made based on group-wise 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 2.8 M (gain: 5.9). The loan portfolio mainly comprises private homes and tenant-owned apartments and only a minor portion of leisure homes.

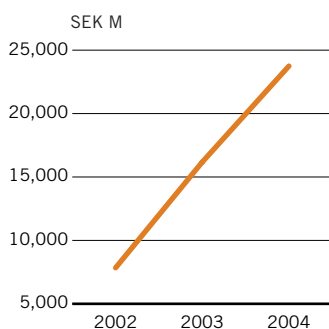
Product distribution



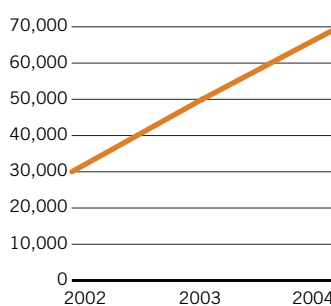
Fixed-interest terms, Dec. 31, 2004



Lending to the public



Customer growth



Income statement

SEK 000s		2004	2003
Interest income	Note 2	1,043,793	704,471
Interest expense	Note 3	–886,800	–583,739
Net interest income		156,993	120,732
Commission revenue		1,252	1,008
Commission expense		–482	–434
Other operating revenue		145	169
Total operating revenue		157,908	121,475
General administration expenses		–133,681	–77,242
Other expenses		–1	–16
Total expenses before loan losses		–133,682	–77,258
Income before loan losses		24,226	44,217
Loan losses, net	Note 4	2,762	5,894
Operating income		26,988	50,111
Change in tax allocation reserve		4,750	4,450
Tax on income for the period		–8,886	–15,262
NET PROFIT FOR THE PERIOD		22,852	39,299

Balance sheet

SEK 000s	Dec. 31, 2004	Dec. 31, 2003
Assets		
Lending to credit institutions	52,126	42,723
Lending to the public Note 5	23,746,307	16,177,756
Other assets	2,386	4,197
Prepaid expenses and accrued income	42,558	28,327
ASSETS	23,843,377	16,253,003
Liabilities and shareholders' equity		
Liabilities to credit institutions	21,062,783	14,188,456
Deposits from the public	938,352	1,141,409
Other liabilities	5,084	23,534
Accrued expenses and prepaid income	324,453	120,291
Subordinated debt	288,614	40,000
Liabilities	22,619,286	15,513,690
Provisions	0	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
Premium reserve	12,965	12,965
Statutory reserve	1,102	1,102
Profit brought forward	1,116,837	610,862
Net profit for the period	22,852	39,299
Total shareholders' equity	1,224,091	734,563
LIABILITIES AND SHAREHOLDERS' EQUITY	23,843,377	16,253,003
Memorandum items		
Assets pledged on own debt	–	–
Contingent liabilities	–	–
Commitments		
loans approved but not disbursed	115,853	102,717
interest-rate swap agreements	11,200,000	5,900,000
	11,315,853	6,002,717

Cash-flow statement

SEK 000s	2004	2003
Liquid funds, January 1	42,723	87,291
Operating activities		
Operating income	26,988	50,111
Adjustment for items not included in cash flow		
Booked non-chargeable tax	-8,876	-15,260
	18,112	34,851
Increase in lending to the public	-7,568,551	-8,336,320
Change in other assets	-12,420	-17,947
Change in other liabilities	194,578	107,633
Cash flow from operating activities	-7,368,281	-8,211,783
Investing activities		
Change in fixed assets	-	-
Cash flow from investing activities	-	-
Financing activities		
Change in borrowing from the public	-203,057	-500,522
Change in other borrowing	6,874,327	8,322,237
Group contribution	-31,700	-54,500
Increase in subordinated debenture loan	248,614	-
Shareholders' contribution received	489,500	400,000
Cash flow from financing activities	7,377,684	8,167,215
Cash flow for the period	9,403	-44,568
Liquid funds, Dec. 31	52,126	42,723
Interest received amounted to	1,029,562	688,078
Interest paid amounted to	706,180	519,005
Tax paid amounted to	10	2
Liquid funds include:		
Other lending to credit institutions	52,126	42,723

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	2004	2003
Interest income, lending to the public	824,887	591,244
Interest income, Swedish credit institutions	218,905	113,186
Interest income, other	1	41
Total interest income	1,043,793	704,471
Average interest rate, lending to the public	4.1%	4.8%

NOTE 3 INTEREST EXPENSE

SEK 000s	2004	2003
Interest expense, borrowing from credit institutions	826,553	510,949
Interest expense, deposits from the public	53,974	71,027
Interest expense, subordinated debt	6,273	1,763
Total interest expense	886,800	583,739

NOTE 4 LOAN LOSSES

SEK 000s	2004	2003
Specific provision for individually appraised loan receivables		
Write-off of confirmed loan losses during the year	676	2,032
Reversed provisions for probable loan losses reported in the interim accounts as confirmed losses	–	–2
Provision for probable loan losses during the year	856	1,367
Payment received for prior confirmed loan losses	–6,390	–10,093
Reversed provisions no longer required for probable loan losses	–1,971	–2,446
Net expense during the year for individually appraised receivables	–6,829	–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	4,067	3,248
Net expense for the year for loan receivables appraised by group	4,067	3,248
Net expense for the year for loan losses	–2,762	–5,894

All data pertains to receivables from the general public.

NOTE 5 LENDING TO THE PUBLIC

SEK 000s	Dec. 31 2004	Dec. 31 2003
Loan receivables, gross		
Commercial sector	175,886	185,139
Household sector	23,602,309	16,021,145
Other	4,830	4,938
Total	23,783,025	16,211,222
Less:		
Specific provisions for individually appraised loan receivables		
Commercial, sector	-8,891	-9,378
Household sector	-2,616	-2,944
Total individual provisions	-11,507	-12,322
Provisions for groupwise appraised homogenous groups of loans receivable		
Commercial, sector	-13	-271
Household sector	-25,198	-20,873
Total groupwise provisions	-25,211	-21,144
Total provisions	-36,718	-33,466
Loan receivables, net		
Commercial sector	166,982	175,490
Household sector	23,574,495	15,997,328
Other	4,830	4,938
Total loan receivables, net	23,746,307	16,177,756
Doubtful loans receivable		
Commercial sector	12,490	14,078
Household sector	21,811	21,913
Total doubtful loans receivable	34,301	35,991
Non-performing receivables included among doubtful receivables		
Commercial sector	4,369	5,815
Household sector	14,218	11,167
Total non-performing receivables included among doubtful receivables	18,587	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	Dec. 31 2004	Dec. 31 2003
Restricted equity		
Share capital	70,335	70,335
Share premium reserve	12,965	12,965
Statutory reserve	1,102	1,102
	84,402	84,402
Non-restricted equity		
Profit brought forward	1,116,837	610,862
Net profit for the period	22,852	39,299
	1,139,689	650,161
Total shareholders' equity	1,224,091	734,563
Change in shareholders' equity		
Opening balance	734,563	334,504
Unconditional shareholders' contribution from Parent Company	489,500	400,000
Group contribution paid	-31,700	-54,500
Tax effect of Group contribution paid	8,876	15,260
Net profit for the period	22,852	39,299
Closing balance	1,224,091	734,563

NOTE 7 DERIVATIVE INSTRUMENTS

SEK 000s	Nominal value	Fair value
Derivative instruments with positive value		
Interest-rate derivatives	350,000	2,362
Derivative instruments with negative value		
Interest-rate derivatives	10,850,000	206,350

This interim report is unaudited.
Stockholm, February 16, 2005

Bengt Jerning
Managing Director

Reporting dates:

Interim report, January–March: April 26, 2005

Interim report, January–June: August 30, 2005

Interim report, January–September: October 25, 2005

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