

2004 Länsförsäkringar Hypotek

ANNUAL REPORT 2004





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Definitions

Capital adequacy

Closing capital base in relation to the closing risk-weighted amount.

Capital base

The sum of Tier 1 and Tier 2 capital minus items in accordance with Chapter 2, Section 7, Paragraph 3 of the Capital Adequacy and Large Exposures Act.

Cost/income ratio

Total costs in relation to total income. The cost/income ratio is calculated before and after loan losses.

Doubtful receivables

Receivables for which payments are unlikely to be made in accordance with the agreed terms. A receivable is not regarded as doubtful if there is adequate collateral to cover both the principal, interest and any penalties for possible late payments. The net of doubtful receivables is equivalent to gross doubtful receivables less specific provisions made for individually appraised receivables and provisions for receivables appraised by group.

Fixed-interest period

Agreed period during which the interest rate on an asset or liability is fixed.

Interest margin

The difference between the average interest rate on all assets and the average interest rate on all liabilities.

Investment margin

Net interest income in relation to average total assets.

Non-performing receivables

Receivables for which interest payments, amortization or overdrafts are more than 60 days past due.

Percentage of doubtful receivables

Doubtful receivables, gross, in relation to total lending to the public.

Provision ratio for doubtful receivables

Provision for probable loan losses in relation to gross doubtful receivables.

Return on equity

Earnings for the period, after appropriations and tax, in relation to average shareholders' equity, adjusted for new share issues and dividends.

Return on total capital

Operating income in relation to average total assets.

Risk-weighted amount

Total assets reported in balance sheet and off-balance-sheet commitments, valued in accordance with the Capital Adequacy and Large Exposures Act. Volumes are weighted taking into account assessed risk so that they are included in the risk-weighted amount by 0%, 20%, 50% or 100%.

Tier 1 capital (Core capital)

Shareholders' equity in the Parent Company including 72% of untaxed reserves, less intangible assets and deferred tax assets, capital contributions and provisions that may be included in the capital base as Tier 1 capital are described in Chapter 2, Section 6 of the Capital Adequacy and Large Exposures Act.

Tier 1 ratio

Tier 1 capital at year-end in relation to the closing risk-weighted amount.

Tier 2 capital (Supplementary capital)

Subordinated loans with an original term of at least five years with a certain reduction if the remaining term is less than five years, plus capital contributions and provisions in accordance with Chapter 2, Section 6 of the Capital Adequacy and Large Exposures Act.

Financial reporting in 2005

Interim Report January – March	April 26
Interim Report January – June	August 30
Interim Report January – September	October 25

The Annual General Meeting will be held on May 23.

2004 in brief

- 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 SEK 70,000 (51,000).
- Net interest income rose by 30% to SEK 157 M (121).
- Operating income totaled SEK 27.0 M (50.1). The change in income is attributable to the short-term effects in the refinancing agreement, increased selling expenses and changed allocation principles between the Parent Company and the subsidiary.
- Loan losses remain at a low level.
- Recoveries amounted to SEK 2.8 M (5.9).
- 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.

Key figures	2004	2003
Return on equity, %	2.4	6.7
Return on total capital, %	0.1	0.4
Investment margin, %	0.78	0.98
Interest margin, %	0.57	0.75
Cost/income ratio before loan losses	0.85	0.64
Cost/income ratio after loan losses	0.83	0.59
Capital adequacy, %	11.28	8.68
Tier 1 ratio, %	9.12	8.24
Percentage of doubtful receivables, gross %	0.14	0.22
Provision ratio for doubtful receivables, %	107.05	92.98

Statement by the President

Länsförsäkringar Hypotek's expansion continues

The home mortgage operations performed favorably in 2004, and market share continued to increase. The flow of new customers continued and 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 market share also increased during the year, by 32%, and now amounts to 2.5%, which shows it is a competitive alternative for customers in the market for home financing. The distinction of having 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 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. A large amount of new construction and renovation of private homes and tenant-owned apartments, a generation shift and refinancing of second-lien mortgages in conjunction with the value appreciation were also driving forces behind the volume increase.

However, the sharp increase during a relatively short period can stagnate in the event of an increase in interest rates or a downturn in the economy.

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.

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 mortgage payments.

Service

Our service locations for meeting customers are developing continually 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 second-hand 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.

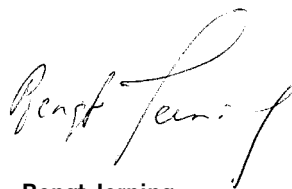
We are also introducing improvements in other areas, the most recent being the launching of a single annual statement for mortgage and bank, which gives customers a better overall picture. At the same time, we are constantly enhancing personal customer service, in which the help of a knowledgeable advisor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

Alignment to the capital adequacy rules, Basel II, is being carried out jointly within the Bank Group. In our opinion, changes will occur with regard to price setting and risk assessment. Credit risk will be reflected in prices in a distinct manner. Accordingly, it will be possible to further improve our highly favorable credit quality.

It is important that we continue to strengthen our market position. Länsförsäkringar Hypotek works constantly to develop our 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, February 2005



Bengt Jerning

President



About Länsförsäkringar Hypotek

Länsförsäkringar Hypotek AB, a subsidiary of Länsförsäkringar Bank AB, is a home mortgage supplier that finances private homes, tenant-owned apartments and leisure homes. Since introduction in 2001, operations have developed highly positively. Mortgage lending rose during 2004 by 47% to SEK 23.8 billion and the number of home mortgage customers amounted to 70,000 (51,000). Länsförsäkringar Hypotek's operating income totaled SEK 27.0 M (50.1).



Market share amounts to 2.5% (1.9) and the average size of loans is about SEK 300,000. Many customers have chosen to fix their loans over different terms, as a result of which the customer's average total loans is higher. Most of lending, 85%, pertains to private homes, 12% tenant-owned apartments and the remaining 3% leisure homes and other.

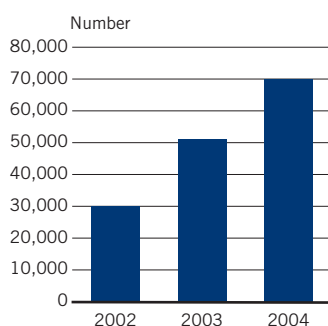
First-lien mortgages are placed in Länsförsäkringar Hypotek and second-lien mortgages in Länsförsäkringar Bank.

Homeowners are a strategic target group in Länsförsäkringar and the development of attractive offerings for homeowners is a priority area.

Länsförsäkringar Hypotek operates through 24 independent regional insurance companies that work close to the customer in their local specific markets. This creates a unique local presence and market knowledge. There are a total of 84 advisory offices that offer mortgage lending. Customers can also conduct business over the Internet, by telephone and through the Swedish Cashier Service. The many different meeting places provide high flexibility and a range of choices for the customer.

The goal is to be the natural choice as mortgage lending supplier on the Swedish market. Development is highly positive and Länsförsäkringar is currently a complete mortgage-lending alternative for its customers. Customers are offered a total cus-

Mortgage customers



tomer concept within banking, mortgage lending and insurance that provides high customer benefit.

Länsförsäkringar's guiding principles are: customer-owned, locally established, availability and personal attention. The Group's strong financial position creates the conditions for sustainability, development and value for money.

Environmental certification – ISO 14001

Länsförsäkringar Alliance has chosen to be certified in accordance with the ISO 14001 environmental management system, which is a tool for conducting systematic environmental efforts in which continuous

improvement is a requirement. The environmental efforts in Länsförsäkringar AB during 2004 focused on establishing and certifying an environmental management system for the entire Länsförsäkringar AB Group. All employees have received training in environmental know-how that also included a section about Länsförsäkringar AB's environmental impact and knowledge about the environmental management system. The certificate received in December covers the Life & Mutual Fund Division, the Bank Division, Run-Off Division and the Group-wide units.

The environmental work conducted within Länsförsäkringar AB is organized through a joint environmental coordinator.



Each unit has its own environmental coordinator and the environmental work is integrated and aligned with the normal business planning. The environmental perspective shall be an inherent element in all areas.

All 24 regional insurance companies were certified earlier.

Economic environment

Strong global growth

The global economy has shown a significant upswing after several weak years. The US continues to stand out as the world's locomotive. The situation in the EMU area is somewhat different, with stagnant retail sales and rising unemployment. The Swedish economy, on the other hand, presents a more positive picture.

Strong global growth

The growth rate for GDP in the US during 2004 closed at 4.4%. During the year, companies and households benefited from the continued extremely low interest rates, while employment increased. After three years of falling employment, an average of 186,000 new jobs per month were created in the US during 2004. The Federal Reserve also began raising short-term interest rates from an exceptionally low 1% at the end of June 2004 to 2.5% at the beginning of February 2005. Despite the rise in interest rates, however, real interest rates continue to be weakly negative, which means that the interest-rate situation must be regarded as expansive for the time being.

The situation in the EMU area, on the other hand, gives greater cause for concern. Households are keeping a tight grip on their wallets, which has increased the savings ratio at the cost of stagnating retail sales. Rising unemployment is a particularly serious problem. In addition, the markedly stronger EUR is impairing industry competitiveness. As a result of weak demand, the key interest rate has remained static at 2%.

Swedish economy presents positive picture

The Swedish economy performed surprisingly positively during 2004. Companies have recovered and are again reporting profits. Exports were also at a remarkably favorable level considering the strengthen-

ing of the SEK during the year. Private consumption also showed a sharp increase, despite falling employment. GDP growth for 2004 will probably end up at about 3.7%. Provided the labor market does not deteriorate further, it is difficult to foresee anything restraining the Swedish economy for the next several years. After a period of surprising weakness in the labor market, there are now signs that the number of jobs is rising. Increased employment brings increased incomes for households, which will have a positive effect on consumption. The only factor that seems unlikely to make the same high contribution to growth this year, compared with 2004, is foreign trade. This in turn is due to the fact that imports are expected to rise more than exports.

Low interest rates benefit households

Despite the continued weakness of the labor market, household consumption has remained high. The explanation lies in the low interest rates, which have increased the scope for consumption in household budgets as interest expenses have gradually diminished. In addition, the low interest rates have had the overall effect that households have increased their borrowings to the benefit of consumption.

The low interest rates have also increased demand for homes, with the result that house prices have continued to rise. Prices for private homes rose by 10% during 2004. This in turn means that the real wealth of households has risen, giving

them increased scope for taking out new loans, thereby benefiting consumption.

During 2004, households also reduced their savings in favor of consumption. The savings ratio declined as interest rates fell. On the other hand, savings increased during the first few years of the 21st century. The income situation for households has also worsened during the past few years due to rising unemployment and the reduced availability of tax relief or increased allowances. As a result, households have freed up some of the capital saved earlier. As long as interest rates remain at such low levels and the income situation is expected to improve, the savings ratio will probably continue to fall.

There are naturally risks inherent in the increased debt burden assumed by households. At the beginning of 2005, households' debts corresponded to about 120% of their disposable income. On the other hand, households' total interest expense in relation to disposable income has in fact declined. Households thus have a margin to enable them to cope with a rise in interest rates, although this would naturally restrict the scope of their budgets.

Bank of Sweden watching and waiting

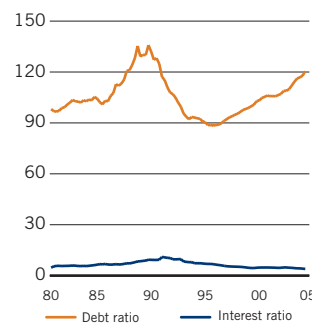
Interest rates in the Swedish economy are governed by actual inflation and anticipated inflation trends. When demand rises in society, this usually leads eventually to increased inflation. However, regardless of the price rises for private homes, the trend of inflation measured according to the con-

sumer price index (CPI) has in fact been in the opposite direction. Inflation is currently at an extremely low level and considerably below the Bank of Sweden's forecasts. As a result, Bank of Sweden was able to maintain the repo rate at only 2 percent. Moreover, given the low inflation rate, there is little likelihood that the Bank of Sweden will need to raise the repo rate in the near future. But inflation will gradually begin to rise as the availability of jobs increases and the unutilized resources in the economy are put to use, and this will eventually persuade the Bank of Sweden to raise interest rates.

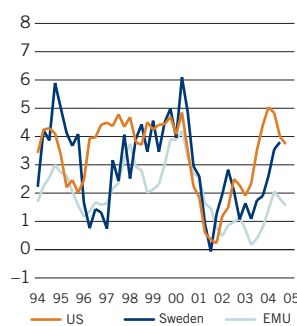
Long-term market interest rates, which also govern the fixed mortgage interest rates, remained extremely low throughout 2004 despite the high growth rate. This was because inflation and inflation forecasts were low. Once inflation forecasts begin to rise and expectations of increases in short-term interest rates strengthen again, there is every reason to expect that long-term interest rates will also turn upward. In addition, with interest rates at their present extremely low level, it is reasonable to believe that they have bottomed out and can be expected to turn upward again.

In summary, 2004 was characterized by a strong economic trend, low inflation and low interest rates, as well as an extremely positive stock market trend. It seems likely that 2005 will be another year of high growth driven by increased employment and continued low interest rates.

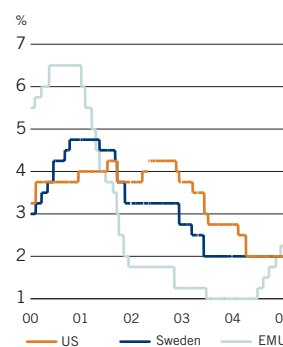
Household debts and interest expenses as a percentage of disposable income



GDP growth, annual change, %



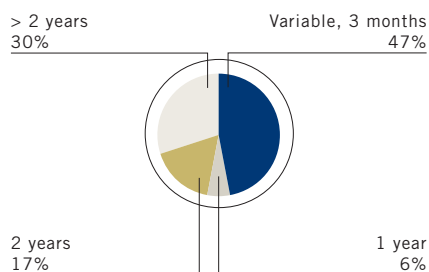
Key interest rates



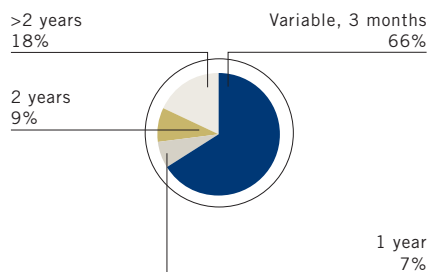
Loan portfolio

Increased competition on the home mortgage market

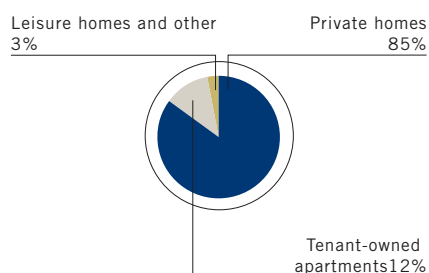
Fixed-interest term for the entire loan portfolio



Fixed-interest term for new lending (first lien)



Product distribution



ACTIVITY DURING 2004 was highly intensive in the housing mortgage market. A strong contributing factor was the interest rates, which declined further during the year and is now the lowest for many decades. The rate hike that was expected in the spring of 2004 did not occur, and has been postponed until a later time.

The lending market, which is characterized primarily by stiffer competition from commercial banks, experienced increased price pressure and lower interest rate margins. Despite this trend, Länsförsäkringar has an increased market share for mortgage lending of 32% since 2003.

The investment margin declined from 1.0 to 0.8%. The most important explanation is a changed refinancing portfolio and changed allocation principles between the Parent Company and subsidiary.

In order to remain competitive, efficient processing of loans is crucial. During the year, additional improvements in quality have been implemented, including loan extensions and a modernized Internet application process. The average amount of time required for efficient processing has been reduced by half during the year, which sharpens the competitive edge.

In 2005, Länsförsäkringar will further develop and improve loan processing, as

well as the range of products and services in keeping with the needs of the customer. Improving our Internet access is one particular priority that is undergoing many changes and will make it easier for customers to handle mortgage errands more quickly. Examples of this include account statements and interest-rate fixing.

Loan quality

A decisive factor for favorable loan quality is a careful assessment of each loan application. It is important in assessing a loan that all necessary financial information is available and to process and carry out calculations regarding the financial consequences of the loan. Particular emphasis is placed on providing the customer complete, simple and clear information about the loan terms and the financial consequences.

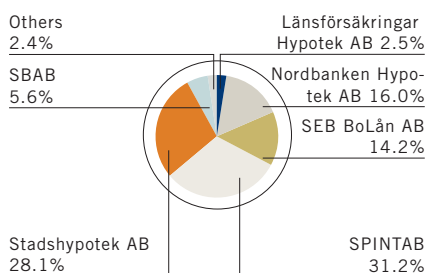
This work is facilitated using a computer-based loan appraisal and loan processing system that is also linked to external sources such as the Credit Information Center and National Land Survey. As a result, current information is obtained quickly and accurately about the customer's financial situation as well as the value and status of collateral pledged. This ensures fast and correct loan decisions in

each case. Quality is checked annually through analyses of the loan portfolio. The results indicate distinct improvements. The percentage of loans with overdue amounts and payment reminders is declining year by year.

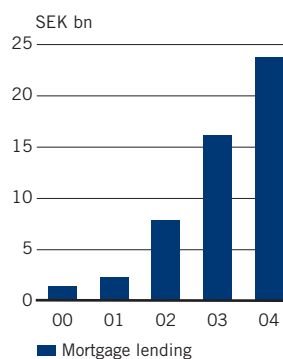
It is also important to quickly identify and work with the cases in which payment problems arise. This is handled by specialists within Wasa Kredit AB. An entirely new debt collection system was installed during 2004. The system provides information to the offices quickly and simply.



Market shares, mortgage institutes in Sweden



Lending in Länsförsäkringar Hypotek



Board of Directors' report

Owner relationship

The company is a subsidiary of the Länsförsäkringar Bank AB (publ), 516401-9878, whose Parent Company is Länsförsäkringar AB (publ) 556549-7020. All companies are registered in Stockholm.

The bank group comprises the Parent Company Länsförsäkringar Bank AB (publ) (516401-9878) and the wholly owned subsidiaries Länsförsäkringar Hypotek AB (556244-1781), Wasa Kredit AB (556311-9204), Länsförsäkringar Fondförvaltning AB (556364-2783) and WASA Garanti Försäkrings AB i likvidation (516401-7831). The obligations and rights in WASA Garanti Försäkrings AB i likvidation were taken over by the bank and liquidation of the company is intended to be completed during 2005.

As of January 1, 2002, the operations of Länsförsäkringar Hypotek are outsourced to Länsförsäkringar Bank AB. No personnel are employed by the company, with administration handled in its entirety by Länsförsäkringar Bank AB.

Operations

The company conducts mortgage loan operations. Operations involve the origination of loans against collateral in the form of private homes, tenant-owned apartments and leisure homes and, to some extent, multi-family buildings.

Under the secondary name, Cinninnatus, run-off activities are being conducted with respect to remaining, non-performing loans from the financial crisis of the early 1990s. The administration is being handled by Wasa Kredit AB.

Customers are served through any of the 84 offices of the regional insurance companies that conduct banking operations for advisory and other services. The offices are located at, or adjacent to, the offices of the regional insurance companies. The sale and certain administration of banking services have been contractually outsourced to each regional insurance company. Regional insurance companies are reimbursed for sales and administration through a reimbursement system based on volumes managed.

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 bil-

lion, to SEK 23.8 billion (16.2). Borrowing rose by 44%, or SEK 6.7 billion, to SEK 22.0 billion (15.3).

Funding

The company is refinanced exclusively from the Parent Company in relation to the needs of the company with respect to volumes and maturities. The goal is to eliminate interest risk within the financial policy's risk mandate. To the extent that interest-rate risk arises, interest-rate swaps are employed.

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 10.5% 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 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 in income is attributable to the short-term effects in the refinancing agreement, increased selling expenses and changed allocation principles between the Parent Company and the subsidiary.

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.

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

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. Group-wise provisions are made for new mortgage loans based on a percentage of the loan portfolio outstanding. The percentage is determined based on the industry's and own experiences of this product. The size of the provision is determined taking into account a longer time period with varying interest rates and economic conditions. Individual provisions are made for loans not issued by the regional insurance companies (old stock).

The Länsförsäkringar Bank is successively implementing an alignments throughout the bank group to the new capital adequacy rules, Basel II. A significant part deals with risk classification and risk control. The provision ratio currently being used will be analyzed and if necessary revised taking into account the result of the analyses carried out in the Basel work. This is expected to be completed in 2006.

Strengthened market position

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. 44% of lending takes place through the regional insurance companies in Stockholm, Skåne, Gothenburg and Bohuslän, Älvsborg and Dalarna. Many of the regional insurance companies posted a very strong development in relation to their customer stock and the markets in which they are active.

Process development and system support

Continued intensive efforts to improve processes and systems support were carried out. The efficiency of the automated routines for processing loan cases has been further improved, resulting in a halving of the processing time and, accordingly, the lead times for notifying the customer. The routines for extending fixed loans were simplified significantly, which resulted in more time for customer advisory services. Extensive work to secure the high quality of the loan files also in the future has been carried out. A process-support case management system to trace the loan file from the processing loan officer to the final archives is being implemented.

Measurement of the process's key figures is under way continually and during the year indicated that the change efforts within the process have yielded the desired results.

RISKS AND RISK MANAGEMENT

The ultimate responsibility for the company's risk exposure lies with the Board of Directors. The Board sets the guidelines for risk management through the credit policy and finance policy. The Board appoints a credit delegation and a credit committee in which decisions on loans within certain limits are made.

The task of the unit for financial risk management is to carry out independent risk control and supervision. Violation of the limits and other actions are reported directly to the Board of Directors.

Credit risk

Credit risk is the risk of incurring losses as a result of a counterparty not being able to fulfill its obligations toward the company and any pledged collateral not covering the claim.

The primary risk-limiting factor is to ensure that the credit process in itself is conducted with the required level of quality.

The company's credit risk covers receivables mainly from private individuals. Loans are granted after a thorough credit appraisal that, in the first instance, is based on the customer's ability to repay. Most credit decisions are made by one person with the support of an IT-based appraisal system. The system is linked to external infor-

mation sources, such as property databases and UC (Sweden's leading business and credit information agency).

The commitments are followed up regularly in terms of payment history, receivables more than 60 days past due and changes in the value of collateral. The percentage of receivables that are overdue – more than 60 days past due – has declined during the year.

DOUBTFUL RECEIVABLES SEK 000s	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2002
Total receivables	23,783,025	16,211,222	7,872,735
Doubtful receivable	34,301	35,991	45,143
Percentage of total receivables	0.14	0.22	0.57

Doubtful receivables from December 2002 to December 2004. The sharp growth has occurred without a decline in the quality of borrowers. Doubtful receivables have declined from 0.57% to 0.14%.

Financial risk

Financial risk is inherent in the type of operations that Länsförsäkringar Hypotek conducts. The financial policy is intended to provide a framework for the company's financial operations. The framework is to express the Board's stance on managing financial risk and ensure compliance with the legal framework. The financial policy covers the management of financing risk, interest-rate risk, currency risk, counterparty risk and credit risk associated with financial investments.

INTEREST-RATE RISK

The aim of controlling interest-rate risk is to reduce the immediate impact that unexpected changes in market interest rates can have on the company's earnings. Interest-rate risk is to be managed cost-effectively within set limits.

Interest-rate risk is defined as the change in present value resulting from a 1-percentage point parallel shift in the yield curve. At December 31, 2004, interest-rate risk amounted to SEK 1.2 M.

Operating risk

Operating risk is the risk of losses arising due to external events (such as natural disasters and criminality) or due to internal factors (computer errors, fraud, insufficient compliance with regulations and suchlike).

The best protection against this kind of risk is good internal control. Internal control builds primarily on capable leadership, distinct rules and instructions and continuous training.

Directly answerable to the Board of Directors is internal audit, whose function is to examine and evaluate internal control within the company. Internal audit is a review function independent from operational activities.

The Basel Committee's proposals for new capital adequacy regulations

In 1998, the Basel Committee on Banking Supervision concluded that the current regulations pertaining to capital requirements needed to be revised and made more risk-sensitive. The final proposal for new regulations – the Basel II Framework – was published in April 2003. Measures are currently being taken within the EU to adapt the legislation to local regulations applicable in EU member states.

One of Basel Committee's purposes for revising Basel I was to achieve a regulatory framework adapted to the particular risk exposure of each bank and credit institution. It will thus become possible for each credit issuer to use more advanced models to calculate the factors affecting capital requirements, entirely or partly on the basis of the institution's own statistics. This requires credit institutions to be able to prove to the supervisory authorities that they have the organization, expertise, data systems and sufficient historical data to achieve this. Länsförsäkringar Bank has decided to implement an advanced internal rating method known as IRK to calculate capital requirements. This method will provide the bank with the best opportunity to manage its credit risk strategically and operationally.

Nearly the entire Banking Group – Länsförsäkringar Bank, Länsförsäkringar Hypotek and Wasa Kredit – is affected by the work to implement the new regulations. According to a study undertaken earlier, the implementation of Basel II in accordance with the IRK method will gradually entail a lower regulatory capital requirement for the bank's operations. In addition, it will provide greater possibilities to manage lending operations based on the actual risk in the loan portfolio, thereby enabling the company to manage risk in its operations both strategically and operationally. It will also make it possible to apply differentiated pricing between customers based on the customer's actual level of risk. Risk categorization of customers will be integrated with the existing credit process. This will also make it possible to improve existing procedures within the framework of Basel II.

The project involves the company improving its internal procedures, instructions and quality of internal data, leading to better quality assurance within the organization.

According to the schedule, the new regulations will be implemented during 2005 and will be applied in stages from 2006.

Proposed disposition of earnings (SEK)

The following funds have been placed at the disposal of the Annual General Meeting:

Income carried forward	650,160,970
Group contribution paid	-22,824,000
Shareholders' contribution received	489,500,000
Profit for the year	22,852,735
Funds to be allocated	1,139,689,705

The Board of Directors and the President propose that income be allocated as follows:

Carried forward in new account	1,139,689,705
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For more information on the company's reported earnings, financial position, average number of employees and capital adequacy, refer to the accompanying income statement, balance sheet, supplementary disclosures and capital adequacy analysis.

All figures in the annual report are in SEK 000s, unless specified otherwise.

KEY FIGURES

	2004	2003	2002	2001	2000
Return on equity, %	2.4	6.7	9.4	9.5	10.0
Return on total capital, %	0.1	0.4	0.7	1.1	1.2
Investment margin, %	0.78	0.98	1.09	1.64	2.12
Interest margin, %	0.57	0.75	0.82	1.26	1.62
C/I ratio before loan losses	0.85	0.64	0.59	1.06	0.67
C/I ratio after loan losses	0.83	0.59	0.36	0.34	0.53
Capital adequacy ratio, %	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, gross %	0.14	0.22	0.57	2.56	5.55
Provision ratio for doubtful receivables, %	107.05	92.98	69.33	56.5	56.43

Income statement

SEK 000s	Note	2004	2003
Interest income	2	1,043,793	704,471
Interest expense	3	-886,800	-583,739
Net interest		156,993	120,732
Commission revenue	4	1,252	1,008
Commission expense	5	-482	-434
Other operating revenue	6	145	169
Total operating revenue		157,908	121,475
General administration expenses	7	-133,681	-77,242
Other operating expenses	8	-1	-16
Total expenses before loan losses		-133,682	-77,258
Income before loan losses		24,226	44,217
Loan losses, net	9	2,762	5,894
Operating income		26,988	50,111
Change in tax allocation reserve		4,750	4,450
Tax on income for the year	10	-8,886	-15,262
PROFIT FOR THE YEAR		22,852	39,299

Balance sheet

SEK 000s	Note	Dec. 31, 2004	Dec. 31, 2003
ASSETS			
Lending to credit institutions	11	52,126	42,723
Lending to the public	12, 22, 23	23,746,307	16,177,756
Other assets	13	2,386	4,197
Prepaid expenses and accrued income	14	42,558	28,327
TOTAL ASSETS		23,843,377	16,253,003
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities to credit institutions	15, 22	21,062,783	14,188,456
Deposits from the public	16, 22	938,352	1,141,409
Other liabilities	17	5,084	23,534
Accrued expenses and prepaid income	18	324,453	120,291
Subordinated debt	19	288,614	40,000
Liabilities		22,619,286	15,513,690
Untaxed reserves	20	-	4,750
Untaxed reserves			
Share capital, 70,335 shares with a par value of SEK 1,000 per share	21	70,335	70,335
Premium reserve		12,965	12,965
Statutory reserve		1,102	1,102
Income balance carried forward		1,116,837	610,862
Income for the year		22,852	39,299
Shareholders' equity		1,224,091	734,563
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		23,843,377	16,253,003
Assets pledged			
Assets pledged		None	None
Contingent liabilities		None	None
Commitments			
- loans approved but not disbursed		115,853	102,717
- interest-rate swap agreement ¹⁾		11,200,000	5,900,000
		11,315,853	6,002,717

¹⁾ Länsförsäkringar Hypotek's counterparties have high credit rating. With market interest-rate movement of one (1) percentage point on all times to maturity, the market value of interest-rate swap agreements at the closing date is impacted by about SEK 194,412,000. All of the derivatives are covered by hedge accounting and are held to eliminated interest-rate risks in lending and borrowing. As a result, the reporting of a deficit of SEK 206,350,000 and a surplus value of SEK 2,362,000 were postponed. The deficit and surplus correspond largely to the differences in opposite directions between the book value and the fair value of Länsförsäkringar Hypotek's lending and borrowing.

Cash-flow statement

SEK 000s	Note	2004	2003
Liquid funds, January 1		42,723	87,291
Operating activities			
Operating income		26,988	50,111
Adjustment for items not included in the 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 deposits from the public		-203,057	-500,522
Change in other borrowing		6,874,327	8,322,237
Group contribution paid		-31,700	-54,500
Increase in subordinated loans		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, December 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
Included in liquid funds:			
Lending to credit institutions		52,126	42,723

Change in shareholders' equity

SEK 000s	Share capital	Share premium reserve	Statutory premium reserve	Earnings carried forward	Net profit/loss for the year	Total
Opening balance, January 1, 2003	70,335	12,965	1,102	224,410	25,692	334,504
Unconditional shareholders' contribution received from Parent Company				400,000		400,000
Disposition of earnings according to decision of AGM				25,692	-25,692	
Group contribution paid				-54,500		-54,500
Tax effect of Group contribution paid				15,260		15,260
Net profit for the year					39,299	39,299
Closing balance, December 31, 2003	70,335	12,965	1,102	610,862	39,299	734,563
Unconditional shareholders' contribution received from Parent Company				489,500		489,500
Disposition of earnings according to decision of AGM				39,299	-39,299	
Group contribution paid				-31,700		-31,700
Tax effect of Group contribution paid				8,876		8,876
Net profit for the year					22,852	22,852
Closing balance, December 31, 2004	70,335	12,965	1,102	1,116,837	22,852	1,224,091

Also refer to Note 21, Shareholders' equity

Supplementary disclosures

NOTE 1 ACCOUNTING PRINCIPLES

The Annual Report was prepared in accordance with the Swedish Annual Accounts (Credit Institutions and Securities Companies) Act (1995:1559) and in the regulations of Finansinspektionen (Swedish Financial Supervisory Authority).

Group contributions and shareholders' contribution

Group contribution and shareholders' contribution are reported in accordance with the statements issued in 1998 by the Swedish Financial Accounting Standards Council's Emerging Issues Task Force, which means that Group contribution and shareholders' contribution are charged directly against unrestricted equity.

Fixed assets and current assets

Fixed assets are classified as assets intended to be permanently, until depleted or long term, held and utilized in operations. Other assets are classified as current assets.

The basic valuation principle is that acquisition value is applied to fixed assets and fair value to current assets, even when this exceeds the acquisition value.

Reporting of business transactions

Business transactions on the money, bond and equity markets are reported in the balance sheet as per the trading day, that is, at the time when the significant risks and rights have transpired between the parties. Deposits and lending transactions are reported as per the settlement date.

Hedge accounting

The company uses interest-rate swaps to protect certain loan receivables with established payment flows from interest-rate risks. Hedged and protected positions have been identified individually and show a high correlation during changes in value, which means that unrealized gains and losses on hedged positions are offset by unrealized losses and gains on protected positions.

The company applies hedge accounting with acquisition valuation, which means that the hedged and protected positions are reported in the income statement and balance sheet without taking into account unrealized changes in value.

Lending

Loan receivables are initially reported in the balance sheet at their acquisition value, that is, in the amount lent to the borrower. Thereafter, loan receivables are reported continuously at their acquisition value after deductions for write-offs and specific and group-wise provisions for loan losses.

All loan receivables in the company are classified as fixed assets and are reported at the highest value expected to be received.

Lending is reported in the balance sheet after deductions for confirmed and probable loan losses. Confirmed loan losses during the year and allocations to provisions for probable loan losses, less recoveries and reversals on previous confirmed and probable loan losses, are reported as loan losses, net.

Confirmed loan losses are those losses whose amount is regarded as finally established through acceptance of a composition proposal or through other claim remissions. 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 to cover both the principal and accrued interest rates, including penalties for possible late payments.

As a provision for probable loan losses, the receivable is reported at an amount corresponding to the difference between its reported value and the amount that the company expects to recover.

The company applies either an individual or a group-wise valuation of credits when deciding on a provision for probable loan losses. The group-wise valuation is used for homogenous groups of loan receivables with similar credit risk. A standard provision is made, based on an assessment of a potential loss trend in the future. Group-wise provisions of individually appraised loan receivables have not been deemed necessary.

Recovered funds for doubtful receivables on which provisions have been made are, in the first instance, settled against the principal and in the second, against the interest rate. Interest rates on doubtful receivables are reported according to the cash principle, which means they are not reported as income until payment has been received.

Income tax

Deferred tax shall be reported for all temporary differences between the reported and tax values of assets and liabilities. The tax value of unutilized loss carryforwards is capitalized only to the extent that it is likely these will entail lower tax payments in the near future.

NOTE 2 INTEREST INCOME

All interest income pertains to the Swedish market

	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	1,043,793	704,471
Of which, from Group companies	38,199	2,510
Average interest rate, lending to the public	4.11%	4.77%

NOTE 3 INTEREST EXPENSE

	2004	2003
Interest expense, borrowing from credit institutions	826,553	510,949
Interest expense, deposits from the public	53,974	71,027
Subordinated debt	6,273	1,763
Total	886,800	583,739
Of which, to Group companies	542,998	371,390

NOTE 4 COMMISSION REVENUE

	2004	2003
Lending commissions	1,252	1,008
Total	1,252	1,008

NOTE 5 COMMISSION EXPENSE

	2004	2003
Other commissions	482	434
Total	482	434

NOTE 6 OTHER OPERATING REVENUE

	2004	2003
Other operating revenue	145	169
Total	145	169

NOTE 7 ADMINISTRATION EXPENSES

	2004	2003
IT-costs	–	741
Consultant costs	–	50
Other administration costs	133,681	76,451
Total	133,681	77,242

Auditors' fees	2004	2003
Ernst & Young AB	–	29
KPMG	200	125
SET Revisionsbyrå AB	31	–
Total	231	154

Salaries and other remuneration amounted to:	2004	2003
Board and President	79	90
Total	79	90
Social-security costs	25	30
Total	104	120

Effective January 1, 2002, no personnel are employed by the company, simultaneous with operations being outsourced to Länsförsäkringar Bank AB.

The current President receives no remuneration and has no claim on severance pay.

The Board consists of five male members.

Loans to senior executives

There are loans in Länsförsäkringar Hypotek AB granted to Board members totaling SEK 830,000. Loan terms and conditions correspond to those for Länsförsäkringar Bank AB employees. Board members of Länsförsäkringar Hypotek AB hold loans from Länsförsäkringar Bank AB totaling SEK 275,000. The loans are in accordance with market terms and conditions. Loans are also made to other Board members within the Länsförsäkringar AB Group. Within Länsförsäkringar Hypotek AB, loans amount to SEK 30,568,000.

Loan terms and conditions correspond to those for other employees within the Länsförsäkringar AB Group.

NOTE 8 OTHER OPERATING EXPENSES

	2004	2003
Other operating expenses	1	16
Total	1	16

NOTE 9 LOAN LOSSES

	2004	2003
Specific reservation of 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 year-end 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

Group-wise provision for individually appraised receivables

Allocation/dissolution of group-wise provisions	–	–
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Group-wise appraisal of homogenous groups of loan receivables with limited value and similar credit risk

Allocation/dissolution of provisions for loan losses	4,067	3,248
Net expense for the year for homogenous 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 10 TAX ON INCOME FOR THE YEAR

	2004	2003
Current tax	8,886	15,262
Total	8,886	15,262

Since a Group contribution was paid, no current tax is paid. The taxable effect of the contribution paid is reported directly to shareholders' equity in accordance with the RR Emerging Issues Task Force's statement concerning Group contributions and shareholders' advances (URA7).

Specification of tax expense for the year	2004	2003
Reported income before tax	31,738	54,561
Corporate income tax, 28%	8,887	15,277
Non-tax-deductible costs	–	–
Non-taxable revenue	–1	–11
Utilization of previously uncapitalized loss carryforwards	–	–4
Reported tax expense	8,886	15,262
Applicable tax rate	28%	28%

The effective tax rate is in agreement with the applicable tax rate.

Tax items charged against shareholders' equity

Current tax in Group contribution granted	8,876	15,260
	8,876	15,260

NOTE 11 LENDING TO CREDIT INSTITUTIONS

	Dec. 31, 2004	Dec. 31, 2003
Lending to credit institutions	52,126	42,723
Total	52,126	42,723
Of which, to Group companies	52,043	42,092

Information on maturity:

Payable on demand	52,126	42,723
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The asset item is classified as a current asset.

NOTE 12 LENDING TO THE PUBLIC

Loan receivables, gross	Dec. 31, 2004	Dec. 31, 2003
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

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

Commercial sector	–8,891	–9,378
Household sector	–2,616	–2,944
Total individual reserves	–11,507	–12,322

Provisions for group-wise appraised homogenous groups of loans receivable

Commercial sector	–13	–271
Household sector	–25,198	–20,873
Total group-wise 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 loans receivable, net	23,746,307	16,177,756

Doubtful loan receivables

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

NOTE 12 LENDING TO THE PUBLIC, CONT.

Non-performing receivables not included among doubtful receivables and for which interest is recognized as income

	Dec. 31, 2004	Dec. 31, 2003
Commercial loans by industry		
Agriculture/forestry	376	681
Manufacturing	1,767	1,827
Construction	2,722	3,125
Wholesale/retail trading	1,264	1,404
Hotel/restaurant	3,089	3,363
Property/leasing operations	152,668	167,462
Healthcare	2,113	2,230
Other	11,887	5,047
Total	175,886	185,139

Lending to the public – by collateral type	Dec. 31, 2004	Dec. 31, 2003
Private homes	20,278,519	14,095,729
Leisure homes	363,441	277,634
Tenant-owned apartments	2,893,872	1,579,187
Multifamily dwellings	155,759	175,187
Office properties	77,152	67,499
Industrial properties	14,282	15,986
Total	23,783,025	16,211,222

Information on maturity:	Dec. 31, 2004	Dec. 31, 2003
Payable on demand	2,311	3,534
Remaining maturity, maximum three months	7,122,124	3,385,645
Remaining maturity, three months to one year	7,688,203	4,942,491
Remaining maturity, 1 –5 years	7,992,016	7,004,691
Remaining maturity, more than 5 years	941,653	841,395
Total	23,746,307	16,177,756
Average remaining maturity	1.47 yr	1.84 yr

For fixed-interest time, see Note 22.

All lending encompasses property loans and is geographically dispersed in Sweden.

The asset item is classified as a financial fixed assets.

For loan contracts that periodically shift between floating and fixed terms, the remaining maturity is calculated from the next change-in-terms date.

NOTE 13 OTHER ASSETS

	Dec. 31, 2004	Dec. 31, 2003
Other assets	2,386	4,197
Total	2,386	4,197
Of which, to Group companies	377	584

The asset item is classified as a current asset.

NOTE 14 PREPAID EXPENSES AND ACCRUED INCOME

	Dec. 31, 2004	Dec. 31, 2003
Accrued interest income	10,895	10,646
Accrued interest – interest-rate swap	31,663	17,681
Other prepaid expenses and accrued income	–	–
Total	42,558	28,327
Of which, in Group companies	1,267	1,691

NOTE 15 LIABILITIES TO CREDIT INSTITUTIONS

	Dec. 31, 2004	Dec. 31, 2003
Liabilities to credit institutions	21,062,783	14,188,456
Total liabilities to credit institutions	21,062,783	14,188,456
Of which, in Group companies	21,062,783	14,188,456

Information on maturity:

Remaining maturity, maximum one year	21,062,783	14,188,456
Approved line of credit in Länsförsäkringar Bank amounts to	28 mdr	17 mdr

For fixed-interest term, see Note 22.

NOTE 16 DEPOSITS FROM THE PUBLIC

	Dec. 31, 2004	Dec. 31, 2003
Deposits from the public	938,352	1,141,409
Total deposits from the public	938,352	1,141,409

Information on maturity:

Remaining maturity, three months to at most one year	140,613	199,932
Remaining maturity, longer than one year to at most three years	797,739	941,477
Total	938,352	1,141,409
Average remaining maturity	1.8 yr	2.5 yr

For fixed-interest time, see Note 22.

NOTE 17 OTHER LIABILITIES

	Dec. 31, 2004	Dec. 31, 2003
Accounts payable	–	4,170
Other liabilities	5,084	19,364
Total other liabilities	5,084	23,534
Of which, to Group companies	3,600	20,385

NOTE 18 ACCRUED EXPENSES AND PREPAID INCOME

	Dec. 31, 2004	Dec. 31, 2003
Accrued interest expense	101,843	24,307
Accrued interest – interest-rate swap	185,834	82,750
Other	36,776	13,234
Total accrued expenses and prepaid income	324,453	120,291
Of which, to Group companies	104,326	26,790
Of which, other	26,559	8,925

NOTE 19 SUBORDINATED DEBT

	Dec. 31, 2004	Dec. 31, 2003
Subordinated loan	288,614	40,000
Total subordinated debt	288,614	40,000

Specification of subordinated loans from Länsförsäkringar Bank AB (publ)

	Dec. 31 2004 Booked amount	Dec. 31 2003 Booked amount	Coupon rate
Subordinated loan 2002/2012 LF Bank	40,000	40,000	variable
Subordinated loan 2004/2014 LF Bank	161,000	–	variable
Subordinated loan 2004/2014 LF Bank	21,114	–	variable
Subordinated loan 2004/2014 LF Bank	66,500	–	variable
	288,614	40,000	

NOTE 20 UNTAXED RESERVES

	Dec. 31, 2004	Dec. 31, 2003
Tax allocation reserve, 1999 tax year	–	4,750
Total tax allocation reserves	–	4,750

NOTE 21 SHAREHOLDERS' EQUITY

	Dec. 31, 2004	Dec. 31, 2003
Restricted equity		
Share capital	70,335	70,335
Premium reserve	12,965	12,965
Statutory reserve	1,102	1,102
Total reserves	14,067	14,067
Non-restricted equity		
Balance carried forward	1,116,837	610,862
Income for the year	22,852	39,299
Total non-restricted shareholders' equity	1,139,689	650,161
Total shareholders' equity	1,224,091	734,563

Disclosure in accordance with the Annual Accounts Act, Chap. 5, Section 14 regarding specification of the changes in shareholders' equity compared with the preceding year's balance sheet is provided on page 15.

NOTE 22 FIXED-INTEREST TERM

Fixed-interest term shows the remaining fixed-interest period for lending/borrowing

Fixed-interest term	< 3 m	3-6 m	6-12 m	1-3 yr	3-5 yr	> 5 yr	Total
Lending to credit institutions	52,126						52,126
Lending to the public	11,936,504	2,286,142	1,695,021	4,915,186	2,426,642	486,812	23,746,307
Other	44,944						44,944
Total assets	12,033,574	2,286,142	1,695,021	4,915,186	2,426,642	486,812	23,843,377
Liabilities to credit institutions	21,062,783						21,062,783
Deposits from the public			140,613	797,739			938,352
Subordinated debt	288,614						288,614
Shareholders' equity	1,224,091						1,224,091
Other	329,537						329,537
Total liabilities and shareholders' equity	22,905,025	–	140,613	797,739	–	–	23,843,377
Derivatives, nominal amount, net	11,200,000	–2,600,000	–2,200,000	–3,500,000	–2,400,000	–500,000	0
Net including derivatives	328,549	–313,858	–645,592	617,447	26,642	–13,188	0

NOTE 23 CREDIT RISK

	Balance sheet exposure	Value of collateral	Net exposure
Lending to the public	23,746,307	23,746,307	–
Lending to credit institutions	52,126	–	52,126
Other assets	2,386	–	2,386
Prepaid expenses and accrued income	42,558	–	42,558
Total	23,843,377	23,746,307	97,070

Most of the company's reserves are related to high-risk run-off loans and loans with collateral consisting of rental properties in marginal locations.

NOTE 24 FAIR VALUE

For all items excluding lending to the public and deposits from the public, book value is identical to fair value.

Assets	Current assets		Fixed assets	
	Book value	Fair value	Book value	Fair value
Lending to credit institutions	52,126	52,126		
Lending to the public			23,746,307	24,198,876 ¹⁾
Other assets	2,386	2,386		
Prepaid expenses and accrued income	42,558	42,558		
Total assets	97,070	97,070	23,746,307	24,198,876
Liabilities				
Liabilities to credit institutions			21,062,783	21,062,783
Deposits from the public			938,352	981,921
Other liabilities			5,084	5,084
Accrued expenses and prepaid income			324,453	324,453
Subordinated debt			288,614	288,614
Total liabilities			22,619,286	22,662,855

¹⁾ It is difficult to calculate the correct fair value of lending to the public. Calculation of fair value was made of the loans with fixed-interest terms. (For loans with entirely floating rates, the fair value was set at the book value.) Fair value was calculated using the current-value method and the loan's cash flow was discounted to current value at the closing date. The borrowing rate was used as the discount rate.

NOTE 25 CAPITAL ADEQUACY

The company shall have shareholders' equity at a certain minimum amount. This is determined in relationship to the company's balance sheet investments and off-the-balance sheet items (guarantees, etc.). The investments are subdivided into various risk classes, for which capital adequacy requirements vary between 0% and 100%. In addition to the capital requirements below for credit risks are also market risks.

The company has no holdings with a capital requirement for market risks.

The company's capital base and the risk-weighted distribution of investments at December 31, 2004 are specified below.

The capital base is included in the Board's disposition of earnings.

Total capital base	1,512,705
Of which, Tier 1	1,224,091

Capital requirement for credit risk

Risk classes	Balance-sheet items	Off-balance-sheet items	Risk-weighted amount
Group A, 0%	55,418	–	–
Group B, 20%	30,479	39,362	13,968
Group C, 50%	20,776,947	50,396	10,413,672
Group D, 100%	2,980,533	7,531	2,988,064
Total risk-weighted amount for credit risks	23,843,377	97,289	13,415,704
Capital adequacy ratio	11.28%		

Group A	Cash on hand or receivable at or guaranteed by a state/central bank within the EU or Swedish municipality. Receivables within the financial company group.
Group B	Receivable to or guaranteed by banks/credit institutions or municipalities within the EU
Group C	Claim on collateral for mortgaging residential property or site leasehold
Group D	Other assets

Stockholm, February 16, 2005

Bengt Gabrils
Chairman

Gösta Björklund

Anders Borgcrantz

Tomas Johansson

Bengt Jerning
President

Our Auditors' report was submitted February 16, 2005

Johan Bäckström
Authorized Public Accountant

Lars-Ola Andersson
Authorized Public Accountant
Appointed by Finansinspektionen

Audit report

To the General Meeting of shareholders in Länsförsäkringar Hypotek AB (publ)
Corporate reg. no. 556244-1781

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of Länsförsäkringar Hypotek AB (publ) for the 2004 financial year. These accounts and the administration of the company and the application of the Annual Accounts Act for Credit Institutions and Securities Companies when preparing the annual accounts and the consolidated accounts are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President and significant estimates made by the Board of Directors and the President when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any Board member or the President. We also examined whether any Board member or the President has, in any other way, acted in contravention of the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and the consolidated accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and thereby give a true and fair view of the company's and the Group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the general meeting of shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the administration report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Stockholm, February 16, 2005

Johan Bäckström
Authorized Public Accountant

Lars-Ola Andersson
Authorized Public Accountant
Auditor appointed by Finansinspektionen

Five-year summary

OPERATING PROFIT FOR LÄNSFÖRSÄKRINGAR HYPOTEK AB THE PAST FIVE FISCAL YEARS

	2004	2003	2002	2001	2000
Interest revenue	1,043,793	704,471	280,125	103,805	109,035
Interest expenses	-886,800	-583,739	-224,846	-75,569	-74,583
Net commission income	770	574	548	594	747
Other operating income	145	169	338	249	4,323
Total operating income	157,908	121,475	56,165	29,079	39,522
General administration expenses	-133,681	-77,242	-33,275	-29,860	-26,477
Other operating expenses	-1	-16	-2	-934	-16
Total expenses before loan losses	-133,682	-77,258	-33,277	-30,794	-26,493
Income before loan losses	24,226	44,217	22,888	-1,715	13,029
Loan losses, net	2,762	5,894	12,744	20,989	5,583
Operating income	26,988	50,111	35,632	19,274	18,612
Change in tax allocation reserve	4,750	4,450	-	-	-
Tax	-8,886	-15,262	-9,940	-5,348	-5,211
PROFIT FOR THE YEAR	22,852	39,299	25,692	13,926	13,401

BALANCE SHEET FOR LÄNSFÖRSÄKRINGAR HYPOTEK AB THE PAST FIVE FISCAL YEARS

	2004	2003	2002	2001	2000
ASSETS					
Lending to credit institutions	52,126	42,723	87,291	9,665	85,678
Lending to the public	23,746,307	16,177,756	7,841,436	2,337,346	1,398,614
Other assets	44,944	32,524	14,579	10,583	13,222
TOTAL ASSETS	23,843,377	16,253,003	7,943,306	2,357,594	1,497,514
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities to credit institutions	21,062,783	14,188,456	5,866,219	1,201,610	574,730
Deposits from the public	938,352	1,141,409	1,641,931	940,626	703,088
Other liabilities and accrued expenses	329,537	143,825	51,452	31,786	36,299
Subordinated debt	288,614	40,000	40,000	40,000	40,000
Untaxed reserves	-	4,750	9,200	9,200	9,200
Shareholders' equity	1,224,091	734,563	334,504	134,372	134,197
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	23,843,377	16,253,003	7,943,306	2,357,594	1,497,514

Board of Directors, Auditors and Executive Management

Board of Directors

Bengt Gabrils, born 1935

Chairman

Chairman of Dalarnas Försäkringsbolag

Board member since 1998

Other Board assignments: Board Chairman of Dalarnas Försäkringsbolag, Leksandsbröd AB and Wasa Kredit AB.



Bengt Gabrils



Bengt Jerning

Bengt Jerning, born 1953

President, Länsförsäkringar Hypotek AB

Board member since 1992

Other Board assignments: Board member of Wasa Kredit AB.



Tomas Johansson



Anders Borgcrantz

Tomas Johansson, born 1950

President and CEO, Länsförsäkringar Bank AB

Board member since 2000

Other Board assignments: Board Chairman of Länsförsäkringar Fondförvaltning AB and Board member of Svenska Bankföreningen and Wasa Kredit AB.

Anders Borgcrantz, born 1961

Deputy President and CFO,

Länsförsäkringar Bank AB

Board member since 2003

Other Board assignments: Board member of Wasa Kredit AB, ESBRI and Bankgirocentralen.



Gösta Björklund

Gösta Björklund, born 1945

Head of Business Control, Länsförsäkringar Bank AB

Board member since 2002

Other Board assignments: None.

Executive Management

Bengt Jerning, born 1953

President

Auditors

Johan Bäckström

Authorized Public Accountant

KPMG Bohlins AB

Appointed by the Swedish Financial Supervisory Inspection

Lars-Ola Andersson

Authorized Public Accountant

SET Revisionsbyrå AB

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