



2011

Länsförsäkringar Hypotek  
Annual Report



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# A secure and personal offering

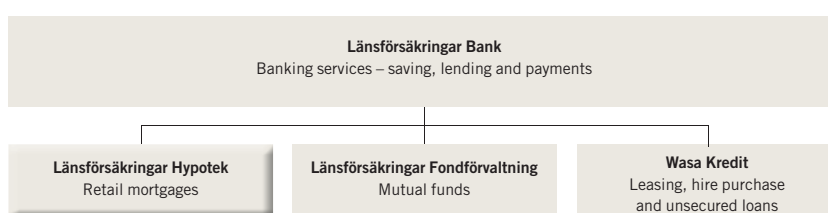
Länsförsäkringar has Sweden's most satisfied retail mortgage customers for the seventh consecutive year according to the 2011 Swedish Quality Index. The survey showed that Länsförsäkringar is the mortgage provider that best met customer expectations and is perceived to be the most reasonably priced. Image and loyalty also received the highest rating, as did the quality of products and services. In addition, eight of ten retail mortgage customers also have Länsförsäkringar as their primary bank.

Länsförsäkringar is Sweden's fifth largest mortgage institution with loans of SEK 89 billion and 161,000 customers. The business is based on the strategy of offering mortgages to Länsförsäkringar's home-insurance customers. Strict requirements are imposed on customer selection and customers' repayment capacity, both to safeguard customers' own security and to maintain a stable business with high credit quality. Loans are granted solely in Sweden and offered only in SEK. In 2011, Länsförsäkringar continued to grow in the retail mortgage market and the market share for retail mortgages to households rose from 4.1% to 4.3%.

A strong, local presence gives customers excellent service when providing mortgages and a unique banking and insurance offering. Success is based on Länsförsäkringar's extensive customer base and strong brand. Customer contact takes place at the 23 local regional insurance companies' 125 branches across Sweden and the real-estate brokerage Länsförsäkringar Fastighetsförmedling's 143 branches also mediates customer contacts.



# About Länsförsäkringar Hypotek



Länsförsäkringar Hypotek is part of the Länsförsäkringar Alliance, which comprises 23 local, independent and customer-owned regional insurance companies that jointly own Länsförsäkringar AB. Länsförsäkringar AB is responsible for conducting joint business activities, strategic development activities and providing service that generates economies of scale. The aim is to create possibilities for the regional insurance companies to continue to grow and be successful in their respective markets. Länsförsäkringar is a market leader with 28.9% of the Swedish insurance market and is one of the largest companies in the life-assurance and pension market holding a 7.0% share. Länsförsäkringar Hypotek is a subsidiary of Länsförsäkringar Bank, which is the Parent Company of the Bank Group and a subsidiary of Länsförsäkringar AB. The Bank Group includes Länsförsäkringar Hypotek, Länsförsäkringar Fondförvaltning and Wasa Kredit. Länsförsäkringar Alliance has 5,800 employees and offers a broad range of insurance and banking services to 3.4 million customers.

# 2011 in brief

- Loans rose 11% to SEK 89 billion (80).
- Operating profit rose 25% to SEK 189 M (152).
- Net interest income increased 25% to SEK 506 M (406) and the return on equity was 3.6% (3.5).
- Recoveries exceeded loan losses and amounted to SEK 4 M (3), net.
- The Tier 1 ratio according to Basel II was 20.6% (19.7) and the capital adequacy ratio was 22.8% (22.3).
- During the year, covered bonds were issued in a nominal amount of SEK 26.8 billion (44.0), of which a corresponding nominal amount of SEK 10.3 billion (10.6) was issued in the international borrowing market.
- The number of customers rose 8% to 161,000 (149,000).
- During the year retail mortgage lending continued to grow and the number of mortgage advisors to increase.
- Länsförsäkringar had Sweden's most satisfied retail mortgage customers according to the Swedish Quality Index.

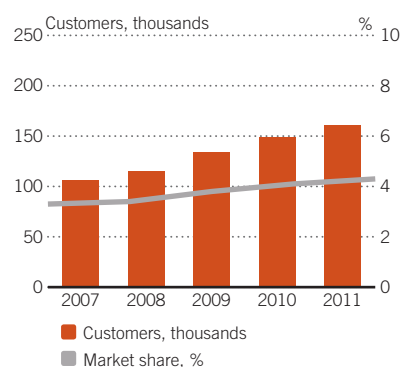


## KEY FIGURES

	2011	2010	2009	2008	2007
Return on equity, %	3.6	3.5	4.1	4.1	2.0
Return on total capital, %	0.17	0.15	0.19	0.23	0.13
Investment margin, %	0.45	0.40	0.38	0.65	0.53
Cost/income ratio before loan losses <sup>1)</sup>	0.30	0.31	0.33	0.34	0.49
Cost/income ratio after loan losses <sup>1)</sup>	0.28	0.30	0.29	0.34	0.47
Capital adequacy ratio according to Basel II, %	22.8	22.3	24.2	27.6	28.9
Capital adequacy ratio according to transition rules, %	10.5	10.4	10.7	10.5	10.5
Tier 1 ratio according to Basel II, %	20.6	19.7	20.3	21.6	23.7
Tier 1 ratio according to transition rules, %	9.4	9.2	9.0	8.2	8.6
Percentage of impaired loans, net, %	0.00	0.01	0.00	0.11	0.09
Reserve ratio in relation to loans, %	0.04	0.05	0.05	0.07	0.08
Loan losses in relation to loans, % <sup>1)</sup>	0.00	0.00	-0.01	0.00	-0.01

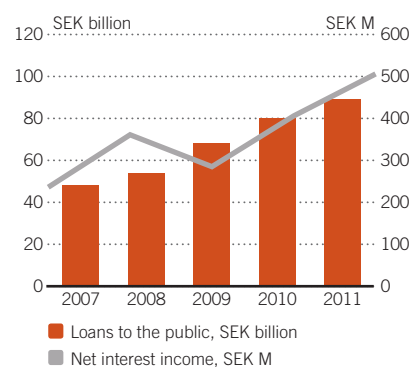
<sup>1)</sup> After recalculation in accordance with the new accounting policy for loan losses.

## CUSTOMERS AND MARKET SHARES



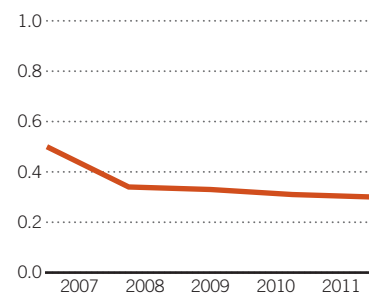
The number of customers rose by 12,000 during the year and the market share strengthened to 4.3%.

## LOANS AND NET INTEREST INCOME



Loans rose 11% to SEK 89 billion during the year. Net interest income rose 25% to SEK 506 M.

## COST/INCOME RATIO BEFORE LOAN LOSSES



The cost/income ratio before loan losses amounted to 0.30 in 2011.



Länsförsäkringar strengthened its position in the Swedish retail mortgage market and has Sweden's most satisfied retail mortgage customers for the seventh consecutive year owing to its successful strategy and a straight-forward, secure and personal offering.

STATEMENT BY THE PRESIDENT

# Sweden's most satisfied customers

## We are growing in the market

Länsförsäkringar captured 7% of the growth in the Swedish retail mortgage market during the year, generating a market share of 4.3%. This market position is the result of a successful strategy with a local presence and close proximity to customers, who are also the regional insurance companies' owners. Growth is according to plan and is based on the balanced and consistent loan origination that characterises us and has given us a very high level of credit quality. Länsförsäkringar has Sweden's strongest financial brand dating back 200 years, which is the basis of our success.

## Sweden's most satisfied customers

Länsförsäkringar has Sweden's most satisfied retail mortgage customers for the seventh consecutive year according to the 2011 Swedish Quality Index. The survey revealed that Länsförsäkringar best met customer expectations and is perceived to be the most reasonably priced. Image and loyalty also received the highest rating, as did the quality of products and services.

The driving force behind Länsförsäkringar's operations is an offering and quality of service that provides growth, satisfied customers and stable profitability. The customer is the only principal since we are customer-owned. Accordingly, we are able to establish long-term and trusting customer relationships that are essentially unique in the market. Our offering should be secure and clear for customers and we

always provide personal service. A mortgage should generate a sense of security since buying a home is one of the largest purchases in a private person's and family's household financing. It is entirely natural for us that customers receive good advice when obtaining a mortgage.

## Accurate and thorough loan origination

Loan origination is primarily managed by the 23 local, customer-owned regional insurance companies. The regional insurance companies are very knowledgeable about their customers, possess broad and extensive local market awareness and have a full-service customer approach that benefits the entire mortgage transaction. The model can also be summarised by stating that the regional insurance companies base their approach on the "church tower principle" focusing business on the local community.

We will embark on continued expansion that will take place under a strictly managed process. The systems support and model for loan origination, combined with the expertise of the regional insurance companies, provide excellent conditions for balanced and consistent loan origination.

## Competitive situation

The competitive situation in the Swedish mortgage market remains strong. The behaviour of mortgage providers has changed recently. Some mortgage providers were more active and some more cautious. One trend is that the larger companies

benefit from rules and regulations, either directly or indirectly. We welcome these new regulations that eliminate the risks in the financial systems. Nevertheless, it is important that the new rules do not affect the competitive situation so that healthy competition can be maintained in the Swedish mortgage market.

## Housing prices levelled out

Activity in the Swedish housing market entered a calmer phase during the year, which impacted the trend in housing prices. The prices of single-family homes and tenant-owned apartments fell slightly. Housing prices in Sweden have displayed a strong trend for several years. The market has historically been characterised by price stability and this trend can be expected to continue in the future, although the macro-economic conditions may have a slightly negative impact on trends.

## Well-equipped Swedish economy

Swedish growth remained favourable in 2011, although a slowdown was noted towards the end of the year due to the turmoil in the external economic environment and gloomier economic outlook, including in Sweden. In addition, Sweden's government finances are in a healthy condition, with low government debt and a budget surplus. The starting position for Sweden is, in other words, favourable.

The financial uncertainty prevailing in the economic environment mainly focused

on the debt-laden countries of the eurozone during the past year, and entailed demands for further public-spending cuts and intensified political tension. Stability pacts and other stabilising measures were implemented in Europe and by the ECB, yet many issues remain to be solved in both the short-term and many years in the future.

#### **Favourable borrowing during the year**

During the year, the borrowing operations had favourable access to financing and a strong liquidity situation. The credit rating of the covered bonds remain unchanged at Aaa/AAA with a stable outlook, making Länsförsäkringar Hypotek one of four Swedish issuers with the highest credit rating from both Moody's and Standard & Poor's.

#### **2011 was a successful year**

2011 was a successful year for Länsförsäkringar Hypotek and we will continue to provide an attractive offering in the mortgage market. Our strategy and objectives remain firm, with continued profitable growth with high credit quality and focus on always having satisfied customers. Accordingly, I would like to thank our highly competent employees and advisors for all their efforts that made our success this year possible. Thanks to you, we can continue to offer highly attractive mortgages and personal service to our customers.

Stockholm, March 2012



ANDERS BORGCRANTZ  
President

ANDERS BORGCRANTZ, PRESIDENT OF LÄNSFÖRSÄKRINGAR HYPOTEK



# A successful strategy

The retail mortgage operations have a successful strategy that has resulted in profitable growth and Sweden's most satisfied customers. The strategy is based on the existing infrastructure with the Länsförsäkringar Alliance's large customer base, a strong brand and an attractive retail mortgage offering.

## Mission

The mission of Länsförsäkringar Hypotek is, within Länsförsäkringar Bank and the Länsförsäkringar AB Group, to cost-efficiently finance the banking and retail mortgage operations, conduct business activities, develop products, concepts and channels, and provide service to the regional insurance companies in areas generating economies of scale so that they can offer their customers mortgages in the best possible way.

## Strategy

The strategy, which has not been changed since the mortgage institution was founded in 2001, is to provide the regional insurance companies' customers with mortgages and a banking and insurance offering. All customer contact is the responsibility of the 23 regional insurance companies and lending takes place at their 125 branches. Customer

contact is also mediated at the real-estate brokerage Länsförsäkringar Fastighetsförmedling's 143 branches.

The strategy for the banking operations is primarily based on the existing infrastructure of the Länsförsäkringar Alliance: a large customer base, a strong brand and the value basis and core values of the local, customer-owned regional insurance companies. The strategy also includes efficiently financing the operations.

## Large customer base

The Länsförsäkringar Alliance's 1.8 million household insurance customers are the prioritised target group for mortgages. With the entire banking and insurance offering, customers receive a secure and profitable commitment with Länsförsäkringar, all while the customer relationship is strengthened in the long term.

## Strong brand

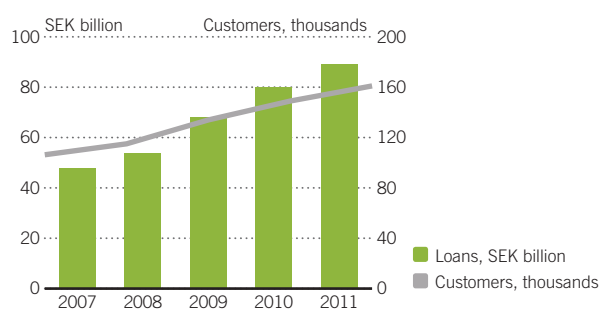
Länsförsäkringar has the strongest financial brand in Sweden according to the 2011 Reputability Barometer. Brand is of major importance to customer choice particularly in times of financial concern. Länsförsäkringar as a brand, with its 200-year history, represents security and stability.

## Value basis and core values

Länsförsäkringar's value basis is a key contributory factor to the success of its strategy. These values have been built on a long-term approach and strong core values for many years. The local presence with customer-owned regional insurance companies make Länsförsäkringar accessible to customers in an essentially unique way.

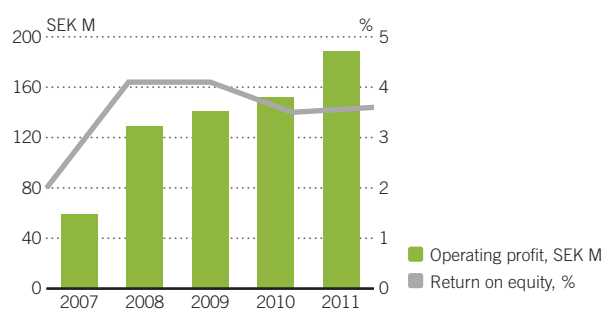
The regional insurance companies are *customer-owned*, meaning that the customer is the only principal. The focus

## GROWTH IN MORTGAGES



Retail mortgages have risen an average of 17% per year since 2007, and rose 11% to SEK 89 billion in 2011. The number of retail mortgage customers has increased an average of 14,000 per year since 2007, and in 2011 the increase was 12,000 new customers totalling 161,000.

## OPERATING PROFIT AND RETURN ON EQUITY



Operating profit for 2011 strengthened 25% to SEK 189 M due to higher net interest income. The return on equity was 3.6%.

is on customers' financial security and over time it generates an operation with low risks, stable growth and profitability. The mortgage institution has objectives and strategies that differ from many listed companies, for example, regarding returns and risk. The mortgage institution has a low level of risk in its operations and a long-term approach to returns.

The *local* regional insurance companies know their customers and markets best and can therefore establish strong and trusting customer relationships.

Close proximity to a local branch offers security and a high level of service for customers.

The regional insurance companies are flexible and can adapt to local market conditions and customer requirements. *Availability* means personal meetings and quick, straight-forward and reliable decisions for customers.

### Objectives

Länsförsäkringar objectives are as follows:

- Achieve profitable growth.
- Have the most satisfied customers.
- Help increase the percentage of customers who combine their banking and insurance commitments.

### Profitable growth and the most satisfied customers

Länsförsäkringar Hypotek's loans have grown an average of 17% over the past five years. Profitability has progressed at a stable rate with a return on equity of 3.6% in 2011 and an average of 3.5% over the past five years.



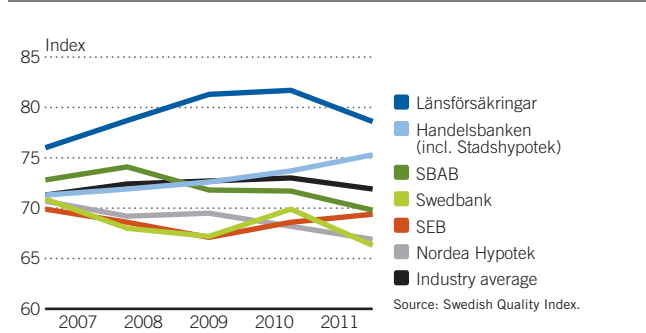
Länsförsäkringar Hypotek also strengthened its position in the Swedish and European capital markets during the year.

Länsförsäkringar has Sweden's most satisfied retail mortgage customers for the seventh consecutive year according to the 2011 Swedish Quality Index. Länsförsäkringar received the highest rating for all of the categories measured in the survey and the largest difference compared with other mortgage providers was noted in customer loyalty.

Image is, in general, the most important element to mortgage customers, which reflects the reliability of mortgage providers. The customer satisfaction target is a key priority area.

Eight out of ten retail mortgage customers have Länsförsäkringar as their primary bank and 93% of these primary-bank customers have at least one insurance policy with Länsförsäkringar.

### CUSTOMER SATISFACTION, RETAIL MORTGAGES



Länsförsäkringar received the highest marks of all Swedish mortgage providers in the Swedish Quality Index's 2011 customer satisfaction survey. Länsförsäkringar received a top ranking for all of the categories measured and the largest difference compared with other mortgage providers was noted in loyalty.



# Stable Swedish economy and strong government finances

**Swedish growth remained positive in 2011 and Sweden's government finances are in a healthy condition with low government debt and a budget surplus. The housing market entered into a calmer phase and the trend in housing prices levelled out in Sweden, although the underlying demand for housing remains stable. Households' repayment capacity is favourable and savings continued to increase.**

## Stable Swedish growth

The Swedish economy was driven, primarily by the export market, to a GDP growth of 3.9% in 2011 according to Statistics Sweden. Sweden experienced strong growth in the first half of the year but was affected by the financial turmoil in the economic environment during the second half. Household consumption and companies' rate of investment showed signs of a slow-down towards the end of the year, and fourth-quarter GDP growth amounted to 1.1%.

In addition, the starting position is favourable due to the healthy status of

Sweden's government finances and low government debt, amounting to 32% of GDP for 2011 according to the Swedish National Debt Office and a budget surplus. The strong government finances will provide a buffer if the economic climate gets worse.

## Debt crisis in Europe

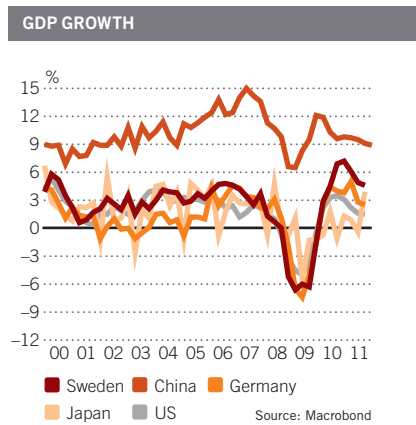
Demand weakened globally during 2011 and several countries made downward adjustments to their GDP growth. Focus on the debt-laden countries of the eurozone intensified during the summer and autumn. In a bid to regain consumer confidence and

stability in the EMU, among other actions an agreement on a stability pact was reached in the autumn. Further savings were needed in Europe's crisis-hit countries and political tensions rose towards the end of the year. In December, the ECB introduced a three-year loan facility (LTRO), as a powerful tool for the banking sector to reduce the risk of refinancing problems and to prevent serious credit contraction.

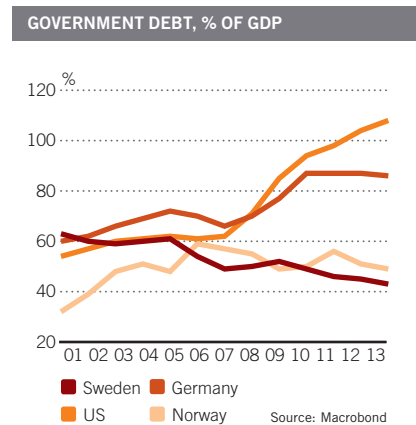
The US noted a steep decline in demand during the first six months of 2011, while growth improved towards year-end, although the issues of the risk of deflation, a weak housing market and high unemployment remain to be solved.

## Strong government finances supported SEK

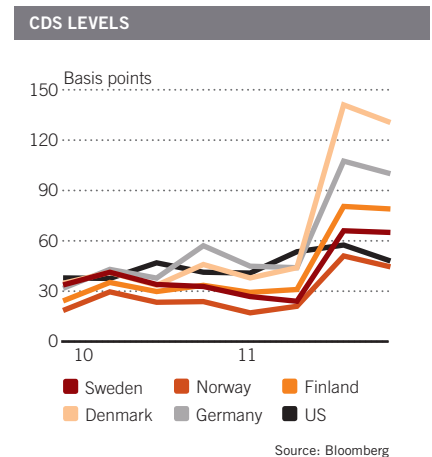
The Swedish krona (SEK) weakened marginally as a result of the uncertainty in the financial markets, yet at the same time was supported by Sweden's strong government finances. Measured under the TCW index, the



Sweden's GDP growth in 2011 was 3.9%. Towards the end of the year, Sweden was also impacted by accelerating financial concern in the economic environment, and GDP growth in the fourth quarter was 1.1%.



Swedish government debt is low and amounted to 32% of GDP for 2011.



The financial market has a positive view of Sweden, which is particularly evident in Swedish 5-year CDS levels.



SEK weakened by slightly less than 1% in 2011. The strong SEK is a confirmation that the financial market is generally maintaining a positive view of Sweden, as is particularly evident in the prices of five-year credit default swaps (CDS levels) for Sweden and in the low long-term interest rates.

### Lowered interest rates

The Riksbank, Sweden's central bank, raised the key interest rate on three occasions from 1.25% to 2.0% until July to dampen the strong Swedish economy. The year ended with a cut to 1.75% in December, promoted by the weaker outlook in the economic environment, the slowdown in the Swedish economy and low inflationary pressure.

The ECB initially raised the interest rate twice from 1.0% to 1.5% when recovery appeared strong. However, because of the accelerating concern in the eurozone, the rate was cut on two occasions from 1.5% to 1.0% at the end of the year.

Low inflation and high unemployment led the Federal Reserve to leave its key interest rate unchanged at the low level of 0–0.25% and make a promise of a zero interest rate policy until mid-2013.

### Housing market and housing-price trend

Activity in the Swedish housing market subdued during the year due to gloomier economic outlook, which had a marginal impact on the trend in housing prices. The

prices of single-family homes declined 4% and the prices of tenant-owned apartments declined 1% in 2011, according to Real Estate Agency Statistics.

The trend in housing prices in Sweden, which has been stronger than in many other countries in recent years, was attributable to high domestic demand due to several fundamental economic factors. Low housing investments for almost 20 years comprises a key contributing reason. The Swedish Construction Federation's economic forecast shows that investments in the construction of new housing rose 9% in volume during the year but will probably fall 1% in 2012 due to the slowdown in the Swedish economy. It will take many years before construction levels will start meeting the great demand for housing that exists, particularly in the large metropolitan areas.

### Households' high repayment capacity

Swedish households have healthy finances. They have a high repayment capacity and their total wealth relative to their disposable incomes is significantly larger than their debt relative to their disposable incomes, according to the Riksbank's *Financial Stability Report* published in November 2011. According to the Riksbank's assessments, households with the largest debts also have the best repayment capacity. In addition, the Riksbank's stress tests indicated that households' interest expenses are relatively low in relation to disposable income.

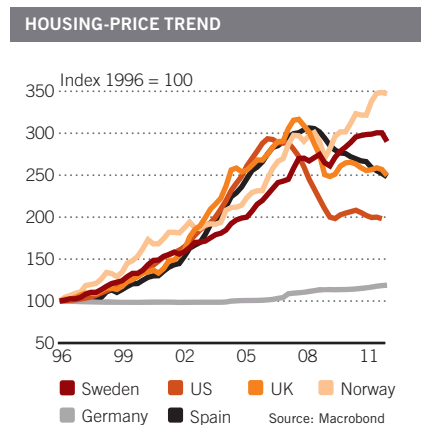
The costs of being a home-owner have fallen due to the abolishment of property and wealth tax and to lower income taxes. Low interest rates for a number of years has also contributed to lower costs.

Swedish households' savings in relation to disposable income are high compared with households in many other countries. Household savings increased 9% in 2011, according to Statistics Sweden.

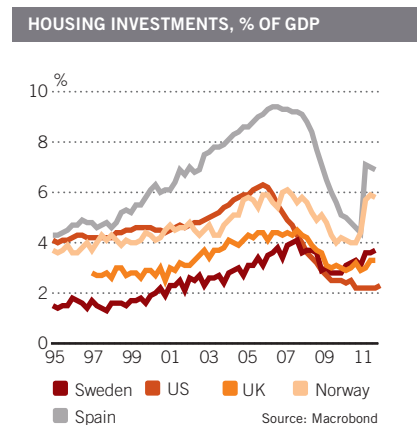
The rate of increase in household indebtedness declined since households were less willing to run into debt due to the turmoil in the economic environment and the slowdown in the Swedish economy. The mortgage cap<sup>1)</sup>, rising mortgage rates and lower activity in the housing market also impacted the rate of increase.

The Swedish labour market continued to have a stable development. The employment ratio was relatively favourable at 65.1% and unemployment was 7.1% on December 31, 2011, according to Statistics Sweden.

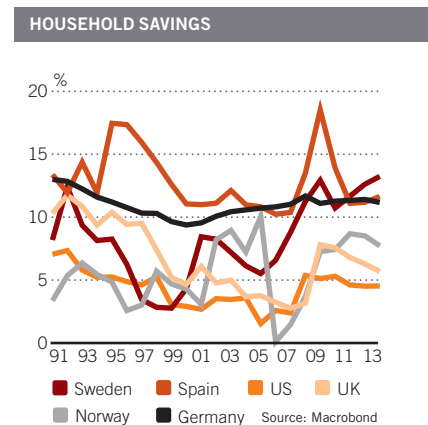
<sup>1)</sup> Effective October 1, 2010, the Swedish Financial Supervisory Authority introduced a mortgage cap limiting new mortgages to a maximum of 85% of the market value of the property. The conclusion of the Authority's *Risks in the Financial System 2011* report published in November 2011 was that the banks in the Swedish market have become more restrictive in granting loans at higher loan-to-value ratios and that the mortgage cap therefore has had an impact.



The trend in housing prices in Sweden, which has been stronger than in many other countries in recent years, weakened slightly in 2011.



Underlying domestic demand for housing remained strong in Sweden as a result of low housing investments for almost 20 years.



Swedish household savings are relatively high in relation to their disposable incomes. Household savings increased 9% in 2011.

# Straight-forward, secure and personal mortgages

Länsförsäkringar offers its customers straight-forward and secure mortgages, which has generated significant growth for the operations. Mortgage lending is based on accurate and consistent loan origination at a low risk. The 23 local, customer-owned regional insurance companies, located throughout Sweden, are responsible for all customer contact.

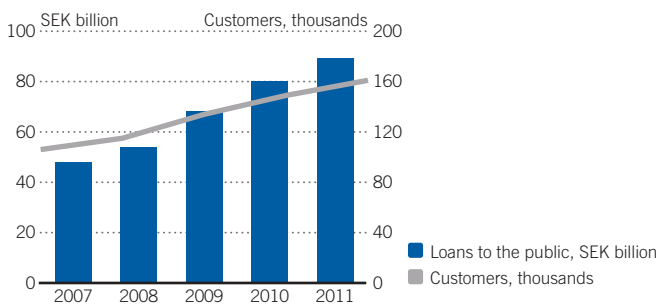


## Retail mortgages

Retail mortgages have experienced significant growth due to the offering of straight-forward, secure and personal mortgages to customers, primarily private individuals, who are home-insurance customers of the Länsförsäkringar Alliance. Loan origination is based on a business model that follows the “church tower principle” focusing business on the local community, which combined with a thorough loan origination process has proven to be robust over time in terms of growth with high credit quality and low risk.

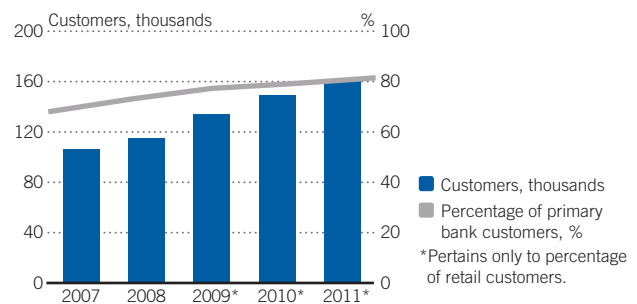
Retail mortgages increased 11% to SEK 89 billion (80) in 2011. Mortgages up to 75% of the market value on the granting date are deposited with Länsförsäkringar Hypotek and other mortgages with Länsförsäkringar Bank. The market share for retail mortgages to households rose to 4.3% (4.1) in 2011 and Länsförsäkringar’s share of

RETAIL MORTGAGES AND CUSTOMER TREND



Retail mortgages rose 11%, or SEK 9 billion, to SEK 89 billion and the number of customers increased 8%, or 12,000, to 161,000 in 2011.

PERCENTAGE OF RETAIL MORTGAGE CUSTOMERS WHO HAVE LÄNSFÖRSÄKRINGAR AS THEIR PRIMARY BANK



The number of retail mortgage customers is steadily growing as is the percentage of retail mortgage customers choosing Länsförsäkringar as their primary bank.

market growth during the year was slightly more than 7%, according to statistics from the Swedish Bankers' Association.

### High quality and value-for-money

The unique market knowledge of the 23 local, independent regional insurance companies create the conditions for a high-quality and reasonably priced offering. Länsförsäkringar offers a combined banking and insurance commitment, which contributes to customers' financial security and creates the conditions for a close and long-term relationship with Länsförsäkringar.

Retail mortgage customers are increasing their commitments with Länsförsäkringar. Eight out of ten retail mortgage customers have Länsförsäkringar as their primary bank and 93% of these customers have at least one insurance policy with Länsförsäkringar.

### Personal meetings

Meetings with customers take place in personal meetings, online, through mobile services and on the telephone. Highly skilled advisors and employees, who simplify and improve customer business, continuously endeavour to seek out and solve new challenges. Accordingly, retail mortgage lending contributes to tightening the relationship between mortgages, banking and insurance. The breadth of Länsförsäkringar's offering provides total solutions for the customer. Part of the potential of the mortgage operations is found in the strength of non-life insurance, in terms of both volumes and trust. Länsförsäkringar's strong brand is pivotal to the success in mortgages.

### Responsible loan origination

The retail mortgage lending operations' loan origination is handled by the 23 local, regional insurance companies. They have extensive knowledge of their customers and the local market. Loan origination has a highly developed systems support and the credit regulations are adopted by Länsförsäkringar Hypotek's Board. The systems support and credit-scoring model, combined with the regional insurance companies' expertise and credit responsibility provide excellent conditions for strict and thorough loan origination following the "church tower principle".

Mortgages are deposited with Länsförsäkringar Hypotek and the regional insurance companies are reimbursed for sales and administration through a reimbursement system based on, for example,

volumes of mortgages managed. Customer contact is also mediated at Länsförsäkringar Fastighetsförmedling's 143 branches across Sweden.



# Continued high credit quality

Länsförsäkringar Hypotek's cover pool contains only private homes – single-family homes, tenant-owned apartments and leisure homes owned by private individuals. The collateral is well distributed throughout Sweden in relation to the population and loans are granted solely in SEK and in Sweden.

## Private homes

Retail mortgages in Länsförsäkringar Hypotek increased 11% to SEK 89 billion (80) during the year. Loans are granted only in Sweden and in SEK. Only loans to private individuals for private homes as collateral are included in the cover pool. The remaining loans mainly pertain to multi-family homes that qualify for inclusion in the cover pool but that Länsförsäkringar Hypotek has chosen to exclude.

## Statutory audit

A special audit of the covered-bond operations is performed every year by an independent auditor appointed by the Swedish Financial Supervisory Authority. From 2012, the covered-bond operations will also be reported to the Authority.

## High credit quality

The cover pool has a favourable geographic distribution throughout Sweden in relation to the population, which reduces concentration risk in the large cities for example. The

collateral, comprising only private homes, with single-family homes accounting for 78% (80), tenant-owned apartments 20% (19) and leisure homes 2% (1). Credit quality is high, which is also confirmed by Moody's key figure of collateral score indicating that Länsförsäkringar Hypotek has the highest collateral credit quality of all Swedish covered bond issuers and is among the top issuers in Europe. No impaired loans are included in the cover pool.

## Loan-to-value ratio and seasoning

The weighted average loan-to-value ratio, LTV, of the cover pool was 61% (60) on December 31, 2011 according to the weighted average Max-LTV per property. The LTV is indexed. The average seasoning rose to 58 (50) months in 2011.

## Market-value analyses and stress tests

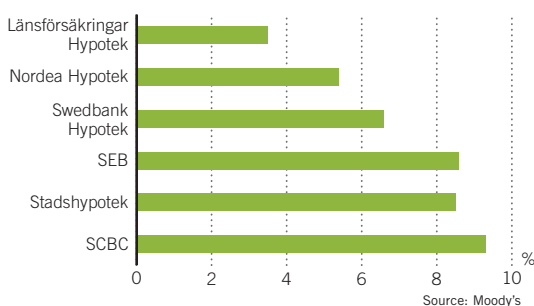
Market-value analyses of the cover pool are continuously performed to ensure that the LTV of each object is a maximum of 75%. Market values are updated at least once a

year, with the market valuations performed by Svefa, one of the two largest property valuers in the Swedish market. The most recent market-value update, which took place at the end of 2011, resulted in a lower weighted average LTV in the cover pool.

The cover pool is dynamic, which means that it is updated with, for example, market values following market-value updates, amortisations and extended loans in order to remain up-to-date. A loan with an LTV that has exceeded 75% due to a decline in the market value of the collateral is deducted from the cover pool by the portion of the loan that exceeds 75%, in accordance with Swedish law.

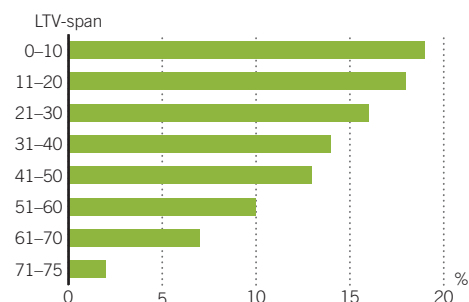
Stress tests involving a 20% fall in the market values of the collateral in the cover pool are performed continuously. During a stress test of the cover pool on December 31, 2011, the weighted average Max-LTV increased to 67% (68) compared with a current weighted average Max-LTV of 61% (60).

## COLLATERAL SCORE



Länsförsäkringar Hypotek's collateral in the cover pool has the highest credit quality compared with all other Swedish issuers of covered bonds with a collateral score of 3.5% according to Moody's. The average collateral score for Swedish issuers is 7%.

## AVERAGE LOAN-TO-VALUE RATIO



The weighted average LTV of the cover pool was 61% on December 31, 2011, according to the by-start LTV calculation method.

## Low commitments

The average loan commitment in the cover pool amounted to SEK 859,000 (837,000) on December 31, 2011 and only 40 commitments had a loan amount of more than SEK 5 million, corresponding to 0.3% of the cover pool. Commitments with a loan amount of a maximum of SEK 1.5 million represented 64% (64).

## Overcollateralisation (OC)

Overcollateralisation (OC) is a measurement of the amount by which the assets exceed the liabilities represented by the covered bond operations and is a buffer in the event of, for example, a decline in the price of the collateral.

The contracted minimum OC target for the covered-bond operations was unchanged at 10% on December 31, 2011. The current OC amounted to 22.5% (21.2) on December 31, 2011. The current OC is calculated based on nominal values excluding accrued interests and by using debt securities in issue in other currencies than SEK translated into SEK with the swap rate. Debt securities in issue include repurchase agreements in the calculation.

## Low impaired loans and reserves

No impaired loans are included in the cover pool. Länsförsäkringar Hypotek's impaired loans amounted to SEK 1 million (9) on December 31, 2011, corresponding to a percentage of impaired loans of 0.00% (0.01). Reserves amounted to SEK 34 million (42) and the reserve ratio in relation to loans was

0.04% (0.05). Recoveries exceeded loan losses, amounting to SEK 4 million (3), net, corresponding to loan losses of 0.00% (0.00).

A loan receivable is considered impaired if a payment is more than 60 days past due or if there is reason to expect that the counterparty cannot meet its undertaking. The loan receivable is considered impaired to the extent that its whole amount is not covered by collateral.

To better reflect the actual business transactions with the regional insurance

companies, a changed accounting policy for loan losses was introduced, which impacts the items Compensation to the regional insurance companies and Loan losses, refer also to Note 2.

Translation has also been made of comparative figures. For more information concerning credit quality and credit risks, see "Risk and capital management" on page 17 and for more information concerning impaired loans and impairment, see "Accounting policies" on page 37.

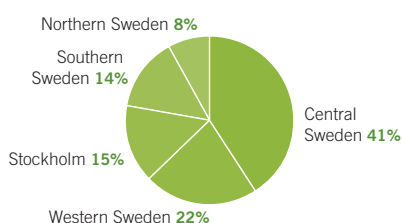
COVER POOL		
	Dec 31, 2011	Dec 31, 2010
Total volume, SEK billion	107	100
Swedish mortgages, SEK billion	84	77
Substitute collateral, SEK billion	21.2	15.0
Special account, SEK billion	1.6	8.1
Collateral	Private homes	Private homes
Weighted average LTV <sup>1)</sup> , %	61	60
OC <sup>2)</sup> , contractual level, %	10	10
OC <sup>2)</sup> , current level, %	22.5	21.2
Seasoning, months	58	50
Number of loans	215,668	200,576
Number of properties	98,766	92,147
Average commitment, SEK 000s	859	837
Average loan, SEK 000s	391	382
Interest-rate type, up to 12 months, %	58	67
Interest-rate type, more than 12 months, %	42	33
Impaired loans	None	None

<sup>1)</sup> According to the "Maximum LTV per property" calculation method.

<sup>2)</sup> OC is calculated using nominal values and excludes accrued interests.

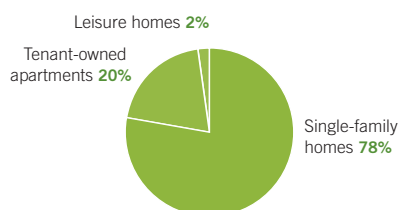
Debt securities in issue in other currencies than SEK are translated into SEK with the swap rate. Debt securities in issue include repurchase agreements.

## GEOGRAPHIC DISTRIBUTION



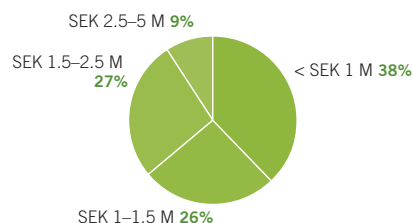
The cover pool is well distributed throughout Sweden in relation to the population.

## DISTRIBUTION OF COLLATERAL



Collateral comprises only private homes.

## DISTRIBUTION OF COMMITMENTS



Commitments with a loan amount of a maximum of SEK 1.5 million represented 64%. Only 40 commitments have a loan amount of more than SEK 5 million, corresponding to 0.3% of the cover pool.

# Favourable access to financing

The borrowing operations had favourable access to financing during the year and issuances took place in both the Swedish and international markets.

## Financing with covered bonds

Most of the borrowing in the banking and retail mortgage operations is conducted through Länsförsäkringar Hypotek's covered bonds, which have the highest credit rating from Moody's (Aaa/stable) and from Standard & Poor's (AAA/stable), and are pledgeable with the Riksbank and the ECB. The covered bonds are regulated in law and essentially all loans granted in Länsförsäkringar Hypotek qualify for inclusion in the institution's cover pool. On December 31, 2011, a total of 79% of Länsförsäkringar Hypotek's financing comprised covered bonds, 15% loans from the Parent Company, 4% equity and 2% loans from credit institutions.

## Objectives and strategies

The aim of the borrowing operations is to cover short and long-term capital requirements at a price in line with relevant competitors' prices.

The primary source of financing is long-term borrowing in bonds in Sweden, with benchmark loans for the institutional market. In the past two years, borrowing has taken place by issuing Euro Benchmark bonds, which has enhanced the diversification of the borrowing and strengthened the brand in both the Swedish and European markets.

The maturity terms of long-term borrowing are adjusted through swap agreements to achieve a fixed-interest period that matches the fixed-interest period of the loans, and all currency risk is hedged by using derivatives.

## Borrowing instruments

Borrowing primarily takes place using benchmark loans for the institutional market, with issues concentrated to large volumes in a number of bond loans that maintain a high level of liquidity. In the Swedish market, benchmark bonds with normal term periods of up to five years are issued

through on-tap issuances. Borrowing also takes place with a Medium Term Covered Note programme (MTCN) and a Euro Medium Term Covered Note programme (EMTCN) in the European market.

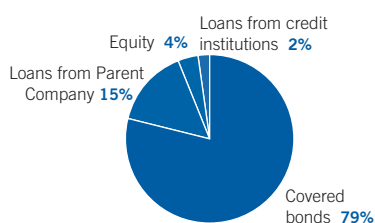
The structure of the programme borrowing at December 31, 2011 was as follows: 63% in Swedish Benchmark bonds, 25% EMTCN and 12% MTCN.

Selling and trading in Swedish covered bonds is conducted through five market-makers. In addition, the Parent Company Länsförsäkringar Bank is a dealer for Länsförsäkringar Hypotek's MTCN programme.

## Borrowing activities during the year

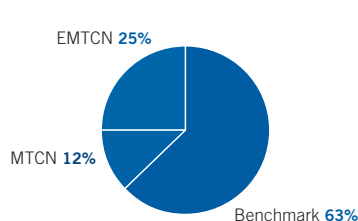
The European debt crisis contributed to low key interest rates throughout the Western World and persistent turbulent markets. Activity in the Swedish borrowing market was favourable mainly during the first half of the year with relatively low credit spreads.

### FINANCING SOURCES



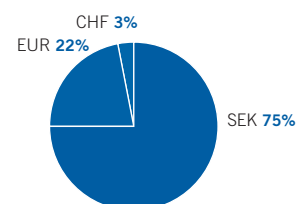
Loans were financed to 79% by covered bonds, 15% by loans from the Parent Company, 4% by equity and 2% by loans from credit institutions.

### BORROWING BY PROGRAMME



Issuances regularly take place in the international market to enhance diversification in accordance with the borrowing strategy. A EUR 1 billion issue took place during the year.

### BORROWING BY CURRENCY



Most borrowing takes place in the Swedish market and in SEK. All currency risk is hedged by using derivatives.

The European covered-bond market also performed well with many issuances. In the autumn, investors' willingness to take risks declined as a result of the heightened concern in Europe, consequently leading to a rise in the credit spreads for covered bonds. Demand for senior bank bonds was low and only a small number of issuances took place.

Länsförsäkringar Hypotek had favourable access to borrowing and financing throughout the year. In June, a EUR 1 billion three-year bond was successfully issued to enhance diversification in accordance with the borrowing strategy. A public issue in CHF was also implemented in June. Issues were carried out in both the Swedish and European markets, even during the most turbulent period in August.

### Covered bonds

Covered-bond borrowing increased 7% to SEK 85 billion (80). The remaining average term was 2.5 years. During the year, covered bonds were issued in a nominal amount of SEK 26.8 billion (44.0), of which a corresponding nominal amount of SEK 10.3 billion (10.6) was issued in the international borrowing market. Repurchased securities totalled a nominal amount of SEK 12.3 billion (8.0) and matured securities a nominal amount of SEK 7.9 billion (10.5).

On December 31, 2011, Länsförsäkringar Hypotek had four outstanding benchmark loans, which will fall due between 2012 and 2016. Swedish benchmark bonds totalling

SEK 11.7 billion (25.8) were issued during the year and the outstanding volume at year-end totalled a nominal amount of SEK 53.9 billion (53.7). Bonds issued under the MTCN programme totalled a nominal amount of SEK 4.8 billion (7.6) and outstanding volumes a nominal amount of SEK 10.1 billion (13.8). Bonds issued under the EMTCN programme totalled a nominal amount of SEK 10.3 billion (10.6) and outstanding volumes a nominal amount of SEK 21.5 billion (11.5) on December 31, 2011.

### Liquidity

Liquidity remains strong. The liquidity reserve, which comprises substitute collateral and the separate deposit account, totalled a nominal amount of SEK 22.8 billion (22.7), of which 60% (53) is invested in Swedish covered bonds with an AAA/Aaa credit rating, 33% (11) is investments with the Swedish government as the counterparty and 7% (36) is investments in the separate deposit account. The level of substitute collateral matches the refinancing requirement for all debt securities in issue falling due until the second quarter of 2013.

For more information about liquidity and liquidity risk, see the section on "Risk and capital management" on page 20.

### Strong rating

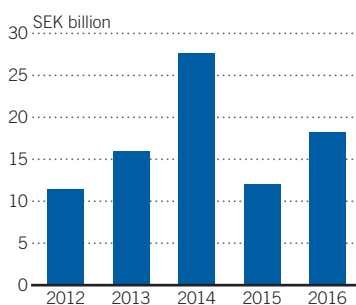
Länsförsäkringar Hypotek's covered bonds have the highest credit rating, Aaa/stable, from Moody's and AAA/stable from

Standard & Poor's. Länsförsäkringar Hypotek is one of four mortgage providers in the Swedish market for covered bonds with the highest rating from both rating agencies.

The Parent Company Länsförsäkringar Bank's credit rating is A2/negative from Moody's and A/stable from Standard & Poor's. The bank's credit rating for short-term borrowing is A-1 from Standard & Poor's and P-1 from Moody's.



### PROGRAMME BORROWING BY MATURITY



In addition to the above, SEK 0.3 billion will fall due in 2018 and SEK 0.1 billion in 2020. The average remaining term was 2.5 years on December 31, 2011. All volumes are at nominal value.

### BORROWING PROGRAMMES

Programme	Limit, Nom, SEK billion	Issued in 2011, Nom, SEK billion	Issued in 2010, Nom, SEK billion	Outstanding, Dec. 31, 2011, Nom, SEK billion	Outstanding, Dec. 31, 2010, Nom, SEK billion	Remaining average term, years Dec. 31, 2011	Remaining average term, years Dec. 31, 2010
Benchmark	Unlimited	11.7	25.8	53.9	53.7	2.6	2.8
MTCN	SEK 30	4.8	7.6	10.1	13.8	1.2	1.1
EMTCN	EUR 4	10.3	10.6	21.5	11.5	2.9	4.2
<b>Total</b>		<b>26.8</b>	<b>44.0</b>	<b>85.5</b>	<b>79.0</b>	<b>2.5</b>	<b>2.7</b>

### BENCHMARK BONDS

Loans	Date of maturity	Outstanding, SEK billion	Coupon, %
504	Mar. 21, 2012	6.5	4.50
505	Sept. 18, 2013	11.9	4.50
506	May 5, 2014	17.4	4.50
508	Mar. 15, 2016	18.1	4.00
<b>Total</b>		<b>53.9</b>	

# Board of Directors' Report

**The Board of Directors and President of Länsförsäkringar Hypotek AB (publ) hereby submit the Annual Report for 2011.**

## Ownership

Länsförsäkringar Hypotek (publ) is part of the Länsförsäkringar Alliance, which comprises 23 local, independent and customer-owned regional insurance companies that jointly own Länsförsäkringar AB (publ) and its subsidiaries. Länsförsäkringar AB (publ) is responsible for conducting joint business operations, strategic development activities and providing service that generates economies of scale. The aim is to create possibilities for the regional insurance companies to continue growing and becoming successful in their respective markets.

Länsförsäkringar Hypotek AB (publ) (556244-1781) is a subsidiary of Länsförsäkringar Bank AB (publ) (516401-9878), which is the Parent Company of the Bank Group and a subsidiary of Länsförsäkringar AB (publ) (556549-7020). The Bank Group includes Länsförsäkringar Hypotek AB (publ), Wasa Kredit AB (556311-9204) and Länsförsäkringar Fondförvaltning AB (publ) (556364-2783). The abbreviated forms of all of these company names are used in the remainder of the Board of Directors' Report.

As of January 1, 2002, the operations of Länsförsäkringar Hypotek are outsourced to Länsförsäkringar Bank. However, the President and parts of the finance department have been employed in Länsförsäkringar Hypotek since the autumn of 2005. Other administration is handled in its entirety by Länsförsäkringar Bank.

## Focus of operations

The company conducts retail mortgages operations involving the origination of loans against collateral in the form of single-family homes, tenant-owned apartments and leisure homes and, to some extent, multi-family homes. Lending, which is provided to private individuals and homeowners, can be conducted at 125 (125) branches of the regional insurance companies throughout Sweden and via the Internet, mobile services and telephone. The sale and certain administration of banking services are carried out in the branches of the regional insurance companies. The regional insurance companies are reimbursed for sales and administration through a reimbursement system based on volumes managed. Another part of the full-service offering is the 143 (130) branches of Länsförsäkringar Fastighetsförmedling throughout Sweden.

## Market commentary

Sweden showed strong growth in the first half of 2011, but was impacted towards year-end by concerns for the debt crisis in Europe. The Riksbank, Sweden's central bank, reduced the key interest rate in December due to downward adjustments of growth forecasts. Sweden's public finances remain healthy and the level of

employment in Sweden is relatively high. The Swedish bank and mortgage bond market performed favourably throughout the entire year. The European market for covered bonds also performed favourably with many new issuances, but activity decreased in the autumn due to growing concerns in Europe. Activity in the Swedish housing market slowed, which had a marginal impact on the trend in housing prices. In 2011, prices of single-family homes fell 4% and prices of tenant-owned apartments fell 1%, according to data from Real Estate Agency Statistics. The underlying demand for housing remains strong. Household and retail mortgages increased 5% during the year, according to data from Statistics Sweden, but slowed toward year-end to 1% for the fourth quarter, which is a more normal rate of increase.

## Sweden's most satisfied retail mortgage customers

Länsförsäkringar has Sweden's most satisfied retail mortgage customers for the seventh consecutive year according to the 2011 Swedish Quality Index. The survey showed that Länsförsäkringar is the mortgage provider that best meets customer expectations and is perceived to be the most reasonably priced. Image and loyalty also received the highest rating, as did the quality of products and services.

In 2011, the number of customers rose 8%, or 12,000, to 161,000 (149,000). 80% (79) of retail mortgage customers have Länsförsäkringar as their primary bank.

## Earnings and profitability

Profit before loan losses increased 25% to SEK 185 M (148) and operating profit rose 25% to SEK 189 M (152) due to higher net interest income. Return on equity amounted to 3.6% (3.5).

To better reflect the actual business transactions with the regional insurance companies, a changed accounting policy for loan losses was introduced, which impacts the items Compensation to the regional insurance companies and Loan losses, refer also to Note 2 Accounting policies. Translation has also been made of comparative figures.

## Income

Net interest income rose 25%, or SEK 100 M, to SEK 506 M (406). The increase was attributable to higher lending volumes and an improved return on equity. The investment margin strengthened to 0.45% (0.40). Net interest income was charged with a provision totalling SEK 34 M (15) for stability fund fees. Operating income rose a total of 22%, or SEK 47 M, to SEK 263 M (216). Net commission fell to an expense of SEK 249 M (198), attributable to higher compensation to the regional insurance companies. The largest share of commission expense comprises compensation to the regional insurance companies and is calculated on the basis of net interest income.



## Expenses

Operating expenses increased 16% to SEK 78 M (67) as a result of higher business volumes. The cost/income ratio before loan losses strengthened to 0.30 (0.31) and the cost/income ratio after loan losses strengthened to 0.28 (0.30).

## Loan losses

Recoveries exceeded loan losses, amounting to SEK 4 M (3) net, corresponding to loan losses of 0.00% (0.00). Reserves amounted to SEK 34 M (42), providing a reserve ratio in relation to loans of 0.04% (0.05). Impaired loans fell to SEK 1 M (9), corresponding to a percentage of impaired loans of 0.00% (0.01). For more information regarding loan losses, reserves and impaired loans, see Notes 14 and 18.

## Loans

Loans to the public rose 11%, or SEK 9 billion, to SEK 89 billion (80). The loan portfolio continues to have a high credit quality. The market share for retail mortgages to households rose to 4.3% (4.1) in 2011 and the share of market growth during the year was more than 7%, according to data from the Swedish Bankers' Association.

## Cover pool

Essentially all lending that occurs in Länsförsäkringar Hypotek qualifies for inclusion in the covered-bond operations, known as the cover pool, in accordance with the Swedish Covered Bonds (Issuance) Act (2003:1223). Lending is conducted in Sweden only. Market values were updated at the end of the year in line with established internal practice. The weighted average loan-to-value ratio, LTV, was 61% (60) and the average commitment per borrower was SEK 859,000 (837,000) on December 31, 2011. The current OC totalled a nominal amount of 22.5% (21.2). The geographic distribution in Sweden is favourable and collateral comprises only private homes, including single-family homes, tenant-owned apartments and a small portion of leisure homes. Credit quality is high. This is also confirmed by Moody's key figure of "collateral score," which indicates that Länsförsäkringar Hypotek has the highest credit quality of all Swedish covered bond issuers and is among the top issuers in Europe. No impaired loans are included in the cover pool. During a stress test of the cover pool based on a 20% price drop in the market value of the mortgages' collateral, the weighted average Max-LTV increased to 67% (68) compared with a current weighted average Max-LTV of 61% (60) on December 31, 2011.

## Borrowing

Debt securities in issue rose 7%, or SEK 5 billion, to SEK 85 billion (80). Borrowing was successful throughout the entire year. Covered bonds in the nominal amount of SEK 26.8 billion (44.0) were issued. Last year, the Bank Group's liquidity reserve was restructured by the build-up of a liquidity reserve in Länsförsäkringar Hypotek, which is the reason for the higher issuance volumes in 2010. Repurchased covered bonds totalled a nominal amount of SEK 12.3 billion (8.0) and matured covered bonds amounted to a nominal SEK 7.9 billion (10.5) during the year. For more information about the borrowing programmes, see page 13.

## Liquidity

Liquidity remained strong. The liquidity reserve, which comprises substitute collateral and separate deposit accounts, totalled a nominal amount of SEK 22.8 billion (22.7), of which 60% (53) is invested in Swedish covered bonds with an AAA/Aaa credit rating 33% (11) is investments with the Swedish government as the counterparty and 3% (36) is deposited in the separate deposit account. The level of substitute collateral matches the refinancing requirement for all debt securities in issue falling due until the second quarter of 2013.

## Rating

Länsförsäkringar Hypotek is one of four mortgage providers in the Swedish market for covered bonds with the highest rating from both rating agencies. The Parent Company Länsförsäkringar Bank's credit rating is A/stable from Standard & Poor's and A2/negative from Moody's.

Company	Agency	Long-term rating	Short-term rating
Länsförsäkringar Hypotek <sup>1)</sup>	Standard & Poor's	AAA/stable	A-1+
Länsförsäkringar Hypotek <sup>1)</sup>	Moody's	Aaa/stable	-
Länsförsäkringar Bank	Standard & Poor's	A/stable	A-1(K-1)
Länsförsäkringar Bank	Moody's	A2/negative	P-1

<sup>1)</sup> Pertains to the company's covered bonds.

## Capital adequacy

Länsförsäkringar Hypotek applies the Internal Ratings-based Approach (IRB Approach). The advanced IRB Approach provides the greatest opportunities to strategically and operationally manage credit risks and is used for all retail exposure. The Standardised Approach is currently applied to other exposures to calculate the capital requirement for credit risk. Tier 1 capital, net, amounted to SEK 4,140 M (3,547) and the Tier 1 ratio according to Basel II totalled 20.6% (19.7) on December 31, 2011. The capital base amounted to SEK 4,584 M (4,003) and the capital adequacy ratio according to Basel II was 22.8% (22.3). For more information on the calculation of capital adequacy, see page 25.

## Employees

Competent and forward-thinking employees are needed to grow, year by year, while retaining Sweden's most satisfied retail mortgage customers. Involvement in business planning, a performance-based remuneration model, attractive internal development opportunities, a talent and leadership programme and beneficial health-care and insurance benefits are offered to employees of the strongest financial brand in the market.

In 2011, the average number of employees was 5 (4), of whom 1 (1) woman and 4 (3) men. An employee survey carried out each year describes employee commitment, skills, requirements, responsibilities and authorities in a performance index. The 2011 survey resulted in an index of 4.1 of a total of 5.0, indicating that Länsförsäkringar is an attractive work place with committed and motivated employees. Recruitment is conducted both externally and internally. For more information regarding remuneration and benefits, see Note 10 Employees, staff costs and remuneration to senior executives.

## Environment

The environmental activities of the retail mortgage operations are directly linked to the Länsförsäkringar Alliance's joint environmental policy. The aim of environmental activities is to reduce costs, improve customer service and achieve clear environmental gains that contribute to the environmental sustainability.

An environmental management system with ISO 14001 certification has been in place for many years, and is a guarantee for systematic environmental work. Active environmental work comes under the responsibility of the respective manager in the organisation of the retail mortgage operations, meaning that such work is integrated into the business operations to a greater extent than previously. Länsförsäkringar intends for the environmental work of its banking and insurance operations to be credible and proactive. Environmental work is a high priority for Länsförsäkringar as a customer-owned company with local presence and broad commitment.

## Expectations regarding future development

Länsförsäkringar Hypotek intends to maintain its strategic focus by achieving profitable growth with high credit quality and maintaining a favourable level of capitalisation. Growth in lending will take place by paying close attention to changes in the business environment, the financial situation and the prevailing circumstances in the capital market. Favourable liquidity will be maintained. The continued market strategy is to conduct sales and customer marketing activities targeting the regional insurance companies' customers.

## Events after year-end

At the start of February, Martin Rydin took office as Executive Vice President and CFO, replacing Göran Laurén, former Executive Vice President, who became the Deputy Head of Asset Management at Länsförsäkringar AB.

## Proposed appropriation of profit

The following profit is at the disposal of the Annual General Meeting:

	SEK
Fair value reserve	145,629,607
Retained earnings	3,508,229,718
Group contribution paid, net	-256,107,500
Shareholders' contribution received	710,000,000
Net profit for the year	149,460,477
<b>Profit to be appropriated</b>	<b>4,257,212,302</b>

The Board proposes that SEK 4,257,212,302 be carried forward, of which SEK 145,629,607 be allocated to the fair value reserve.

For more information on the company's recognised earnings, financial position and average number of employees, see the income statement, balance sheet, cash-flow statement, changes in shareholders' equity and notes on pages 30–48. See page 28 for the five-year summary. All figures in the Annual Report are reported in SEK M unless otherwise specified.

# Risk and capital management

Risk management is to be conducted by the employees of the mortgage institution operations. Accordingly, risk awareness is prevalent in all day-to-day business decisions. This decentralised method of working and managing risk is a requirement for compliance with the risk tolerance set forth by the Board. The mortgage institution operations are to be characterised by a low risk profile whose lending operations focus on private housing.

## Risk tolerance

A fundamental starting point when assessing Länsförsäkringar Hypotek's capital requirements is the risk tolerance approved by the Board. Risk tolerance is defined as the level of risk exposure that Länsförsäkringar Hypotek is prepared to accept in order to achieve the profitability targets established by the Board, and to comply with the capitalisation targets established by the Board. On the basis of this risk tolerance and with consideration for Länsförsäkringar Hypotek's long-term rating target, the Board establishes the capital adequacy targets that apply for Länsförsäkringar Hypotek. In addition to this overall risk tolerance, the Board has

also specified the risk tolerance regarding a number of risks that the operations are exposed to and must manage.

Risks in Länsförsäkringar Hypotek are divided into the following groups:

- Credit risks
- Market risks
- Liquidity risk
- Business risk
- Operational risk

A qualitative description has been prepared for each risk category, where limitations towards closely related risks, managing risk with risk-reduction measures and future risk exposure are also presented.

Credit risk consists of the counterparty's inability to fulfil its commitments and that Länsförsäkringar Hypotek is affected by a financial loss. Credit risk is thus assigned to the loan portfolio, but credit risk in the liquidity portfolio and derivatives exposure is also included in this category.

Market risks, which primarily comprise interest-rate risk and currency risk, are managed in accordance with a Financial Policy adopted by the Board, which stipulates that interest-rate risks should be as low as possible and that liquidity be invested solely in Swedish securities with high credit quality. All borrowing in foreign currencies is swapped to SEK.

Business risk mainly comprises earnings risk, and pertains to fluctuations in Länsförsäkringar Hypotek's earnings capacity. Operational risks are measured against a risk-tolerance scale established by the Board. The overall guidelines for risk tolerance and the strategies for risk-taking state that volume growth and higher profitability should not be generated at the expense of a higher number of or greater risks. This requires that risks inherent in the business activities be independently identified, measured, controlled, valued and reported on a continuous basis and that risks be proportionate to the size, product development and growth of the operations. Total risks are complied and compared with the capital in Länsförsäkringar Hypotek to ensure a favourable level of capitalisation.

### **Board of Directors**

The Board is ultimately responsible for safeguarding the assets and creating risk awareness in the operations. The Board achieves this goal, for example, by annually establishing central risk tolerances and risk strategies that ensure a sound and well-balanced process for risk-taking and risk management. Such a process should be characterised by a deliberate focus on changes in the operations and their surroundings. The Board is also responsible for establishing all of the methods, models, systems and processes that form the internal measurement, control and reporting of identified risks. Through the Compliance, Risk Control and Internal Audit functions, the Board is also responsible for ensuring that the company's regulatory compliance and risks are managed in a satisfactory manner.

### **President**

The President is responsible for the ongoing administration of the company in accordance with the risk tolerances and risk strategies established by the Board. This means that the President is responsible for ensuring that the methods, models, systems and processes that form the internal measurement, control and reporting of identified risks work in the manner intended and decided by the Board.

The President of the Parent Company, Länsförsäkringar Bank, is the Chairman of the Asset Liability Committee (ALCO), whose main task is to follow up on capital and financial matters arising in the Bank Group and Länsförsäkringar Hypotek.

### **Independent Risk Control**

Risk Control is an independent unit and has an independent position in relation to the corporate operations that it has been assigned to monitor and control. Risk Control is under the supervision of the President of Länsförsäkringar Bank and is responsible to the Boards of the Bank Group for ensuring that risk policies are complied with, risk limits are monitored and non-compliance is reported to the President and Board. In addition, Risk Control is responsible for the validation of the risk-classification system (the IRB Approach) and its use in the operations.

One of the most important tasks for Risk Control is to ensure that the operations have active risk management and that the risk

tolerance established by the Board is converted into limits upon which the operations can conduct their activities.

### **Credit risk**

Credit risk is defined as the risk of incurring losses as a result of a counterparty not being able to fulfil its commitments to the company and the risk that the counterparty's pledged collateral will not cover the company's receivables. All retail exposures are calculated in accordance with the advanced Internal Ratings-based Approach (IRB), which means that most of the loan portfolio is calculated using a method that aims to identify and classify risk for each individual counterparty. This provides the company with a foundation in the form of an effective tool that promotes transparent risk analysis. The loan portfolio exclusively comprises credits within Sweden, with low average loan-to-value ratios and a favourable geographic distribution. Concentration risk is thus primarily attributable to the product concentration in mortgages. For more information regarding credit risks and credit quality, see the Credit quality section on page 10.

### **Credit process**

The mortgage operations carry out balanced and consistent loan origination, with a strong system support. The aim is for the loan origination to achieve favourable credit quality and target retail mortgages for the residences of private individuals. The maximum mortgaging level for various types of loans and decision-making limits for the regional insurance company's credit granting are stipulated in the Board's guidelines. Decision-making authorities are dependent on the size of the loans. The mortgage operations impose strict requirements in terms of customer selection and customers' repayment capacity and the nature of the collateral.

Credit scoring of retail loans is supported by a credit research system, which is largely automated in accordance with the Advanced IRB Approach and a joint credit scoring model for Länsförsäkringar's mortgages operations.

Loan origination is primarily managed by the regional insurance companies. The credit rules are established by the company's Board of Directors and apply to all the regional insurance companies.

The regional insurance companies are knowledgeable about their customers, possess excellent local market awareness and have a full-service customer approach that benefits the entire business. The credit scoring model, combined with the knowledge and credit responsibility of the regional insurance companies, provides excellent conditions for balanced and consistent loan origination. The regional insurance companies continuously monitor and review the quality of the loan portfolio and borrowers' repayment capacity.

### **IRB system**

The IRB system is a core component of the credit process and consists of methods, models, processes, controls and IT systems to support and further develop the quantification of credit risks. Specifically, the IRB system is used in conjunction with:

- Credit process
- Monitoring and reporting
- Calculation of capital requirement
- Capital allocation

Some of the core concepts in the IRB system are described below. For Länsförsäkringar Hypotek, only retail exposures are included in the IRB system. The probability of default (PD) is the probability that a counterparty will default over a 12-month period. A counterparty is considered to be in default if a payment is more than 60 days past due or if there is reason to expect that the counterparty cannot meet its undertaking to the company.

A PD is initially calculated for each counterparty and is to reflect the risk of default within the next 12 months. This PD is subsequently adjusted to reflect the average proportion of default over several economic cycles. Finally, a safety margin is added to the PD to ensure that the risk is not underestimated. Following the calculation of PD, all counterparties are ranked and are divided into a PD scale. The PD scale comprises 11 risk classes (grades) for non-defaulted counterparties and one risk category for defaulted counterparties. The information that is most relevant to each type of counterparty has been taken into consideration in the development of models for calculating PD. Accordingly, the division of PD into grades can either occur through an individual expert assessment or using models based on statistical analysis (credit scoring). These models take both internal and external information into consideration.

Exposure at Default (EAD) is the exposure amount that the counterparty is expected to utilise upon default. For commitments completely within the balance sheet, EAD is defined as capital liability plus accrued and past due unpaid interest and fees. For commitments wholly or partly off the balance sheet, EAD is calculated by multiplying the counterparty's unutilised amount by a conversion factor (CF). In the case of exposures for which the company applies the IRB Approach, internal estimates of conversion factors are calculated. These estimates are calculated on the basis of internal information regarding degree of realisation, degree of utilisation and products. A safety margin is added to these estimates to ensure that the risk is not underestimated.

PD grade, SEK M	PD (%)	Dec. 31, 2011	Dec. 31, 2010
1	0.05	213	2,396
2	0.10	4,292	5,366
3	0.20	21,139	24,122
4	0.40	42,821	28,280
5	0.80	9,761	11,237
6	1.60	4,498	3,349
7	3.20	1,096	952
8	6.40	548	470
9	12.80	269	226
10	25.60	169	121
11	51.20	223	196
Default	100.00	95	102
<b>Total IRB Approach</b>		<b>85,124</b>	<b>76,816</b>
<b>Not IRB classified</b>		<b>3,535</b>	<b>2,892</b>
<b>Loans to the public, gross</b>		<b>88,659</b>	<b>79,709</b>

## Credit quality

Lending increased to SEK 89 billion (80). Essentially all lending qualifies to be included in the covered-bond operations, which are regulated by the Swedish Covered Bonds (Issuance) Act (2003:1223). The term "covered bonds" refers to bonds with preferential rights in the sections of the issuing institution's assets that are approved by legislation (cover pool). The remaining lending pertains partly to multi-family homes that qualify for inclusion in the cover pool but that Länsförsäkringar has chosen to exclude.

## Cover pool

On December 31, 2011, the cover pool had a volume of SEK 107 billion (100). The geographic distribution in Sweden is favourable and collateral comprises private homes, single-family homes, tenant-owned apartments and, to a small extent, leisure homes. The quality of the loan portfolio remains high. The weighted average loan-to-value ratio (LTV) was 61% (60) and the average commitment per borrower was SEK 859,000 (837,000). The market value of all single-family homes, tenant-owned apartments and leisure homes in the loan portfolio was updated in December 2011.

## Loan portfolio by collateral, Länsförsäkringar Hypotek

Collateral	Dec. 31, 2011		Dec. 31, 2010	
	SEK M	%	SEK M	%
Single family homes and leisure homes	69,171	78	62,517	78
Tenant-owned apartments	16,998	20	15,036	19
Multi-family homes	2,173	2	1,994	3
Other	317	0	162	0
<b>Total</b>	<b>88,659</b>	<b>100</b>	<b>79,709</b>	<b>100</b>

Cover pool	Dec. 31, 2011	Dec. 31, 2010
Cover pool, SEK billion	107	100
of which, Swedish mortgages, SEK billion	84	77
of which, substitute collateral, SEK billion	21.2	15.0
of which, separate deposit account, SEK billion	1.6	8.1
Collateral	Private homes	Private homes
Weighted average LTV <sup>1)</sup> , %	61	60
Seasoning, months	58	50
Number of loans	215,668	200,576
Number of properties	98,766	92,147
Average commitment, SEK 000s	859	837
Average loan, SEK 000s	391	382
Interest-rate type, up to 12 months, %	58	67
Interest-rate type, more than 12 months, %	42	33
OC <sup>2)</sup> , contractual level, %	10	10
OC <sup>2)</sup> , current level, %	22.5	21.2
Impaired loans	None	None

<sup>1)</sup> According to the "Maximum LTV per property" calculation method.

<sup>2)</sup> OC indicates the relationship between the assets and liabilities in relation to the liabilities. High OC indicates that the operations have a large surplus of assets and a favourable margin in the event of, for example, a price drop in the value of the assets.

#### Geographic distribution of the cover pool

Region	Dec. 31, 2011, %	Dec. 31, 2010, %
Stockholm	15	17
Central Sweden	41	40
Southern Sweden	14	14
Western Sweden	22	21
Northern Sweden	8	8
<b>Total</b>	<b>100</b>	<b>100</b>

#### Cover pool by LTV

LTV interval, %	Dec. 31, 2011		Dec. 31, 2010	
	SEK M	%	SEK M	%
0-5	99	0.1	77	0.1
5-10	411	0.5	359	0.5
10-15	776	0.9	663	0.9
15-20	1,102	1.3	961	1.3
20-25	1,471	1.7	1,259	1.6
25-30	1,848	2.2	1,571	2.0
30-35	2,253	2.7	2,000	2.6
35-40	2,792	3.3	2,564	3.3
40-45	3,533	4.2	2,956	3.9
45-50	4,284	5.1	3,764	4.9
50-55	5,372	6.4	4,656	6.1
55-60	6,397	7.6	5,710	7.4
60-65	8,813	10.4	7,250	9.5
65-70	12,188	14.4	9,943	13.0
70-75	33,089	39.2	32,936	42.9
<b>Total</b>	<b>84,428</b>	<b>100.0</b>	<b>76,669</b>	<b>100.0</b>

#### Distribution of commitments in the cover pool

Commitment interval SEK 000s	Dec. 31, 2011		Dec. 31, 2010	
	SEK M	%	SEK M	%
< 500	9,694	12	9,313	12
500 - 1,000	22,019	26	20,596	27
1,000 - 1,500	21,629	26	19,449	25
1,500 - 2,000	14,693	17	13,156	17
2,000 - 2,500	8,448	10	7,275	10
2,500 - 5,000	7,706	9	6,661	9
> 5,000	239	0	220	0
<b>Total</b>	<b>84,428</b>	<b>100</b>	<b>76,669</b>	<b>100</b>

Only 40 loans in the cover pool have a commitment of more than SEK 5 M. A total of 64% (64) of the commitments in the cover pool have a commitment of not more than SEK 1.5 M.

#### Cover pool by collateral

Collateral	Dec. 31, 2011		Dec. 31, 2010	
	SEK M	%	SEK M	%
Single-family homes	66,338	78	61,135	80
Tenant-owned apartments	16,779	2	14,928	19
Leisure homes	1,311	20	606	1
<b>Total</b>	<b>84,428</b>	<b>100</b>	<b>76,669</b>	<b>100</b>

#### Stress test of the cover pool

During a stress test of the cover pool based on a 20% price drop in the market value in the loan portfolio, the weighted average LTV increased to 67% compared with a current weighted average LTV of 61% on December 31, 2011.

#### Impaired loans

Impaired loans amounted to SEK 1 M (9), corresponding to a percentage of impaired loans of 0.00% (0.01) of the loan portfolio. Recoveries exceeded loan losses, amounting to SEK 4 M (3), net, corresponding to loan losses of 0.00% (0.00). Impaired loans and loan losses continued to account for a minor percentage of total loans.

Impaired loans by collateral, SEK M	Dec. 31, 2011	Dec. 31, 2010
Single family homes and leisure homes	0.6	9.2
Tenant-owned apartments	0.2	0.1
<b>Total</b>	<b>0.8</b>	<b>9.3</b>

Non-performing loan receivables not included in impaired loans, SEK M	Dec. 31, 2011	Dec. 31, 2010
10-19 days	0	0
10-39 days	39.4	26.6
40-60 days	0	0.3
<b>Total</b>	<b>39.4</b>	<b>26.9</b>

A loan receivable is considered impaired if a payment is more than 60 days past due or if the counterparty for other reasons cannot meet its undertaking. The loan receivable is considered impaired to the extent that its whole amount is not covered by collateral. A non-performing loan receivable is a receivable that is more than nine days and up to 60 days past due.

There are no loans within the mortgage institution operations with terms that were renegotiated during the year and that would otherwise have been recognised as impaired.

#### Financial credit risk (counterparty risk)

This section deals with counterparty risk, or financial credit risk, which is defined as the risk that Länsförsäkringar Hypotek suffers losses pertaining to investments in other credit institutions, bank funds or derivative transactions due to counterparties not fulfilling their commitments.

Risk in derivative transactions is managed by the company having a number of swap counterparties, all with high ratings and established ISDA agreements. ISDA agreements allow netting of positive and negative derivatives, which reduces the risk to the net position per counterparty. For the covered bond operations, ISDA agreements are in place, as well as accompanying unilateral CSA agreements. CSA agreements involve commitments concerning delivery and receipt of collateral in the event of changes to the included derivatives' market values. Each counterparty is also assigned a maximum exposure amount.

**Maximum credit risk exposure not taking into consideration collateral or any other credit enhancement received, SEK M**

	Dec. 31, 2011	Dec. 31, 2010
<i>Credit risk exposure for items recognised in the balance sheet</i>		
Cash and balances with central banks	8,341.5	2,820.7
Loans to credit institutions	1,912.1	8,155.8
Loans to the public	88,625.0	79,666.7
Bonds and other interest-bearing securities	14,504.5	12,483.3
Derivatives	1,470.3	995.9
Other assets	1.2	1.0
Accrued income	1,916.1	1,419.3
<i>Credit risk exposure for memorandum items</i>		
Loan commitments and other credit commitments	3,893.7	3,226.3
<b>Total</b>	<b>116,770.7</b>	<b>108,769.0</b>

Risk in the items Loans to credit institutions and Bonds and other interest-bearing securities are managed by assigning each counterparty a maximum exposure amount based on rating and term. The company has not utilised guarantees or any other credit enhancements during the period.

Bonds and other interest-bearing securities, SEK M	Dec. 31, 2011	Dec. 31, 2010
AAA/Aaa	14,504.5	12,483.3
<b>Total</b>	<b>14,504.5</b>	<b>12,483.3</b>

### Market risk

The overall framework for the financial operations is defined in the Financial Policy adopted by the Board. The Financial Policy stipulates the Board's approach to the management of financial risk. The Financial Policy primarily comprises the management of:

- Interest-rate risk
- Currency risk

#### Interest-rate risk

Interest-rate risk arises if assets, liabilities and derivatives do not have matching fixed-interest periods. Whenever possible, fixed lending should be matched by means of corresponding borrowing or through interest-rate derivatives. In principle, this means that no time differences should exist. In practice, this is impossible, so the Board has established interest-rate risk limits. However, these limits are so conservative that the basic principle for matching still applies. The Financial Policy defines interest-rate risk as a 1-percentage-point parallel shift in the yield curve. On December 31, 2011, an increase in market interest rates of 1 percentage point would have resulted in an increase in the value of interest-bearing assets and liabilities, including derivatives, of SEK 20 M (54).

#### Currency risk

Currency risk pertains to the risk that assets and liabilities change in value since the value of one currency changes in relation to another currency. Currency risks arise since the exchange rate can change negatively for Länsförsäkringar Hypotek.

The company is exposed to this risk in Länsförsäkringar Hypotek's borrowing in CHF and EUR. A 1% change in SEK value in relation to CHF and EUR would lead to a +/- SEK 206 M (107) change in the fair value of the company's liabilities. In line with the

Financial Policy, all borrowing is swapped to SEK which means that the effect of the income statement is 0 (0) and there are no effects on equity. In cases where exposure is managed with hedging according to IFRS, hedging of fair value is used.

### Liquidity risks

#### Liquidity risk and financing strategy

The Board of Directors decides on a Financial Policy every year which provides a framework for the financial operations. The Board stipulates the objective of financial risk management in this Policy.

The Board's main target is that liquidity and financing management should be assured by maintaining suitable long-term planning, explicit functional definitions and a high level of control. A satisfactory liquidity reserve is to be in place to ensure that sufficient liquidity is always available. The management of and investments in the reserve take place in accordance with the established limits stated in the Financial Policy.

The company has highly diversified borrowing and a liquidity reserve comprising securities with high liquidity and creditworthiness, which can be rapidly converted into cash and cash equivalents. In addition to these, there are unutilised borrowing programmes which, in combination, provide opportunities for managing risk since the contractual cash flows vary between assets and liabilities. For more information about unutilised borrowing programmes, see page 13.

The Board also decides on a liquidity and financing strategy, which is based on the business plan for the forthcoming year and supports the fulfilment of established business objectives and financial risk management. Deviations from the established business plan result in updates to the liquidity and financing strategy. This strategy is determined annually and is reviewed at least every six months and continuously by the ALCO, and is updated whenever necessary. Material deviations are immediately reported to the Board.

Liquidity risks are to be minimised as far as possible. Future liquidity requirements and access to funds are secured by preparing accurate forecasts for the next 12-month period. The strategy is specified in a financing plan containing key figures and targets for fulfilment of the objectives designated by the Board. The financing plan is prepared every year and adopted by the ALCO and the Brand. The plan is reviewed in relation to targets by weekly reports to the CFO. Updates are made as necessary within the framework stipulated in the liquidity and financing strategy and in the Financial Policy.

Internal pricing is to reflect the actual cost of maintaining the required liquidity levels to achieve transparency and correct business governance.

#### Liquidity reserve

The size of the liquidity reserve shall amount to a minimum of the limits stipulated in the Financial Policy. The CFO performs continuous assessments of the market and market trends. The term "market" refers to competitors, debt investors, rating agencies and authorities. These assessments provide a basis for the extent to which the reserve is to exceed the established minimum levels.

### *Liquidity management*

Liquidity risk is managed by Länsförsäkringar Bank's Treasury unit. Liquidity risk is quantified using liquidity forecasts that contain all financial cash flows and expected cash flows, as well as the net lending increases adopted. The Treasury unit is also responsible for the liquidity portfolio. Daily report follow-ups depend on the size and structure of the liquidity portfolio. Accordingly, liquidity can be monitored daily based on these reports. The liquidity portfolio is dimensioned to be able to handle approximately three months of "normal" operations without borrowing activities in the capital market, under all circumstances. "Normal" operations also encompass the expected growth of the loan portfolio. Liquidity risk is defined as the risk of the Länsförsäkringar Hypotek, due to insufficient cash and cash equivalents, being unable to fulfil its commitments or only being able to fulfil its commitments by borrowing cash and cash equivalents at a significantly higher cost. This definition is closely linked to the definition of financing risk. Liquidity risk also refers to the risk of financial instruments that cannot immediately be converted to cash and cash equivalents without decreasing in value. Liquidity risks pertaining to the risk of financial investments decreasing in value are minimised by essentially investing exclusively in high-liquidity instruments in the form of domestic government securities, domestic covered bonds and mortgage certificates that are pledgeable at the Riksbank.

Länsförsäkringar Hypotek's liquidity reserve totalled SEK 22.8 billion (22.7) on December 31, 2011. All liquidity is invested in Swedish securities with high credit quality. A total of 60% of the liquidity portfolio comprises covered bonds with the highest credit rating, 33% securities with the government as the counterparty and 7% in investments in the separate deposit account. The liquidity of the investments is high.

### *Contingency plans*

Plans for managing disruptions that affect the Bank Group's liquidity are in place and updated annually. A contingency plan group has been appointed and action plans prepared and adopted by the ALCO.

### *General objectives of refinancing strategy*

The general objective of borrowing is to ensure that the operations have the requisite refinancing for both the short and long terms and for the desired maturity periods. In addition, borrowing should contribute to the overall profitability and competitiveness of the operations by managing the price and composition of liabilities to ensure that they are in line with those of relevant competitors. Targets are set to control various activities in terms of the market, instruments and composition of borrowing and are based on the following two general objectives.

Borrowing is to:

- Secure the short and long-term capital requirements.
- Ensure that the price of debt securities in issue is in parity with the prices of relevant competitors.

### *Strategy for ensuring short and long-term refinancing*

The company regularly meets with both current and potential investors to ensure that these investors have a sound overview of the operations that facilitates the existence of limits and a willingness to invest in the securities over time. By demonstrating satisfactory risk management, this overview creates long-term interest and a will to invest in Länsförsäkringar Hypotek's securities. The refinancing activities are also based on diversification in terms of a variety of investors and markets. To ensure the success of diversification, the company also needs to issue the type of securities sought after by the investors in each market. This secures access to refinancing over time. The instruments that the company is permitted to use are regulated in the Financial Policy. Investor activities encompass banks, fund managers, insurance companies and central banks.

Furthermore, as part of these activities the company strives to ensure that as favourable liquidity as possible is maintained in the investments and secured refinancing options.

Fixed-interest periods for assets and liabilities  
– Interest-rate exposure

Dec. 31, 2011, SEK M	Not more than 1 month	More than 1 month but not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 3 years	More than 3 years but not more than 5 years	More than 5 years	Without interest	Total
<b>Assets</b>									
Cash and balances with central banks									
Eligible government debt					2,226.5	6,115.0			8,341.5
Loans to credit institutions	1,912.1								1,912.1
Loans to the public	33,096.2	15,908.5	6,238.4	6,859.6	20,724.4	4,535.4	1,282.4	-19.9	88,625.0
Bonds and other interest-bearing securities		100.9	4,622.5		6,467.9	3,313.2			14,504.5
Other assets								4,028.7	4,028.7
<b>Total assets</b>	<b>35,008.3</b>	<b>16,009.4</b>	<b>5,859.9</b>	<b>6,859.6</b>	<b>29,418.8</b>	<b>13,963.6</b>	<b>1,282.4</b>	<b>4,008.8</b>	<b>117,411.8</b>
<b>Liabilities</b>									
Due to credit institutions	19,985.7								19,985.7
Debt securities in issue	450.0	17,170.7	219.9		38,831.9	28,266.1	457.6		85,396.2
Other liabilities								7,187.4	7,187.4
Subordinated liabilities		501.0							501.0
Equity								4,341.6	4,341.6
<b>Total liabilities and equity</b>	<b>20,435.7</b>	<b>17,671.7</b>	<b>219.9</b>		<b>38,831.9</b>	<b>28,266.1</b>	<b>457.6</b>	<b>11,529.0</b>	<b>117,411.8</b>
<b>Difference assets and liabilities</b>	<b>14,572.6</b>	<b>-1,662.3</b>	<b>10,640.9</b>	<b>6,859.6</b>	<b>-9,413.1</b>	<b>-14,302.4</b>	<b>824.8</b>	<b>-7,520.0</b>	
Interest-rate derivatives, nominal values, net	2,284.8	-11,581.8	-8,689.1	-6,865.0	9,742.5	15,104.6	-883.4		
<b>Net exposure</b>	<b>16,857.4</b>	<b>-13,244.1</b>	<b>1,951.9</b>	<b>-5.4</b>	<b>329.4</b>	<b>802.2</b>	<b>-58.7</b>	<b>-7,520.0</b>	

Dec. 31, 2010, SEK M	Not more than 1 month	More than 1 month but not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 3 years	More than 3 years but not more than 5 years	More than 5 years	Without interest	Total
<b>Assets</b>									
Cash and balances with central banks									
Eligible government debt						2,820.7			2,820.7
Loans to credit institutions	8,155.8								8,155.8
Loans to the public	35,967.6	13,891.0	3,727.8	5,138.8	14,687.3	4,778.9	1,501.3	-26.0	79,666.7
Bonds and other interest-bearing securities					5,595.4	6,887.9			12,483.3
Other assets								2,543.0	2,543.0
<b>Total assets</b>	<b>44,123.4</b>	<b>13,891.0</b>	<b>3,727.8</b>	<b>5,138.8</b>	<b>20,282.7</b>	<b>14,487.5</b>	<b>1,501.3</b>	<b>2,517.0</b>	<b>105,669.5</b>
<b>Liabilities</b>									
Due to credit institutions	17,740.9	33.4	0.1	32.7				37.3	17,844.4
Debt securities in issue	1,000.0	12,414.4	7,949.3	288.5	19,585.1	25,551.3	12,906.8		79,695.4
Other liabilities								4,006.4	4,006.4
Subordinated liabilities		501.0							501.0
Equity								3,622.3	3,622.3
<b>Total liabilities and equity</b>	<b>18,740.9</b>	<b>12,948.8</b>	<b>7,949.4</b>	<b>321.2</b>	<b>19,585.1</b>	<b>25,551.3</b>	<b>12,906.8</b>	<b>7,666.0</b>	<b>105,669.5</b>
<b>Difference assets and liabilities</b>	<b>25,382.5</b>	<b>942.2</b>	<b>-4,221.6</b>	<b>4,817.6</b>	<b>697.6</b>	<b>-11,063.8</b>	<b>-11,405.5</b>	<b>-5,149.0</b>	<b>0</b>
Interest-rate derivatives, nominal values, net	-265.2	-23,029.5	4,835.0	-4,627.4	-189.8	11,687.8	11,109.5		
<b>Net exposure</b>	<b>25,117.3</b>	<b>-22,087.3</b>	<b>613.4</b>	<b>190.1</b>	<b>507.8</b>	<b>624.0</b>	<b>-296.0</b>	<b>-5,149.0</b>	



Liquidity exposure, financial instruments  
– remaining term of contract (undiscounted values)

Dec. 31, 2011, SEK M	On demand	> 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Without maturity	Total nominal cash flows	Carrying amount	Of which, expected recovery period of > 12 months
<b>Assets</b>									
Treasury bills and other eligible bills				7,458.0			7,458.0	8,341.5	2,820.7
Loans to credit institutions	1,912.1						1,912.1	1,912.1	
Loans to the public				84.6	88,560.0		88,644.6	88,625.0	87,898.3
Bonds and other interest-bearing securities		100.0	4,575.0	9,050.0			13,725.0	14,504.5	
Other assets						4,028.9	4,028.9	4,028.9	12,483.3
<b>Total</b>	<b>1,912.1</b>	<b>100.0</b>	<b>4,575.0</b>	<b>16,592.6</b>	<b>88,560.0</b>	<b>4,028.9</b>	<b>111,093.6</b>	<b>117,412.0</b>	<b>103,202.3</b>
<b>Liabilities</b>									
Due to credit institutions		1,938.0	18,038.8				19,976.8	19,985.7	
Debt securities in issue		10,367.0	1,047.9	72,815.7	466.6		84,697.2	85,396.2	63,554.8
Other liabilities						7,187.4	7,187.4	7,187.4	
Subordinated liabilities					501.0		501.0	501.0	501.0
<b>Total liabilities</b>		<b>12,305.0</b>	<b>19,086.7</b>	<b>72,815.7</b>	<b>967.6</b>	<b>7,187.4</b>	<b>112,362.4</b>	<b>113,070.3</b>	<b>64,055.8</b>
<b>Difference assets and liabilities</b>	<b>1,912.1</b>	<b>-12,205.0</b>	<b>-14,511.7</b>	<b>-56,223.1</b>	<b>87,592.5</b>	<b>-3,158.5</b>	<b>-1,268.8</b>		
Loans approved but not disbursed		3,893.7					-1,268.8		
<b>Total difference, excluding derivatives</b>	<b>1,912.1</b>	<b>-16,198.7</b>	<b>-14,511.7</b>	<b>-56,223.1</b>	<b>87,592.5</b>	<b>-3,158.5</b>	<b>0.0</b>		

Dec. 31, 2010, SEK M	On demand	> 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Without maturity	Total nominal cash flows	Carrying amount	Of which, expected recovery period of > 12 months
<b>Assets</b>									
Treasury bills and other eligible bills				2,550.0			2,550.0	2,820.7	2,820.7
Loans to credit institutions	8,155.8						8,155.8	8,155.8	
Loans to the public				212.1	79,480.7		79,692.8	79,666.7	79,125.0
Bonds and other interest-bearing securities				12,075.0			12,075.0	12,483.3	12,483.3
Other assets						2,543.0	2,543.0	2,543.0	
<b>Total</b>	<b>8,155.8</b>			<b>14,837.1</b>	<b>79,480.7</b>	<b>2,543.0</b>	<b>105,016.6</b>	<b>105,669.5</b>	<b>94,429.0</b>
<b>Liabilities</b>									
Due to credit institutions		3,015.2	14,843.2				17,858.4	17,844.4	
Debt securities in issue		1,000.0	15,147.2	49,914.1	12,459.5		78,520.8	79,695.4	63,554.8
Other liabilities						4,006.4	4,006.4	4,006.4	
Subordinated liabilities					501.0		501.0	501.0	501.0
<b>Total liabilities</b>		<b>4,015.2</b>	<b>29,990.4</b>	<b>49,914.1</b>	<b>12,960.5</b>	<b>4,006.4</b>	<b>100,886.6</b>	<b>102,047.2</b>	<b>64,055.8</b>
<b>Difference assets and liabilities</b>	<b>8,155.8</b>	<b>-4,015.2</b>	<b>-29,990.4</b>	<b>-35,077.0</b>	<b>66,520.2</b>	<b>-1,463.4</b>	<b>4,130.0</b>		
Loans approved but not disbursed		3,226.3					3,226.3		
<b>Total difference, excluding derivatives</b>	<b>8,155.8</b>	<b>-7,241.5</b>	<b>-29,990.4</b>	<b>-35,077.0</b>	<b>66,520.2</b>	<b>-1,463.4</b>	<b>903.7</b>		

## Liquidity exposure, derivatives

Dec. 31, 2011, SEK M	3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Total nominal cash flows
<i>Derivatives in hedge accounting</i>					
Currency	158.1	88.9	176.4	103.7	527.1
Interest	212.5	422.2	554.1	-62.9	1,125.9
<i>Other</i>					
Currency					
Interest					
<b>Total difference, excluding derivatives</b>	<b>370.6</b>	<b>511.1</b>	<b>730.5</b>	<b>40.8</b>	<b>1,653.0</b>
<hr/>					
Dec. 31, 2010, SEK M	3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Total nominal cash flows
<i>Derivatives in hedge accounting</i>					
Currency	182.0	105.1	566.6	109.2	962.9
Interest	136.0	-30.5	945.2	164.8	1,215.9
<i>Other</i>					
Currency					
Interest	-45.7				-45.7
<b>Total difference, excluding derivatives</b>	<b>272.3</b>	<b>74.6</b>	<b>1,511.7</b>	<b>274.0</b>	<b>2,132.7</b>

## Business risk

Business risk primarily comprises earnings risks. Earnings risk is defined by the Bank Group as volatility in earnings that creates a risk of lower income due to an unexpected decrease in income as a result of such factors as competition or volume reductions. Earnings risk is associated with all of the Bank Group's products and portfolios. A considerable portion of the Bank Group's business operations involves retail mortgages. The retail mortgages operations have a low level of volatility and thus a low earnings risk. Business risk is managed in the internal capital adequacy assessment process (ICAAP).

## Operational risks

Operational risk is defined as the risk of losses arising due to inappropriate or unsuccessful internal processes, human error, incorrect systems or external events. This definition also includes legal risks. Based on this definition, operational risk encompasses the entire retail mortgage operations.

Operational risk is primarily categorised into the following areas:

- Internal fraud
- External crime
- Legal risks
- Damage to physical assets
- Interruptions and disturbances to operations and systems
- Business conditions
- Transaction management and process control
- Working conditions and work environment

All significant processes in the retail mortgage operations and the mortgages operations of the regional insurance companies are required to perform an analysis of the operational risk associated with such processes. These risk analyses are part of the mortgages operations overall risk assessment in accordance with the rules governing capital adequacy. Since the operations, their external environment and threat scenario are constantly changing, the processes must be subjected to regular quality assurance. This is carried out to ensure that the risks remain within the company's toler-

ance level. Risk analysis is one of the tools used to prepare the basis for decision-making in order to introduce measures for managing significant risks.

The purpose of risk analysis is to:

- Identify and reduce significant operational risks
- Plan security activities
- Create awareness of operational risks
- Comply with the Swedish Financial Supervisory Authority's requirements for measuring and assessing operational risk

Each part of the organisation is responsible for performing an annual risk analysis.

## Incident management

The banking and retail mortgage operations have an IT system for reporting operational risk events and incidents. This system enables all employees to report any incidents. The system automatically divides the incidents into the categories established by the Swedish Financial Supervisory Authority. Risk Control periodically prepares a summary of the incidents in its reports. Incident management is an important part of the banking operations' operational risk management. Incident statistics contribute to the annual assessment and forecast of operational risk. Incident reporting enables the company to quickly identify critical problems and act upon these.

## Model for assessing operational risk

Assessment of identified operational risk is based on a model that is applied throughout the operations. Each identified risk is assessed on the following basis:

- Consequence – how will the operations be affected if the risk occurs?
- Probability – how likely is it that the risk will occur?

These factors are aggregated to determine a risk value for the operational risk. Management of the retail mortgage operations is responsible for performing risk analyses, identifying and assessing

operational risks within the framework of its area of responsibility. All employees have a responsibility to report incidents. Management is responsible for taking action against intolerable risks in their areas of responsibility.

#### Internal Capital Adequacy Assessment Process (ICAAP)

Länsförsäkringar Hypotek is part of the Bank Group's internal capital adequacy assessment process (ICAAP). ICAAP was designed based on the requirements of the Basel II rules, the requirements established by the Board of Directors for the operations and the internal demands of an increasingly complex business operation. The regulations aimed at the internal capital adequacy assessment processes of financial companies are essentially based on principles and comprehensive in nature. To a large extent, this means that Länsförsäkringar Hypotek has the option and an obligation to independently design its process and, in the long run, its scope and level of sophistication. The Bank Group's procedures, implementation and results are to be reported to the Swedish Financial Supervisory Authority annually. The CFO of the Parent Company,

Länsförsäkringar Bank, is responsible for conducting the process work that leads to an internal capital adequacy assessment for the Bank Group and forms the basis for business planning and Board decisions concerning capital targets and capital forecasts.

The process is to be carried out annually and includes the following activities:

- Review of all risks
- Risk assessment
- Stress tests
- Capital calculations

At least once annually, the basic prerequisites for stress tests are to be reviewed by the Board of Directors. This review should act as a guide for the continuing work involving stress tests. Work involving stress tests is based on a number of scenarios and the impact of these scenarios on risk in the Bank Group. For more detailed information about Basel II, see the Pillar III report "Risk and capital management in the Länsförsäkringar Bank Group" on the company's website [www.lansforsakringar.se/finacialbank](http://www.lansforsakringar.se/finacialbank).

#### Capital-adequacy analysis

SEK M	Dec. 31, 2011	Dec. 31, 2010
Tier 1 capital, gross	4,196.0	3,592.6
Less deferred tax assets	-0.3	-
Less IRB deficit	-56.2	-45.2
<b>Tier 1 capital, net</b>	<b>4,139.5</b>	<b>3,547.4</b>
Tier 2 capital	501.0	501.0
Deductions for Tier 2 capital	-56.2	-45.2
<b>Total capital base</b>	<b>4,584.3</b>	<b>4,003.2</b>
<b>Risk-weighted assets according to Basel II</b>	<b>20,130.8</b>	<b>17,973.4</b>
<b>Risk-weighted assets according to transition rules</b>	<b>43,844.0</b>	<b>38,431.9</b>
<b>Capital requirement</b>		
Capital requirement for credit risk according to the Standardised Approach	355.0	370.9
Total capital requirement for credit risk according to IRB Approach	1,230.9	1,046.8
Capital requirement for operational risk	24.6	20.2
<b>Capital requirement</b>	<b>1,610.5</b>	<b>1,437.9</b>
Adjustment according to transition rules	1,897.0	1,636.7
<b>Total capital requirement</b>	<b>3,507.5</b>	<b>3,074.6</b>
Tier 1 ratio according to Basel II, %	20.56	19.74
Capital adequacy ratio according to Basel II, %	22.77	22.27
Capital ratio according to Basel II	2.85	2.78
Tier 1 ratio according to transition rules, %	9.44	9.23
Capital adequacy ratio according to transition rules, %	10.46	10.42
Capital ratio according to transition rules	1.31	1.30
<b>Special disclosures</b>		
<b>IRB Provisions surplus (+)/deficit (-)</b>	<b>-112.4</b>	<b>-90.4</b>
IRB Total provisions (+)	31.2	40.1
IRB Anticipated loss (-)	-143.6	-130.5

SEK M	Dec. 31, 2011	Dec. 31, 2010
<b>Credit risk according to Standardised Approach</b>		
Exposures to institutions	69.5	50.2
Exposures to corporates	1.1	1.6
Retail exposures	46.1	123.5
Exposures secured on residential property	117.7	91.5
Past due items	0.2	0.3
Covered bonds	119.2	102.4
Other items	1.2	1.4
<b>Total capital requirement for credit risk according to Standardised Approach</b>	<b>355.0</b>	<b>370.9</b>
<b>Credit risk according to IRB Approach</b>		
<b>Retail exposures</b>		
Exposures secured by real estate collateral	1,150.3	971.0
Other retail exposures	0.6	1.7
<b>Total retail exposures</b>	<b>1,150.9</b>	<b>972.7</b>
<b>Exposures to corporates</b>	<b>80.0</b>	<b>74.2</b>
<b>Total capital requirement for credit risk according to IRB Approach</b>	<b>1,230.9</b>	<b>1,046.9</b>
<b>Operational risks</b>		
Standardised Approach	24.6	20.2
<b>Total capital requirement for operational risk</b>	<b>24.6</b>	<b>20.2</b>
<b>Capital-adequacy analysis according to Basel I</b>		
Tier 1 capital	4,195.7	3,592.6
Tier 2 capital	501.0	501.0
<b>Total capital base</b>	<b>4,696.7</b>	<b>4,093.6</b>
Risk-weight assets	56,561.3	49,452.1
Capital requirement for credit risk	4,524.9	3,956.2
Tier 1 ratio, %	7.42	7.26
Capital adequacy ratio, %	8.30	8.28
Capital ratio	1.04	1.03

Capital ratio = total capital base/total capital requirement.

The capital base includes the Board's proposed appropriation of profit.

In addition to the Parent Company Länsförsäkringar Bank AB (publ) (516401-9878), the financial corporate group includes the wholly owned and fully consolidated subsidiaries Länsförsäkringar Hypotek AB (publ) (556244-1781), Wasa Kredit AB (556311-9204) and Länsförsäkringar Fondförvaltning AB (publ) (556364-2783).

# Corporate Governance Report

## Introduction

Länsförsäkringar Hypotek AB (referred to below as “Länsförsäkringar Hypotek”) is a wholly owned subsidiary of Länsförsäkringar Bank AB. Länsförsäkringar Bank AB and its subsidiaries are included in Länsförsäkringar AB Group. Länsförsäkringar Hypotek does not comply with the Swedish Code of Corporate Governance (referred to below as the Code) in light of the assessment that there is not a sufficiently high level of public interest in the company that would justify compliance with the rules of the Code. However, Länsförsäkringar Hypotek’s Parent Company, Länsförsäkringar Bank, complies with the Code.

## General Meeting

Shareholders exercise their voting rights at the Annual General Meeting. Shareholders vote at Meetings using the full number of shares owned. Decisions are made at the Annual General Meeting pertaining to the Annual Report, the election of members of the Board and auditors, remuneration to Board members and auditors and other important matters to be addressed in accordance with laws or the Articles of Association.

The President of the Parent Company, Länsförsäkringar Bank, in consultation with the CEO of Länsförsäkringar AB, submits proposals regarding the Board of Directors and auditors of Länsförsäkringar Hypotek, and fees to these members and auditors.

## Composition of Board of Directors

In accordance with the Articles of Association, the Board of Directors of Länsförsäkringar Hypotek shall comprise between five and ten Board members elected by the Annual General Meeting, with no more than three deputies. Board members are elected at the Annual General Meeting for a mandate period of one year. Länsförsäkringar Hypotek has no time limit for the length of time a member may sit on the Board and no upper age limit for Board members. The Chairman of the Board is appointed by the Annual General Meeting.

The Board comprises a total of five members. The Chairman of the Board is the President of Länsförsäkringar Bank AB. The President of Länsförsäkringar Hypotek is not a member of the Board. A presentation of the Board members can be found on page 51.

## Board responsibilities

The Board is responsible for the organisation and administration of the company and shall handle and make all decisions concerning issues of material significance and an overall nature relating to the company’s operations. This includes determining an appropriate organisation, the goals and strategies of the operation and guidelines for control and governance. The Board has also adopted a number of policies, guidelines and instructions (guidance documents) for the operations.

The Board shall remain informed about the performance of the company to continuously assess the company’s financial situation and position. Through its formal work plan and reporting instructions, the Board has established how and when financial reporting to the Board shall occur.

During the year, the Board regularly reviews the company’s earnings and sales trends, financial position and risk trends in relation to the business plan and forecasts.

## Internal control and risk management relating to financial reporting

The Board of Directors is responsible for the control and governance of the operations. This responsibility includes the preparation of an efficient system for risk management and internal control. The risk-management system is to ensure that, for example, risks can be continuously identified, managed and reported. Internal control is a process designed to provide reasonable assurance that the objectives of the operations are achieved in terms of appropriate and effective business operations, reliable financial reporting and information about the operations and compliance with applicable internal and external regulations. The internal-control system encompasses all parts of the organisation and is an integral part of the operations.

Internal control is based on a system comprising three lines of defence. The first line of defence is the operations, the second the Compliance and Risk Control functions and the third the Internal Audit function. The second and third lines of defence are independent in relation to the first line.

The purpose of the internal control of the financial reporting is to manage risks in the processes pertaining to the preparation of the financial reporting and to ensure a high level of reliability in such reporting.

### **Control environment**

The foundation of internal control relating to financial reporting is the control environment, consisting of the organisation, decision-making procedures and allocation of authorities and responsibilities among the various bodies that the Board of Directors and the President have established for Länsförsäkringar Hypotek. The control environment also includes the values and corporate culture that the Board, the President and management communicate and work from to create appropriate and efficient operations.

The process for internal control and risk management involves four main activities: risk assessment, control activities, information and communications, and follow-up.

### **Risk assessment**

Risk assessment includes identifying and analysing the source of risks affecting internal control relating to financial reporting. These risks are analysed at company level. Länsförsäkringar Hypotek is governed through common processes, in which risk management is built into every process and various methods are used to value and restrict risks and to ensure that identified risks are managed in accordance with established guidance documents.

The processes and control activities associated with key risks are assessed based on the risk analysis to identify material errors in the financial reporting. The risks associated with the operations conducted in Länsförsäkringar Hypotek are managed in the part of the operations in which they arise.

### **Control activities**

Risks in financial reporting are controlled through carefully prepared financial statements, standardised work routines with built-in control functions and the evaluation of ongoing improvements. The financial information is analysed and reviewed at various organisational levels before being presented publicly.

Efforts are ongoing to eliminate and reduce identified significant risks affecting internal control relating to financial reporting. This includes the development and improvement of control activities, and efforts to ensure that employees have the appropriate expertise.

### **Information and communications**

Internal guidance documents are subject to review and reassessment at least once a year. All guidance documents are published on Länsförsäkringar Hypotek's intranet. Every manager must ensure that the regulations are communicated to affected subordinate staff.

### **Follow-up**

Activities to ensure compliance with internal and external regulations take place in each part of the operations. The Internal Audit function was established to assist the Board in following up and ensuring that the scope and direction of the operations complies with the targets established by the Board. Based on its reviews, the Internal Audit function shall form an opinion as to whether the operations are conducted in an efficient manner, whether reporting to the Board provides a true and fair view of the operations, and whether the operations are conducted in accordance with applicable internal and external regulations. The Internal Audit function reports to the Board of Directors. In addition, each manager is to ensure compliance with guidance documents in their area of responsibility and that procedures for self-assessments are in place.

The Compliance function's task is to regularly identify, assess, monitor and report on compliance risks, meaning the risk that inadequate compliance could tarnish the reputation of the company or result in financial losses or sanctions in accordance with legislation or regulations. The Compliance function reports to the President and the Board of Directors.

## FIVE-YEAR SUMMARY

SEK M	2011	2010	2009	2008	2007
<b>Income statement</b>					
Interest income	6,891.7	4,018.9	3,641.8	5,146.8	3,102.5
Interest expense	-6,385.3	-3,613.1	-3,356.4	-4,785.8	-2,866.0
<b>Net interest income</b>	<b>506.4</b>	<b>405.8</b>	<b>285.4</b>	<b>361.0</b>	<b>236.5</b>
Net commission expense	-248.6	-198.2	-162.8	-174.8	-127.6
Net gains/losses from financial items	4.5	8.0	76.8	8.5	-0.1
Other operating income	0.4	0.0	0.1	0.1	0.3
<b>Total operating income</b>	<b>262.7</b>	<b>215.6</b>	<b>199.5</b>	<b>194.8</b>	<b>109.1</b>
Staff costs	-13.6	-10.4	-10.7	-11.1	-8.4
Other administration expenses	-64.4	-57.0	-55.4	-54.5	-45.2
Depreciation	0	-	-	-	-
<b>Total operating expenses</b>	<b>-78.0</b>	<b>-67.4</b>	<b>-66.1</b>	<b>-65.6</b>	<b>-53.6</b>
<b>Profit before loan losses</b>	<b>184.7</b>	<b>148.2</b>	<b>133.4</b>	<b>129.2</b>	<b>55.5</b>
Loan losses, net	4.0	3.3	7.4	-0.2	2.6
<b>Operating profit</b>	<b>188.7</b>	<b>151.5</b>	<b>140.8</b>	<b>129.0</b>	<b>58.1</b>
Tax on net profit for the year	-39.2	-46.7	-40.9	-36.2	-16.4
<b>Net profit for the year</b>	<b>149.5</b>	<b>104.8</b>	<b>99.9</b>	<b>92.8</b>	<b>41.7</b>
<b>Balance sheet</b>					
<b>Assets</b>					
Treasury bills and other eligible bills	8,341.5	2,820.7	-	-	-
Loans to credit institutions	1,912.1	8,155.8	9,389.0	9,723.0	-
Loans to the public	88,625.0	79,666.7	67,535.9	53,592.4	47,308.0
Bonds and other interest-bearing securities	14,504.5	12,483.3	2,056.7	-	-
Derivatives	1,470.3	995.9	1,416.8	2,167.5	467.3
Other assets and accrued income	2,558.4	1,547.1	1,351.6	1,701.1	557.0
<b>Total assets</b>	<b>117,411.8</b>	<b>105,669.5</b>	<b>81,750.0</b>	<b>67,184.0</b>	<b>48,332.3</b>
<b>Liabilities and equity</b>					
Due to credit institutions	19,985.7	17,844.4	20,476.2	18,221.0	6,067.6
Borrowing from the public	-	-	-	-	-
Debt securities in issue	85,396.2	79,695.4	54,679.5	42,284.8	36,797.8
Derivatives	2,237.8	1,864.8	842.8	1,188.8	307.7
Other liabilities and accrued expenses	4,949.5	2,141.4	2,291.9	2,475.5	2,420.0
Provisions	-	0.2	0.2	0.2	0.2
Subordinated liabilities	501.0	501.0	575.0	662.6	512.6
Equity	4,341.6	3,622.3	2,884.4	2,351.1	2,226.4
<b>Total liabilities and equity</b>	<b>117,411.8</b>	<b>105,669.5</b>	<b>81,750.0</b>	<b>67,184.0</b>	<b>48,332.3</b>
<b>Key figures</b>					
Return on equity, %	3.6	3.5	4.1	4.1	2.0
Return on total capital, %	0.17	0.15	0.19	0.23	0.13
Investment margin, %	0.45	0.40	0.38	0.65	0.53
Cost/income ratio before loan losses <sup>1)</sup>	0.30	0.31	0.33	0.34	0.49
Cost/income ratio after loan losses <sup>1)</sup>	0.28	0.30	0.29	0.34	0.47
Capital adequacy ratio according to Basel II, %	22.8	22.3	24.2	27.6	28.9
Capital adequacy ratio according to transition rules, %	10.5	10.4	10.7	10.5	10.5
Tier 1 ratio according to Basel II, %	20.6	19.7	20.3	21.6	23.7
Tier 1 ratio according to transition rules, %	9.4	9.2	9.0	8.2	8.6
Percentage of impaired loans, net, %	0.00	0.01	0.00	0.11	0.09
Reserve ratio in relation to loans, %	0.04	0.05	0.05	0.07	0.08
Loan losses in relation to lending, % <sup>1)</sup>	0.00	0.00	-0.01	0.00	-0.01

<sup>1)</sup> After recalculation in accordance with the new accounting policy for loan losses.

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## INCOME STATEMENT

SEK M	Note	2011	2010
Interest income	4	6,891.7	4,018.9
Interest expense	5	-6,385.3	-3,613.1
<b>Net interest income</b>		<b>506.4</b>	<b>405.8</b>
Commission income	6	2.2	1.9
Commission expense	7	-250.8	-200.1
Net gains from financial items	8	4.5	8.0
Other operating income	9	0.4	0.0
<b>Total operating income</b>		<b>262.7</b>	<b>215.6</b>
Staff costs	10	-13.6	-10.4
Other administration expenses	11, 12	-64.4	-57.0
Depreciation and impairment of property and equipment	13	0.0	-
Total operating expenses		-78.0	-67.4
<b>Profit before loan losses</b>		<b>184.7</b>	<b>148.2</b>
Loan losses, net	14	4.0	3.3
<b>Operating profit</b>		<b>188.7</b>	<b>151.5</b>
Tax	15	-39.2	-46.7
<b>Net profit for the year</b>		<b>149.5</b>	<b>104.8</b>

## STATEMENT OF COMPREHENSIVE INCOME

SEK M	2011	2010
<b>Net profit for the year</b>	<b>149.5</b>	<b>104.8</b>
<b>Other comprehensive income</b>		
<i>Available-for-sale financial assets</i>		
Change in fair value	161.0	25.9
Reclassification adjustments on realised securities	-3.6	-
Tax	-41.4	-6.8
<b>Total other comprehensive income for the year, net after tax</b>	<b>116.0</b>	<b>19.1</b>
<b>Comprehensive income for the year</b>	<b>265.5</b>	<b>123.9</b>

## BALANCE SHEET

SEK M	Note	Dec. 31, 2011	Dec. 31, 2010
<b>Assets</b>			
Treasury bills and other eligible bills	16	8,341.5	2,820.7
Loans to credit institutions	17	1,912.1	8,155.8
Loans to the public	18	88,625.0	79,666.7
Bonds and other interest-bearing securities	19	14,504.5	12,483.3
Derivatives	20	1,470.3	995.9
Fair value changes of interest-rate-risk hedged items in portfolio hedge	21	640.5	126.4
Property and equipment	22	0.3	-
Deferred tax assets	23	0.3	-
Other assets	24	1.2	1.0
Prepaid expenses and accrued income	25	1,916.1	1,419.7
<b>Total assets</b>		<b>117,411.8</b>	<b>105,669.5</b>
<b>Liabilities, provisions and equity</b>			
Due to credit institutions	26	19,985.7	17,844.4
Debt securities in issue	27	85,396.2	79,695.4
Derivatives	20	2,237.8	1,864.8
Fair value changes of interest-rate-risk hedged items in portfolio hedge	21	1,755.8	-378.9
Deferred tax liabilities	23	-	10.5
Other liabilities	28	355.4	146.3
Accrued expenses and deferred income	29	2,838.3	2,363.5
Provisions	30	-	0.2
Subordinated liabilities	31	501.0	501.0
<b>Total liabilities and provisions</b>		<b>113,070.2</b>	<b>102,047.2</b>
<b>Equity</b>	33		
Share capital, 70,335 shares		70.3	70.3
Statutory reserve		14.1	14.1
Fair value reserve		145.6	29.6
Retained earnings		3,962.1	3,403.5
Net profit for the year		149.5	104.8
<b>Total equity</b>		<b>4,341.6</b>	<b>3,622.3</b>
<b>Total liabilities, provisions and equity</b>		<b>117,411.8</b>	<b>105,669.5</b>
<b>Memorandum items</b>	34		
For own liabilities, pledged assets/collateral		86,366.1	79,628.9
Other pledged assets/collateral		None	None
Contingent liabilities		2,192.6	1,483.3
Other commitments		3,893.7	3,226.3
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**CASH-FLOW STATEMENT, INDIRECT METHOD**

SEK M	2011	2010
<b>Cash and cash equivalents, January 1</b>	<b>22.9</b>	<b>160.6</b>
<b>Operating activities</b>		
Operating profit before tax	188.7	151.5
Adjustment of non-cash items	-64.1	197.4
<i>Change in assets of operating activities</i>		
Change in treasury bills and other eligible bills	-5,051.8	-2,891.3
Change in loans to credit institutions	6,226.7	1,095.5
Change in loans to the public	-8,952.1	-12,133.8
Change in bonds and other interest-bearing securities	-1,626.8	-10,541.7
Change in derivatives	259.1	-140.8
Change in other assets	-0.1	-0.8
<i>Change in liabilities of operating activities</i>		
Change in due to credit institutions	2,126.1	-2,634.1
Change in debt securities in issue	6,154.1	26,131.2
Change in other liabilities	54.6	-1.3
Change in derivatives	136.6	115.2
<b>Cash flow from operating activities</b>	<b>-549.0</b>	<b>-653.0</b>
<b>Investing activities</b>		
Acquisition of property and equipment	-0.3	-
<b>Cash flow from investing activities</b>	<b>-0.3</b>	<b>-</b>
<b>Financing activities</b>		
Shareholders' contribution received	710.0	745.0
Group contribution paid	-177.8	-155.7
Change in subordinated debt	-	-74.0
<b>Cash flow from financing activities</b>	<b>532.2</b>	<b>515.3</b>
<b>Net cash flow for the year</b>	<b>-17.1</b>	<b>-137.7</b>
<b>Cash and cash equivalents, December 31</b>	<b>5.8</b>	<b>22.9</b>
<i>Non-cash items</i>		
Change in surplus value of financial assets	2.3	2.3
Other unrealised change in securities, net	-35.9	12.2
Change in impairment of loan losses, excluding recoveries	-8.5	0.7
Change in accrued expense/income	-21.8	182.2
Provisions	-0.2	0.0
Other	-	-
<b>Total non-cash items</b>	<b>-64.1</b>	<b>197.4</b>
<b>Cash and cash equivalents comprise:</b>		
Loans to credit institutions, payable on demand	5.8	22.9
<b>Total cash and cash equivalents</b>	<b>5.8</b>	<b>22.9</b>
Interest received amounts to	6,394.2	2,705.8
Interest paid amounts to	5,941.9	3,244.7
Income tax paid amounts to	0.0	0.0

Cash and cash equivalents are defined as loans and due to credit institutions, payable on demand.

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

SEK M	Share capital	Statutory reserve	Fair value reserve	Retained earnings	Net profit for the year	Total
<b>Opening balance, January 1, 2010</b>	<b>70.3</b>	<b>14.1</b>	<b>10.5</b>	<b>2,689.6</b>	<b>99.9</b>	<b>2,884.4</b>
Net profit for the year					104.8	104.8
Other comprehensive income for the year			19.1			19.1
<i>Comprehensive income for the year</i>			<i>19.1</i>		<i>104.8</i>	<i>123.9</i>
Resolution by Annual General Meeting				99.9	-99.9	-
Group contribution paid				-177.8		-177.8
Tax on Group contribution paid				46.8		46.8
Conditional shareholders' contribution received				745.0		745.0
<b>Closing balance, Dec. 31, 2010</b>	<b>70.3</b>	<b>14.1</b>	<b>29.6</b>	<b>3,403.5</b>	<b>104.8</b>	<b>3,622.3</b>
<b>Opening balance, January 1, 2011</b>	<b>70.3</b>	<b>14.1</b>	<b>29.6</b>	<b>3,403.5</b>	<b>104.8</b>	<b>3,622.3</b>
Net profit for the year					149.5	149.5
Other comprehensive income for the year			116.0			116.0
<i>Comprehensive income for the year</i>			<i>116.0</i>		<i>149.5</i>	<i>265.5</i>
Resolution by Annual General Meeting				104.8	-104.8	-
Group contribution paid				-347.6		-347.6
Tax on Group contribution paid				91.4		91.4
Conditional shareholders' contribution received				710.0		710.0
<b>Closing balance, Dec. 31, 2011</b>	<b>70.3</b>	<b>14.1</b>	<b>145.6</b>	<b>3,962.1</b>	<b>149.5</b>	<b>4,341.6</b>

**Statutory reserve**

The statutory reserve continues to comprise restricted equity but no new provisions to the statutory reserve are required. The statutory reserve also includes amounts that were added to the share premium reserve prior to January 1, 2006.

**Fair value reserve**

The fair value reserve includes the accumulated net change in the fair value of available-for-sale financial assets until the asset is derecognised from the balance sheet. Any impairment losses are recognised in profit and loss.

**Retained earnings, including net profit for the year**

Retained earnings, including net profit for the year includes profit earned. Paid and received Group contributions after tax are also included as well as shareholders' contributions received.

All figures in SEK M unless otherwise stated.

## NOTE 1 COMPANY INFORMATION

The Annual Report for Länsförsäkringar Hypotek AB (publ) (Corp. Reg. No. 556244-1781) was presented on December 31, 2011. Länsförsäkringar Hypotek AB (publ) is a mortgage institution registered in Sweden, with its registered office in Stockholm. The address of the head office is Tegeluddsvägen 11–13. The company is a wholly owned subsidiary of Länsförsäkringar Bank AB (publ) (Corp. Reg. No. 516401-9878), with its registered office in Stockholm, which prepares the consolidated financial statements for the smallest Group in which Länsförsäkringar Hypotek AB (publ) is a subsidiary. Länsförsäkringar Hypotek AB (publ) is part of the Group for which Länsförsäkringar AB (publ) (Corp. Reg. No. 556549-7020), with its registered office in Stockholm, prepares the consolidated financial statements for the largest Group in which the company is included as a sub-subsidiary.

The Annual Report for Länsförsäkringar Hypotek AB (publ) was approved by the Board and President for publication on March 15, 2012. Final approval of the Annual Report will be made by the company's Annual General Meeting on May 7, 2012.

## NOTE 2 ACCOUNTING POLICIES

### Compliance with standards and legislation

Länsförsäkringar Hypotek prepares its accounts in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), the Swedish Financial Supervisory Authority's regulations and general guidelines regarding annual accounts for credit institutions and securities companies (FFFS 2008:25, including amendment regulations) and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities.

The company applies legally restricted IFRS and this pertains to standards adopted for application with the restrictions stipulated by RFR 2 and FFFS 2008:25, including amendment regulations. This means that all IFRS and interpretation statements adopted by the EU are applied as far as possible within the framework of the Swedish Annual Accounts Act and taking into consideration the connection between accounting and taxation.

### Conditions relating to the preparation of the financial statements

Länsförsäkringar Hypotek's functional currency is Swedish kronor (SEK), which is also the reporting currency. The functional currency is the currency in the primary financial environments in which the company conducts its operations, which means that the financial statements are presented in Swedish kronor. All amounts, unless otherwise stated, are rounded to the nearest million (SEKM).

The reporting is based on historical cost. Financial assets and liabilities are recognised at amortised cost, except for certain financial assets and liabilities that are measured at fair value, see note 35, or when fair value hedge accounting is applied. Financial assets and liabilities measured at fair value comprise derivative instruments, finan-

cial instruments classified as financial assets or financial liabilities measured at fair value through profit or loss or as available-for-sale financial assets.

The accounting policies stated below have been applied to all periods presented in the financial statements.

### Judgements and estimates

The preparation of accounts in accordance with IFRS requires that management make judgements and estimates, and make assumptions that affect the application of the accounting policies and the recognised amounts of income, expenses, assets, liabilities and contingent liabilities presented in the accounts. These judgements and estimates are based on historic experiences and the best information available on the balance-sheet date. The actual outcome may deviate from these judgements and estimates.

Estimates and assumptions are reviewed regularly. Changes in estimates are reported in the period in which the change is made if the change only affects that period, or in the period in which the change is made and future periods if the change affects the period in question and future periods.

### Critical judgments made in the application of the company's accounting policies

Company management discussed with the Audit Committee the performance, selection and disclosures relating to the company's significant accounting policies and estimates, and the application of these policies and estimates. The critical judgments made in the application and selection of the company's accounting policies are primarily attributable to:

- The selection of categories and valuation methods for financial instruments (described in the section on financial instruments below).
- The company's remuneration to the regional insurance companies, which the company has opted to recognise as commission expense. The regional insurance companies are compensated for their work with Länsförsäkringar Hypotek's customer-related matters in each of the regional insurance companies' geographic areas. Refer to note 7.

### Key sources of estimation uncertainty

Key sources of uncertainty in estimates mainly comprise impairment requirements for loan losses. Loans identified on an individual basis as impaired, and accordingly on which impairment losses are to be recognised, are valued at the present value of future cash flows discounted by the original effective rate. Information and data collated under the framework of the Group's Internal Ratings-based Approach model are primarily used as support in making estimates of expected future cash flows.

Such information is adjusted to a number of factors to provide a neutral estimate of expected cash flows. Secondly, other models are used based on historic experience. Any impairment requirements on loans that are not deemed to require individual impairment loss recognition are identified and assessed collectively. Firstly,

a method is used which is based on the information collated and processed under the framework of capital adequacy work, and secondly, estimates are based on historical values and experience-based adjustments of these values to the current situation. Determining that a loss event has occurred for a group of receivables entails higher uncertainty since several different events may have an impact. For a more detailed description, refer to the section Loans.

### **Changed accounting policies – voluntary change of accounting policy**

The Company has during 2011 changed accounting policy concerning loan losses. This change is described in the section Loan losses below.

### **Changed accounting policies caused by new or amended IFRSs and interpretive statements**

New or amended IFRSs applicable from January 1, 2011 have not had any material impact on the accounting of the company.

### **New IFRS and interpretations that have not yet taken effect**

The new and revised standards and interpretation statements described below will not take effect until the next fiscal year, and have not been applied when preparing these financial statements.

- **IFRS 7 *Financial instruments: Disclosures*.** New disclosure requirements have been added regarding financial assets that have been derecognised in their entirety or in part, meaning that further information will need to be provided regarding the Group's repurchase agreement. The amendment will not lead to any change in recognised amounts. The EU has approved the changes during the fourth quarter of 2011 and the change will come into effect in the fiscal year starting July 1, 2011 or later.
- **IFRS 9 *Financial Instruments*** addresses the classification and measurement of financial assets and liabilities. Under IFRS 9, all financial assets are measured at either amortised cost or fair value. The category to be used is determined based on whether the asset has characteristics similar to lending or the business model applied by the company. There is also the option of measuring assets that fulfil the criteria for amortised cost at fair value in profit and loss (known as the fair value option) if this reduces inconsistencies in reporting. The standard will become mandatory on January 1, 2015, but early adoption is permitted provided that the EU has approved the standard. On December 31, 2011, the company had treasury bills and other eligible bills, as well as bonds and other interest-bearing securities valued at a carrying amount of SEK 22,845.9 M, of which an expense of SEK 696.7 M comprises accumulated changes in fair value. Most of these items are subject to hedge accounting. Any reclassification to amortised cost will be made prospectively, as stipulated by the regulations, which means that previously recognised earnings will not be affected. A decision regarding reclassification will not be made until the new hedge accounting regulations have been established. Under IFRS 9, financial liabilities measured at fair value shall be recognised through other comprehensive income. The company's financial liabilities are recognised at amortised cost, which is

why changes in the regulations will not have any effect on the reporting.

- **IFRS 13 *Fair Value Measurement*** is a standardised framework of the fair value measurement. The framework contains three valuation hierarchies concerning the input for how to measure at fair value. The company is already applying the suggested hierarchy (see note 36 Fair value valuation techniques) and therefore this framework is not going to change the current accounting of the company. The EU is expected to approve IFRS 13 during the third quarter of 2012 and it is suggested to come to effect in the fiscal year starting January 1, 2013 or later.

Other than those described above, no other new or revised IFRSs and interpretations that have not yet come into effect are expected to have any significant effect on the financial statements.

### **Description of significant accounting policies**

#### **Shareholders' contributions**

Shareholders' contributions are recognised directly against the equity of the recipient and are capitalised in shares and participations of the donor to the extent that impairment is not required.

#### **Group contributions**

Group contributions that have been paid and received are recognised directly against retained earnings after deductions for their actual tax effect.

#### **Related parties**

Legal entities closely related to Länsförsäkringar Hypotek AB include companies within the Länsförsäkringar Bank Group, the Länsförsäkringar AB Group, companies within the Länsförsäkringar Liv Group, the regional insurance companies, associated companies of the Länsförsäkringar AB Group and other related companies, comprising Länsförsäkringar Mäklarservice AB and Länsförsäkringar Fastighetsförmedling AB. Related key persons are Board members, senior executives and their close family members.

The assessment of whether a close relationship exists or not is based on the financial significance of the relationship and not only ownership. Accordingly, this includes the 23 regional insurance companies, with subsidiaries, and 14 local insurance companies, which together own 100% of Länsförsäkringar AB. The Group has been assigned by the regional insurance companies to conduct operations in areas in which economies of scale constitute a decisive competitive advantage and to provide such service to the regional insurance companies, which, for reasons of efficiency, shall be produced and provided jointly within the Länsförsäkringar AB Group.

#### **Operating segments**

The company conducts retail mortgage lending operations in Sweden. The operations are reviewed as a whole through follow-ups and reports submitted to the company's chief operating decision maker. Consequently, the operations comprise a single operating segment. No one customer accounts for more than 10% or more of the company's income.

### Transactions in foreign currency

Transactions in foreign currency are translated to the functional currency at the exchange rate on the date of the transaction. Monetary assets and liabilities in foreign currency are translated to the functional currency at the exchange rate that applies on the balance-sheet date. Non-monetary assets and liabilities are translated to the rate in effect on the date of the transaction.

Exchange-rate differences arising due to the translation of balance-sheet items in foreign currency are recognised in profit and loss as exchange-rate gains or losses.

### Income

Income is recognised when:

- The income can be calculated in a reliable manner,
- It is probable that the financial benefits related to the transaction will accrue to the company,
- The expenses that have arisen and the expenses that remain to complete the service assignment can be calculated in a reliable manner.

Income is measured at the fair value of the amount that has been received or will be received.

### Interest income and interest expense

Interest income and interest expense presented in the income statement comprise interest on financial assets and liabilities that is valued at amortised cost, including interest on impaired loans, and interest from financial assets classified as available-for-sale financial assets. Interest income from financial assets measured at fair value through profit or loss in accordance with the fair value option is also recognised here. For interest-rate derivatives that hedge financial assets, paid and accrued interest is recognised as interest income, and for interest-rate derivatives that hedge financial liabilities, these are recognised as part of interest expense. Unrealised changes in the value of derivatives are recognised in the item Net gains from financial items.

Interest income on receivables and interest expense on liabilities are calculated and recognised through application of the effective interest method or, if it is considered appropriate, through application of a method that results in interest income or interest expense that is a reasonable estimate of the result that would be achieved using a calculation based on the effective interest method. Interest income and interest expense include, where appropriate, allocated amounts of fees received, which are included in the calculation of effective interest, transaction costs and any discounts and other differences between the original value of the receivable/liability and the amount settled at maturity.

Interest expense includes allocated amounts of issue expenses and similar direct transaction costs for loans raised.

### Commission income and commission expense

Commission income is attributable to various types of services provided to customers. The manner in which the commission income is recognised depends on the purpose for which the fee was charged. The fees are recognised in income in line with the provision of the services or in conjunction with the performance of a significant activity. Fees charged continuously, such as advising fees, are recognised as income in the period in which the service was provided.

Fees charged for significant activities are recognised in income when the activity has been completed.

Commission expense is dependent on the transaction and is recognised in the period in which the services are received.

Commission expense attributable to financial assets or financial liabilities not measured at fair value in profit and loss comprises commission to the regional insurance companies.

### Net gains from financial items

The item Net gains from financial items contains the realised and unrealised changes in value that occurred as a result of financial transactions. The capital gain/loss on the divestment of financial assets and liabilities, including interest compensation received when customers pay loans prematurely, is recognised in this item. The item also includes realised and unrealised changes in the value of derivative instruments that are financial hedging instruments, but to which hedge accounting is not applied, unrealised changes in the fair value of derivatives to which fair value hedge accounting is applied, and unrealised changes in the fair value of hedged items with regard to hedged risk in the hedging of fair value.

The ineffective portion of the hedging instrument and exchange-rate changes are also recognised as Net gains from financial items. Net profit/loss on transactions measured at fair value through profit or loss does not include interest or dividends.

Realised profit or loss is calculated as the difference between the purchase consideration received and the value in the balance sheet at the time of the sale.

Any impairment losses on available-for-sale financial assets are also recognised in this item.

### Other operating income

Income from assignments is recognised when the financial outcome of performed assignments can be reliably calculated and the financial benefits accrue to the company. Income is measured at the fair value of the amount that has been received or will be received. Income is paid in the form of cash and cash equivalents.

Amounts received on behalf of another entity are not included in the company's income. The criteria for income recognition is applied individually to each individual transaction.

### Remuneration to employees

#### *Current remuneration*

Current remuneration to employees is calculated without discount and recognised as an expense when the related services are received.

A provision is recognised for the anticipated cost of profit share and bonus payments when the company has an applicable legal or informal duty to make such payments as a result of services received from employees and the obligation can be reliably calculated.

### Remuneration after termination of employment

#### *Pension plans*

The company utilises defined-contribution and defined-benefit pension plans. These plans are usually financed through payments from the respective Group company. The Group is generally covered by the FTP plan, which does not depend on any payments from employees. The regulations of the Swedish Financial Supervisory Authority and the Swedish Financial Reporting Board entail that defined-

benefit pension plans are recognised differently compared with the provisions stipulated in IAS 19 Employee Benefits. In all other respects, the reporting and valuation of pension commitments occurs in accordance with IAS 19 Employee Benefits.

#### *Defined-benefit pension plans*

There is only one defined-benefit pension plan in the company. This is a pension agreement from 2006 for the insurance industry, by which persons born in 1955 or earlier can voluntarily retire from age 62. The terms and conditions of this plan are designed such that the pension comprises approximately 65% of the pensionable salary at age 62.

The provision is calculated on an actuarial basis according to the insurance guidelines and basis for calculation applied for individually issued life assurance. The calculations are based on a summary of the ages and annual pensions calculated as an average per age group. A probability assessment has indicated that 20% will utilise the option for early retirement.

#### *Defined-contribution pension plans*

These pension plans are plans according to which the company pays fixed contributions to a separate legal entity and does not have a legal or informal obligation to pay additional contributions. The company's payments of defined-contribution plans are recognised as expenses during the period in which the employee performed the services to which the contributions refer.

The pension agreement for the insurance industry, the FTP plan, through insurance with the Insurance Industry's Pension Fund (FPK) is a multi-employer defined-benefit pension plan. According to IAS 19, this pension plan entails that a company shall, as a rule, recognise its proportional share of the defined-benefit pension commitment and the plan assets and expenses associated with the pension commitment. Disclosure shall also be presented in the accounts according to the requirements for defined-benefit pension plans.

FPK is currently unable to provide necessary information which is why the pension plans above are recognised as a defined-contribution plan in accordance with item 30 of IAS 19. Also, no information is available on surpluses and deficits in the plan or whether these surpluses and deficits would then affect the contributions for the plan in future years.

#### **Remuneration for termination of employment**

An expense for remuneration in conjunction with the termination of employment is recognised only if the company is demonstrably obligated, without a realistic possibility of revocation, by a formal detailed plan to terminate employment before the normal time. When remuneration is provided as an offer to encourage voluntary redundancy, an expense is recognised if it is probable that the offer will be accepted and the number of employees who may accept the offer can be reliably estimated.

#### **Impairment**

The carrying amounts of the company's assets are assessed on every balance sheet-date to determine whether there are any indications of impairment. These include financial assets tested in accordance with IAS 39 Financial Instruments: Recognition and Measurement and deferred tax assets tested in accordance with IAS 12 Income Taxes. The carrying amounts of the exempted assets above

are tested according to the respective standard. IAS 36 is applied to impairment assessments for assets that are not tested according to any other standard, although no such assets currently exist in the company.

#### **Loan losses**

The item Loan losses comprises confirmed and probable loan losses. Confirmed loan losses pertain to the entire receivable when there is no realistic possibility of recovery. Probable loan losses pertain to impairment for the year for the loan losses based on a calculated recoverable amount when there is an indication that impairment is required. Recoveries comprise reversed amounts of loan losses that were previously recognised as confirmed. Prior years' confirmed and probable loan losses are reversed when no impairment requirement is deemed to exist.

A new accounting policy concerning loan losses has been applied during the year. The effect of this policy is that only the company's share of the confirmed loan losses is accounted for. The share of the regional insurance companies was earlier accounted for as a part of the remuneration to the regional insurance companies in the commission expense in profit and loss and did not reduce the loan losses of the company. The new policy is better describing the responsibilities between the company and the regional insurance companies. The change has been applied retroactively and has resulted in higher commission expense with SEK 2 M and reduced loan losses with the same amount for both year 2009 and 2010. The other comparative years have not been affected by this change of policy.

#### **Tax**

Income tax comprises current tax and deferred tax. Income tax is recognised in the profit and loss, except when the underlying transaction is recognised in other comprehensive income, whereby the related tax effect is recognised in other comprehensive income, or when the underlying transaction is recognised directly against equity with the related tax effect recognised in equity. Current tax is tax that shall be paid or received in the current year, with the application of the tax rates that are decided or decided in practice on the balance-sheet date. This also includes adjustments of current tax attributable to prior periods.

Deferred tax is calculated in accordance with the balance-sheet method, based on temporary differences between carrying amounts and tax bases of assets and liabilities. The following temporary differences are not taken into consideration:

- First reporting of assets and liabilities that are not acquisitions of operations and, at the time of the transaction, do not affect recognised or taxable earnings

The valuation of deferred tax is based on how the carrying amounts of assets and liabilities are expected to be realised or settled. Deferred tax is calculated with the application of the tax rates and tax rules established or decided in practice on the balance-sheet date.

Deferred tax assets on deductible temporary differences and tax loss carryforwards are only recognised to the extent that it is likely that it will be possible to utilise these. The value of the deferred tax assets is reduced when it is no longer considered likely that they can be utilised.

### Financial assets and liabilities

Financial assets recognised in the balance sheet include loan receivables interest-bearing securities and derivatives with positive market value and accounts receivable. Financial liabilities include debt securities in issue, derivatives with negative market value and accounts payable. The policies of the company concerning financial risk are described in the section Risk and capital management in the Board of Directors' Report.

#### *Recognition and derecognition in the balance sheet*

A financial asset or financial liability is recognised in the balance sheet when the company becomes party to this in accordance with the instrument's contractual conditions. A financial liability is derecognised from the balance sheet when the rights in the contract are realised, expire or the company loses control of them. A financial liability is derecognised from the balance sheet when the obligation in the contract is met or extinguished in another manner.

A financial asset and a financial liability are offset and recognised as a net amount in the balance sheet only when a legal right exists to offset the amounts and the intention is present to settle the item in a net amount or simultaneously realise the asset and settle the liability. This possibility has not been utilised during 2011.

Business transactions in the monetary, bond and equities markets are recognised in the balance sheet on the transaction date, which is the time when the significant risks and rights are transferred between the parties. Lending transactions are recognised on the settlement date. Loan receivables are recognised in the balance sheet when the loan amount is paid to the borrower. Loan commitments are recognised as a commitment in note 34.

In genuine repurchase transactions, the asset remains in the balance sheet of the selling party and payments received are recognised as liabilities. Sold securities are recognised as pledged assets. Leased securities remain in the balance sheet as securities and are recognised as pledged assets.

#### *Measurement*

IAS 39 requires that all financial instruments be measured at fair value in the financial reporting. Instruments that are not ongoing measured at fair value are also added transaction costs.

The ongoing measurement could be at fair value, historical cost or amortised cost depending on the category the instrument is belonging to, see the section Classification below. For the instruments that are not ongoing measured at fair value there is an option to choose fair value as measurement policy, the fair value option. The company has not utilised this option during 2011.

#### *Methods for determining fair value*

##### *Financial instruments listed on an active market*

For financial instruments listed on an active market, fair value is determined based on the listed buying-rate of the asset on the balance-sheet date with no additions for transaction costs, for example, brokerage commission, on the acquisition date. A financial instrument is considered to be listed on an active market if listed prices are readily available on an exchange, from a trader, broker, industry organisation, company providing up-to-date price information or

and regulatory authority and these prices represent actual and regularly occurring market transactions based on commercial terms. Any future transaction costs arising in conjunction with divestments are not taken into account. The fair value of financial liabilities is determined based on the selling rate. Instruments listed on an active market are found under the balance-sheet items Treasury bills and other eligible bills and Bonds and other interest-bearing securities. The largest portion of the company's securities holding is assigned a fair value at prices listed on an active market.

##### *Financial instruments not listed on an active market*

If the market for a financial instrument is not active, the company determines the fair value by using a valuation technique. The valuation technique applied are based on market data as far as possible, whereas company-specific information is used a little as possible. The company regularly calibrates its valuation techniques and tests their validity by comparing the outcomes of the valuation techniques with prices from observable, relevant market transactions in the same or similar instruments. Valuation techniques are used for derivative instruments (OTC derivatives). The valuation techniques used for OTC derivatives comprise analyses of discounted cash flows. The valuation techniques applied are calibrated such that on initial recognition the fair value amounts to the transaction price and changes in fair value are subsequently recognised continuously based on changes that occur in the underlying market-risk parameters.

##### *Classification*

A financial instrument is classified on initial recognition on the basis of the purpose of the acquisition of the instrument, but also the options contained in IAS 39. The classification determines how the financial instrument is measured after initial recognition as described below.

##### *Financial assets measured at fair value through profit or loss*

This category comprises two sub-groups: financial assets held for trading and other financial assets that the company has initially decided to place in this category according to the fair value option. Financial instruments in this category are continuously measured at fair value, with changes in value recognised in profit and loss. Transaction costs are expensed directly.

Financial assets held for trading are derivatives that are financial hedging instruments, but for which hedge accounting is not applied. This category is not otherwise used.

##### *Loans and receivables*

Loans and receivables are financial assets that are not derivatives, that have fixed or fixable payments and that are not listed on an active market. These receivables are represented by the balance-sheet items Loans to credit institutions, Loans to the public and Other assets in the balance sheet. For further information, see the section Loans.

##### *Held to maturity investments*

Held to maturity investments are financial assets and comprise interest-bearing securities with fixed or determinable payments and

determined terms that are traded on an active market and that the company expressly intends and has the capacity to hold to maturity. Assets in this category are measured at amortised cost.

#### *Available-for-sale financial assets*

The category of available-for-sale financial assets includes financial assets that the company initially decided to classify in this category and financial assets that have not been classified in any other category. This category includes the liquidity surplus of the company.

Assets in this category are continuously measured at fair value, with unrealised changes in value recognised in other comprehensive income and accumulated in the fair value reserve in equity.

Assets are recognised in profit and loss once the changes in value have been realised and when any impairment losses arise. Exchange-rate differences for monetary items are also recognised in profit and loss. An assessment of whether any impairment has occurred takes place prior to the end of each reporting period. Objective circumstances, such as the credit rating of the issuer and market trends, are taken into account to evaluate future cash flows.

Furthermore, interest on interest-bearing instruments is recognised in accordance with the effective interest method in profit and loss, similar to dividends on shares. Any transaction costs for these instruments will be included in the cost when first recognised and thereafter included in the continuous valuations.

#### *Financial liabilities measured at fair value through profit or loss*

This category includes financial liabilities held for trading and other financial liabilities that the company has initially decided to place in this category according to the fair value option.

The company's holding for trading comprises derivatives that are financial hedging instruments, but to which hedge accounting is not applied.

#### *Other financial liabilities*

All of the company's financial liabilities, excluding derivatives, are included here. The liabilities are valued at amortised cost which, when hedge accounting is applied, is adjusted for changes in fair value regarding the hedged risk, for further information, refer to the section Hedge accounting below.

#### *Hedge accounting*

The company's derivative instruments, which comprise interest and currency swaps and purchased interest caps, have been acquired in their entirety to hedge the risks of interest and exchange-rate exposure arising during the course operations. All derivatives are measured at fair value in the balance sheet.

To avoid undesirable earnings effects due to financial hedges, the company has chosen to apply hedge accounting.

The hedge-accounting strategy defined and applied by the company is portfolio hedging of fair value in the lending and borrowing portfolio. Fair value hedge accounting means that the hedged item is measured at fair value with respect to the hedged risk and that the change in fair value is recognised in profit and loss for both the hedging instrument and the hedged item.

The change in the value of the derivative is recognised in profit and loss together with the change in the value of the hedged item in

profit and loss under the item Net gains from financial items. Unrealised changes in the value of hedging instruments are recognised in the item Net gains from financial transactions. Interest coupons (accrued, received and paid) are recognised among interest income if the hedged item is an asset or portfolio of assets or among interest expense if the hedged item is a liability or portfolio of liabilities.

The application of portfolio hedging is based on the version of IAS 39 adopted by the EU, known as the carve out version. To meet the demands of hedge accounting in accordance with IAS 39, an unequivocal connection with the hedged item is required. In addition, it is required that the hedge effectively protects the hedged item, that hedge documentation is prepared and that the effectiveness can be measured reliably. Hedge accounting can only be applied if the hedge relationship can be expected to be highly effective and subsequently to have had an effectiveness in the range of 80–125%. In the event that the conditions for hedge accounting are no longer met, the derivative instrument is recognised at fair value with the change in value in profit and loss. For a small number of financial hedges for which the earnings consequence of not applying hedge accounting is deemed more limited, hedge accounting is not applied due to the extra administrative work involved in hedge accounting. Other financial hedges comprise currency risk associated with borrowing and hedging of interest-rate risk in bonds that carry fixed interest rates. The portfolio method that is applied implies that the lending and interest swaps used in the hedging instrument are distributed to various time pockets based on the contractual timing of interest renegotiation or maturity. Evaluation of hedge relationships occurs at least quarterly on the public reporting occasions, but can also be carried out monthly if required. Each identified hedge relationship is expected to be effective over the entire lifetime of the hedge relationship. Effectiveness is tested using two different methods: one forward-looking (prospective) assessment and one retrospective evaluation. Ineffectiveness is recognised in profit and loss.

#### *Loans*

These assets are measured at amortised cost. Amortised cost is determined based on the effective rate calculated on the acquisition date. Accounts and loan receivables are recognised in the amount at which they are expected to be received, meaning after deductions for impairment of impaired loans.

#### *Impaired loans*

A loan receivable is considered impaired if the counterparty has a payment that is more than 60 days past due or if there is reason to expect that the counterparty cannot meet its undertaking. The loan receivable is considered impaired to the extent that its whole amount is not covered by collateral.

#### *Individual impairments*

For loans for which an individual impairment requirement has been identified, the loan receivable is valued at the present value of expected future cash flow, including the value of collateral, less selling expenses discounted by the original effective interest rate. An impairment loss is recognised if this value is lower than the carrying amount.

An individual impairment loss is recognised according to the risk-based model for retail and agricultural exposures whereby the counterparty has a payment that is more than 60 days past due or if the counterparty, for other reasons such as bankruptcy, a decline in the value of the collateral or reduced repayment capacity, cannot fully meet its undertaking. Accordingly, the estimate of the impairment requirement for these individually identified loans is based on historic experience about cash flows from other borrowers with similar credit-risk characteristics.

#### *Collective impairments*

Impairment requirements are identified and valued collectively for loans that are not deemed to have any individual impairment requirements for cases in which a measureable decline of expected future cash flows has occurred. Information collected from the framework of the company's risk-based model and historical data on loan loss levels is used to support assessments of expected future cash flows and individual and collective impairment requirements.

No impairment requirement exists for loans that maintain the same credit quality and repayment capacity based on objective circumstance, judgements and estimates. Impairment takes into consideration the capital receivable and accrued interest and fees.

An additional collective impairment loss for retail exposure takes place for receivables not encompassed by the impairment of loans that have individual impairment requirements. A loss is deemed to have been incurred in these groups of loans when a measureable decline in expected future cash flows occurs compared with the assessment made when the loan was originated, according to the risk-based model. Collective impairment losses are recognised for the commercial sectors and other counterparties based on an assessment of product risk, meaning the probable future risk of loss, which varies between different industries.

#### *Takeover of collateral*

The company has not taken over any collateral. In the event of insolvency, a direct sale of the collateral occurs.

#### *Confirmed losses*

Confirmed loan losses are those losses whose amount is regarded as finally established through acceptance of a composition proposal, through other claim remissions, bankruptcy, or after all of the collateral has been realised.

The receivable is derecognised from the balance sheet and recognised as a loss in profit and loss.

### **Property and equipment**

#### *Equipment*

Property and equipment are recognised as assets in the balance sheet when, based on information available, it is likely that the future financial benefits associated with the holding will accrue to the company and that the cost of the asset can be calculated in a reliable manner. Equipment is recognised at cost less accumulated

depreciation and any accumulated impairment. Depreciation according to plan takes place following the straight-line method over the asset's expected useful life, commencing when the asset is put into operation. Depreciation and any scrapping and divestments are recognised in profit and loss. Impairment requirements are tested in accordance with IAS 36 Impairment of Assets. Useful lives are retested at the end of every fiscal year.

#### **Useful lives of equipment:**

Vehicles	5 Years
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### **Provisions**

A provision is recognised in the balance sheet when the company has an existing legal or informal obligation as a result of an event that has occurred, and it is probable that an outflow of financial resources will be required to settle the obligation, and a reliable estimate of the amount can be made. A provision differs from other liabilities in that there is uncertainty regarding the date of payment or the amount for settling the provision.

A restructuring provision is recognised when an established, detailed and formal restructuring plan exists, and the restructuring process has either commenced or been publically announced. No provisions are established for future operating expenses. Where the effect of when a payment is made is significant, provisions are calculated through the discounting of the anticipated future cash flow at an interest rate before tax that reflects current market assessments of the time value of money and, if applicable, the risks related to the liability.

### **Contingent liabilities**

A contingent liability is recognised when there is a possible commitment originating from events that have occurred and whose occurrence is confirmed only by one or several uncertain future events or when there is a commitment that is not recognised as a liability or provision because it is not probable that an outflow of resources will be required.

#### *Loan commitment*

A loan commitment can be:

- A one-sided commitment from the company to issue a loan with terms and conditions determined in advance in which the borrower can choose whether he/she wants to accept the loan or not, or
- A loan agreement in which both the company and the borrower are subject to terms and conditions for a loan that begins at a certain point in the future.

Loan commitments are not recognised in the balance sheet. Issued irrevocable loan commitments are valid for three months and recognised as Other commitment under Memorandum items. The right to cancel a loan commitment is retained if the customer's credit rating has diminished on the date of payment, which is why no probable loan losses have arisen.



**NOTE 3 SEGMENT REPORTING**

The business of the company represents a single operating segment and reporting to the chief operating decision-maker thus corresponds to the income statement and balance sheet for the year.

**NOTE 4 INTEREST INCOME**

SEK M	2011	2010
Loans to credit institutions	86.5	108.2
Loans to the public	3,149.7	1,910.4
Interest-bearing securities	568.5	389.5
<i>Derivatives</i>		
Hedge accounting	2,955.5	1,610.7
Non-hedge accounting	131.5	0.1
<b>Total interest income</b>	<b>6,891.7</b>	<b>4,018.9</b>
of which interest income on impaired loans	-2.7	0.7
of which interest income from financial items not measured at fair value	3,236.1	2,018.6
Average interest rate on loans to the public during the year, %	3.7	2.6

**NOTE 5 INTEREST EXPENSE**

SEK M	2011	2010
Due to credit institutions	-400.5	-133.7
Interest-bearing securities	-2,729.9	-2,137.2
Subordinated liabilities	-23.7	-16.2
<i>Derivatives</i>		
Hedge accounting	-3,072.1	-1,310.4
Non-hedge accounting	-125.1	-0.2
Other interest expense	-34.0	-15.4
<b>Total interest expense</b>	<b>-6,385.3</b>	<b>-3,613.1</b>
of which interest expense from financial items not measured at fair value	-3,188.1	-2,302.6

**NOTE 6 COMMISSION INCOME**

SEK M	2011	2010
Loans	2.2	1.9
<b>Total commission income</b>	<b>2.2</b>	<b>1.9</b>
of which commission income from financial items not measured at fair value	2.2	1.9

**NOTE 7 COMMISSION EXPENSE**

SEK M	2011	2010
Remuneration to regional insurance companies	-249.2	-198.2
Other commission	-1.6	-1.9
<b>Total commission expense</b>	<b>-250.8</b>	<b>-200.1</b>
of which commission expense from financial items not measured at fair value	-249.1	-198.2

**NOTE 8 GAINS FROM FINANCIAL ITEM**

SEK M	2011	2010
<b>Change in fair value</b>		
Interest-related instruments	469.2	-340.6
Currency-related instruments	15.6	-447.1
Change in fair value of hedged items	-506.5	752.7
<b>Capital gains/losses</b>		
Interest-related instruments	1.4	0.1
Interest compensation	24.8	42.9
<b>Total net gains/losses from financial items</b>	<b>4.5</b>	<b>8.0</b>
<b>Profit/loss by valuation category</b>		
Available-for-sale financial assets, realised	21.1	24.8
Derivative assets intended for risk management, non-hedge accounting	-	-0.3
Derivative liabilities intended for risk management, non-hedge accounting	-	-
Derivatives in hedge accounting, realised	-0.2	31.3
Loans and receivables	24.8	42.9
Financial liabilities at amortised cost	-15.2	-56.0
Change in fair value of derivatives that are hedging instruments in a fair value hedge	484.8	-787.3
Change in fair value of hedged items with regard to the hedged risk in fair value hedges	-510.8	752.6
<b>Total</b>	<b>4.5</b>	<b>8.0</b>

**NOTE 9 OTHER OPERATING INCOME**

SEK M	2011	2010
Other income	0.4	0.0
<b>Total other operating income</b>	<b>0.4</b>	<b>0.0</b>

**NOTE 10 EMPLOYEES, STAFF COSTS AND REMUNERATION TO SENIOR EXECUTIVES**

Average number of employees, Sweden	2011	2010
Men	4	3
Women	1	1
<b>Total number of employees</b>	<b>5</b>	<b>4</b>

Salaries, other remuneration and social security expenses, other employees	2011	2010
Salaries and remuneration	3.0	1.9
of which variable remuneration	0.0	0.0
Social security expenses	2.5	0.9
of which pension costs	1.3	0.3
<b>Total</b>	<b>5.5</b>	<b>2.8</b>

Board of Directors and senior executives, 3 (3)	2011	2010
Salaries and remuneration	4.7	4.4
of which, fixed salary to the President and Executive Vice President	4.6	4.3
of which, variable remuneration to the President and Executive Vice President	–	–
Social security expenses	3.3	2.8
of which pension costs	1.5	1.1
<b>Total</b>	<b>8.0</b>	<b>7.2</b>

Total salaries, other remuneration and social security expenses	2011	2010
Salaries and remuneration	7.7	6.4
of which variable remuneration	0.0	0.0
Social security expenses	5.9	3.7
of which pension costs	2.8	1.4
<b>Total</b>	<b>13.6</b>	<b>10.1</b>

**Remuneration and other benefits for senior executives**

SEK M	Basic salary	Variable remuneration	Other benefits	Pension costs	Total	Pension costs as a percentage of pensionable salary, % Defined-contribution
<b>2011</b>						
Anders Borgcrantz, President	2.7	0.0	0.0	0.9	3.6	35
Göran Laurén, Executive Vice President	1.9	0.0	0.0	0.6	2.5	32
Christian Bille, Board member	0.0				0.0	
Christer Malm, Board member	0.1				0.1	
<b>Total 2011</b>	<b>4.7</b>	<b>0.0</b>	<b>0.0</b>	<b>1.5</b>	<b>6.2</b>	
<b>2010</b>						
Anders Borgcrantz, President	2.5	0.0	0.0	0.6	3.1	23
Göran Laurén, Executive Vice President	1.7	0.0	0.1	0.5	2.3	24
Christer Malm, Board member	0.1				0.1	
<b>Total 2010</b>	<b>4.3</b>	<b>0.0</b>	<b>0.1</b>	<b>1.1</b>	<b>5.5</b>	

Pension costs are attributable to the expenses affecting net profit/loss for the year.

**Pensions**

The retirement age for the President is 65. The pension is a defined-contribution plan and the pension premium is to amount to 35% of the pensionable salary. Pensionable salary refers to fixed salary. The retirement age for the Executive Vice President is 65 years. The pension is subject to the terms of the pension agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (FTF) and the Swedish Confederation of Professional Associations (SACO).

**Severance pay**

A mutual period of notice of six months applies to the President. If termination of employment is issued by the company, severance pay corresponding to 18 months' salary will be paid, in addition to the period of notice. The Executive Vice President has a period of notice of six months if employment is terminated at his request, and if termination of employment is issued by the company, the period of notice is twelve months.

**Preparation and decision-making process applied in relation to the issue of remuneration to senior executives**

A Remuneration Policy for the Länsförsäkringar AB Group regulates the preparation and decision-making process for remuneration to senior executives. The Remuneration Committee prepares important remuneration decisions and decisions on measures for following up the application of the Remuneration Policy. The Board decides on remuneration and other terms of terms of employment for the President.

**Variable remuneration**

Variable remuneration can be paid to all employees who are not managers. A basic prerequisite for paying variable remuneration to employees is that the Länsförsäkringar AB Group reports positive results before appropriations and tax. One third of the remuneration is based on the achievement of the joint goals in Länsförsäkringar AB Group's business plan and two thirds are based on the degree to which the individual goals in the goal contract were achieved. A maximum of SEK 12,000 may be paid to employees if the prerequisites are fulfilled.

**Remuneration to the Board**

Directors' fees are payable to the Chairman and members of the Board in accordance with a decision of the Annual General Meeting. No fee is payable to employee representatives.

**Remuneration of senior executives**

Remuneration to the President and other senior executives comprises basic salary, and other benefits. Pension benefits and other benefits paid to the President and other senior executives are included as part of total remuneration. Senior executives are the individuals who, together with the President, comprise company management.

**Composition of Remuneration Committee**

The Board shall appoint at least two members from within its ranks to form a Remuneration Committee. The Board Chairman may serve as the Chairman of the Committee. The other members must be independent in relation to the company and company management.

**Policies for remuneration to senior executives**

Senior executives in the Länsförsäkringar AB Group shall have market-based employment terms and conditions. Total remuneration shall be in line with the industry standard. The structure and level of remuneration should correspond to the company's values, meaning that it should be reasonable, moderate and well-balanced, and also contribute to good ethics and organisational culture, characterised by openness and transparency.

**Fixed remuneration**

Fixed remuneration is paid according to the general policy above.

**Pensions**

Pensions should comply with the terms of the pension agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (FTF) and the Swedish Confederation of Professional Associations (SACO).

**Other benefits**

In addition to the above benefits, a company car is offered in accordance with applicable conditions, individual medical insurance and other benefits offered to all employees.

**NOTE 10 EMPLOYEES, STAFF COSTS AND REMUNERATION TO SENIOR EXECUTIVES, cont.**

Number of women among senior executives, %	Dec. 31, 2011	Dec. 31, 2010
Board members	0	0
Other senior executives	0	0

Loans to senior executives	Länsförsäkringar Hypotek		Länsförsäkringar AB Group	
	2011	2010	2011	2010
<b>SEK M</b>				
<b>Board members</b>	<b>1.6</b>	<b>0.1</b>	<b>54.0</b>	<b>32.5</b>
of which, loans from Länsförsäkringar Bank	1.0	0.1	10.9	6.0
of which, loans from Länsförsäkringar Hypotek	0.6	–	43.1	26.5
of which loans from Wasa Kredit	–	–	–	–
<b>President and Executive Vice Presidents</b>	<b>–</b>	<b>–</b>	<b>18.3</b>	<b>19.1</b>
of which, loans from Länsförsäkringar Bank	–	–	3.3	3.2
of which, loans from Länsförsäkringar Hypotek	–	–	15.0	15.5
of which loans from Wasa Kredit	–	–	–	0.4
<b>Senior executives</b>	<b>–</b>	<b>–</b>	<b>30.7</b>	<b>16.6</b>
of which, loans from Länsförsäkringar Bank	–	–	6.1	2.2
of which, loans from Länsförsäkringar Hypotek	–	–	24.6	14.4
of which loans from Wasa Kredit	–	–	–	–

Loans granted comprise personnel loans and other loans. Personnel loans carry loan terms comparable to what applies to other employees in the Group. The interest rate for personnel loans is the repo rate less 0.5 percentage points, but can never be lower than 0.5 percentage points. The interest benefit is calculated in accordance with the Swedish National Tax Board's rules and is included in other benefits as above. The terms and conditions of other loans are market-based.

The Group has not pledged assets, other collateral or assumed any liability undertaking for the benefit of any senior executive.

**Remuneration Policy**

In accordance with the regulations and general advice of the Swedish Financial Supervisory Authority (FFFS 2011:1) regarding remuneration policies in credit institutions, investment firms and fund management companies with license for discretionary portfolio management, the Board is to adopt a Remuneration Policy. It is intended that a statement of remuneration in the company be published on the website when the Annual Report is adopted.

**NOTE 11 OTHER ADMINISTRATION EXPENSES**

SEK M	2011	2010
Costs for premises	0.0	0.0
IT costs	–1.6	–2.0
Management costs	–2.3	–1.8
Other administration expenses	–60.5	–53.2
<b>Total administration expenses</b>	<b>–64.4</b>	<b>–57.0</b>

The item Other administration expenses largely comprises administration services purchased from the Parent Company.

**NOTE 12 REMUNERATION TO AUDITORS**

SEK M	2011	2010
<b>Audit fees</b>		
KPMG		
– Audit assignments	–0.5	–0.5
– Audit activities other than audit assignments	–0.3	–0.1
– Other assignments	–	–
Deloitte		
– Audit assignments	–	–
– Audit activities other than audit assignments	–0.6	–0.6
– Other services	–0.4	–

Audit assignment pertains to reviewing the annual report and accounting, as well as the Board's and President's administration. Audit activities other than audit assignment pertain to various types of quality-assurance services, such as reviews of the administration, Articles of Association, regulations or agreements that result in reports or certificates. Other assignments pertain to activities that are not included in the above mentioned items, for example, legal consultations alongside audit activities and that are not attributable to tax consultancy services.

**NOTE 13 DEPRECIATION AND IMPAIRMENT OF PROPERTY AND EQUIPMENT**

SEK M	2011	2010
Depreciation of property and equipment	0.0	–
<b>Total depreciation/amortisation and impairment of assets</b>	<b>0.0</b>	<b>–</b>

**NOTE 14 LOAN LOSSES, NET**

SEK M	2011	2010
<b>Specific reserve for individually assessed loan receivables</b>		
Write-off of confirmed loan losses during the year	–17.5	–0.4
Reversed earlier impairment of loan losses recognised as confirmed losses	4.8	0.9
Impairment of loan losses during the year	–8.4	–4.6
Payment received for prior confirmed loan losses	13.1	4.4
Reversed impairment of loan losses no longer required	6.7	1.2
<b>Net income/expense for the year for individually assessed loan receivables</b>	<b>–1.3</b>	<b>1.5</b>
<b>Collective reserves for individually assessed receivables</b>		
Provision/reversal of impairment of loan losses	–	–
<b>Collectively assessed homogenous groups of loan receivables of limited value and similar credit risk</b>		
Provision/reversal of impairment of loan losses	5.3	1.8
<b>Net income/expense for the year for collectively assessed homogenous loan receivables</b>	<b>5.3</b>	<b>1.8</b>
<b>Net income/expense of loan losses for the year</b>	<b>4.0</b>	<b>3.3</b>

All information pertains to receivables from the public.

**NOTE 15 TAX**

SEK M	2011	2010
<b>Current tax</b>		
Current tax	–39.4	–46.7
<b>Total current tax</b>	<b>–39.4</b>	<b>–46.7</b>
<b>Deferred tax</b>		
Change in deferred tax expense on temporary differences	0.2	0.0
<b>Total deferred tax</b>	<b>0.2</b>	<b>0.0</b>
<b>Total recognised tax expense</b>	<b>–39.2</b>	<b>–46.7</b>
<b>Reconciliation of effective tax rate</b>		
Profit before tax	188.7	151.5
Tax at applicable tax rate	–49.6	–39.8
Tax on non-deductible costs	–0.2	–0.1
Tax on non-taxable income	–	–
Tax on non-recognised income	–	–
Tax attributable to earlier years	–	0
Other	10.6	–6.8
<b>Total tax on net profit for the year</b>	<b>–39.2</b>	<b>–46.7</b>
Applicable tax rate	26.3%	26.3%
Effective tax rate	20.8%	30.8%

**Tax items recognised directly against equity**

Current tax in Group contribution paid	–91.4	–46.8
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**Tax items recognised in other comprehensive income**

Tax on available-for-sale financial assets	–41.4	–6.8
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SEK M	2011			2010		
	Before tax	Tax	After tax	Before tax	Tax	After tax
<b>Tax attributable to other comprehensive income</b>						
Available-for-sale financial assets	157.4	–41.4	116.0	25.9	–6.8	19.1

**NOTE 16 TREASURY BILLS AND OTHER ELIGIBLE BILLS**

SEK M	Dec. 31, 2011	Dec. 31, 2010
<b>Carrying amount</b>		
Swedish government	8,341.5	2,820.7
<b>Total treasury bills and other eligible bills</b>	<b>8,341.5</b>	<b>2,820.7</b>
<b>Fair value</b>		
Fair value	8,341.5	2,820.7
Amortised cost	7,943.1	2,891.3
Nominal value	7,458.0	2,550.0
Remaining term of more than 1 year	8,341.5	2,820.7

**NOTE 17 LOANS TO CREDIT INSTITUTIONS**

SEK M	Dec. 31, 2011	Dec. 31, 2010
Loans to credit institutions	1,912.1	8,155.8
<b>Total loans to credit institutions</b>	<b>1,912.1</b>	<b>8,155.8</b>
Payable on demand	1,912.1	8,155.8

Loans to credit institutions include investments of SEK 1,906.3 M (8,133.0) in the Parent Company.

**NOTE 18 LOANS TO THE PUBLIC**

Loan receivables are geographically attributable in their entirety to Sweden.

SEK M	Dec. 31, 2011	Dec. 31, 2010
<b>Loan receivables, gross</b>		
Corporate sector	1,733.8	1,490.0
Retail sector	86,925.0	78,218.9
<b>Total loan receivables, gross</b>	<b>88,658.8</b>	<b>79,708.9</b>
<b>Impairment of individually reserved loan receivables</b>		
Retail sector	-0.3	-3.4
<b>Total individual reserves</b>	<b>-0.3</b>	<b>-3.4</b>
<b>Impairment of collectively reserved loan receivables</b>		
Corporate sector	-2.5	-1.0
Retail sector	-31.0	-37.8
<b>Total collective reserves</b>	<b>-33.5</b>	<b>-38.8</b>
<b>Total provisions</b>	<b>-33.8</b>	<b>-42.2</b>
<b>Loan receivables, net</b>		
Corporate sector	1,731.3	1,489.0
Retail sector	86,893.7	78,177.7
<b>Total loans to the public</b>	<b>88,625.0</b>	<b>79,666.7</b>
Payable on demand	-	-
Remaining term of not more than 3 months	49,018.6	48,023.7
Remaining term of more than 3 months but not more than 1 year	13,098.0	4,747.5
Remaining term of more than 1 year but not more than 5 years	25,259.9	23,841.6
Remaining term of more than 5 years	1,282.3	3,096.1
<b>Impaired loans</b>		
Retail sector	0.8	9.3
<b>Total impaired loans</b>	<b>0.8</b>	<b>9.3</b>

Remaining term is defined as the remaining fixed-income period if the loan has periodically restricted conditions.

**Definitions:**

A loan receivable is considered impaired if a payment is more than 60 days past due or if there is reason to expect that the counterparty cannot meet its undertaking. The loan receivable is considered impaired to the extent that its whole amount is not covered by collateral.

**NOTE 18 LOANS TO THE PUBLIC, cont.**

Reconciliation of impairment of loan losses, SEK M	Individual impairments	Collective impairments	Dec. 31, 2011	Individual impairments	Collective impairments	Dec. 31, 2010
<b>Opening balance</b>	-3.4	-38.8	-42.2	-1.0	-40.6	-41.6
Reversed earlier impairment of loan losses recognised in the annual accounts as confirmed losses	4.8	5.3	10.1	0.9	1.8	2.7
Reversed impairment of loan losses no longer required	6.7	-	6.7	1.3	-	1.3
Impairment of loan losses during the year	-8.4	-	-8.4	-4.6	-	-4.6
<b>Closing balance</b>	<b>-0.3</b>	<b>-33.5</b>	<b>-33.8</b>	<b>-3.4</b>	<b>-38.8</b>	<b>-42.2</b>

**NOTE 19 BONDS AND OTHER INTEREST-BEARING SECURITIES**

Issued by organisations other than public bodies

SEK M	Dec. 31, 2011	Dec. 31, 2010
<b>Carrying amount</b>		
Swedish mortgage institutions	14,504.5	12,483.3
<b>Total bonds and other interest-bearing securities</b>	<b>14,504.5</b>	<b>12,483.3</b>
Fair value	14,504.5	12,483.3
Amortised cost	14,206.0	12,579.3
Nominal value	13,725.0	12,075.0
<b>Market status</b>		
Securities listed	14,504.5	12,483.3
Securities unlisted	–	–
Remaining term of not more than 1 year	4,723.3	–
Remaining term of more than 1 year	9,781.2	12,483.3

**NOTE 20 DERIVATIVES**

SEK M	Dec. 31, 2011		Dec. 31, 2010	
	Nominal value	Fair value	Nominal value	Fair value
<b>Derivatives with positive values</b>				
<i>Derivatives in hedge accounting</i>				
Interest	59,395.0	1,292.2	44,117.0	609.7
Currency	10,576.6	454.2	1,777.7	401.3
Collateral received, CSA	–	–276.1	–	–17.0
<i>Other derivatives</i>				
Interest	–	–	13,500.0	1.9
Currency	–	–	–	–
<b>Total derivatives with positive values</b>	<b>69,971.6</b>	<b>1,470.3</b>	<b>59,394.7</b>	<b>995.9</b>
Remaining term of not more than 1 year	11,266.8	73.5	24,208.0	114.7
Remaining term of more than 1 year	58,704.8	1,672.9	35,186.7	881.2
<b>Derivatives with negative values</b>				
<i>Derivatives in hedge accounting</i>				
Interest	61,169.0	1,350.6	53,706.0	1,037.1
Currency	11,852.1	887.2	10,577.1	827.7
<i>Other derivatives</i>				
Currency	–	–	–	–
<b>Total derivatives with negative values</b>	<b>73,021.1</b>	<b>2,237.8</b>	<b>64,283.1</b>	<b>1,864.8</b>
Remaining term of not more than 1 year	18,545.0	79.5	5,615.0	48.9
Remaining term of more than 1 year	54,476.1	2,158.3	58,668.1	1,815.9

**NOTE 21 FAIR VALUE CHANGES OF INTEREST-RATE-RISK HEDGED ITEMS IN PORTFOLIO HEDGE**

SEK M	Dec. 31, 2011	Dec. 31, 2010
<b>Assets</b>		
Carrying amount at beginning of year	126.4	706.6
Changes during the year pertaining to lending	514.1	–580.2
<b>Carrying amount at year-end</b>	<b>640.5</b>	<b>126.4</b>
<b>Liabilities</b>		
Carrying amount at beginning of year	–378.9	754.0
Changes during the year pertaining to borrowing	2,134.7	–1,132.9
<b>Carrying amount at year-end</b>	<b>1,755.8</b>	<b>–378.9</b>

**NOTE 22 PROPERTY AND EQUIPMENT**

SEK M	Dec. 31, 2011	Dec. 31, 2010
<b>Equipment</b>		
Opening cost	–	–
Purchase	0.3	–
Sales/scraping	–	–
<b>Closing cost</b>	<b>0.3</b>	<b>–</b>
Opening depreciation	–	–
Reversed depreciation, sales/scraping	–	–
Depreciation for the year	0.0	–
<b>Closing accumulated depreciation</b>	<b>0.0</b>	<b>–</b>
<b>Closing residual value according to plan</b>	<b>0.3</b>	<b>–</b>
<b>Total property and equipment</b>	<b>0.3</b>	<b>–</b>

**NOTE 23 DEFERRED TAX ASSETS AND TAX LIABILITIES**

Recognised deferred tax assets and tax liabilities are attributable to the following:

SEK M	Deferred tax assets		Deferred tax liabilities		Net	
	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010
Other financial investment assets	–	–	–	10.6	–	10.6
Liabilities	–0.3	–0.1	–	–	–0.3	–0.1
<b>Deferred tax asset (-) / deferred tax liability (+)</b>	<b>–0.3</b>	<b>–0.1</b>	<b>–</b>	<b>10.6</b>	<b>–0.3</b>	<b>10.5</b>
Offset	–	0.1	–	–0.1	–	–
<b>Net deferred tax asset (-) / deferred tax liability (+)</b>	<b>–0.3</b>	<b>–</b>	<b>–</b>	<b>10.5</b>	<b>–0.3</b>	<b>10.5</b>

**Change in deferred tax in temporary differences and loss carryforwards**

SEK M	Amount at Jan. 1	Recognised in profit and loss	Recognised in other comprehensive income	Amount at Dec. 31
<b>Dec. 31, 2011</b>				
Other financial investment assets	10.6	–	–10.6	–
Liabilities	–0.1	–0.2	–	–0.3
<b>Deferred tax asset (-) / tax liability (+)</b>	<b>10.5</b>	<b>–0.2</b>	<b>–10.6</b>	<b>–0.3</b>
<b>Dec. 31, 2010</b>				
Other financial investment assets	3.7	0.1	6.8	10.6
Liabilities	–	–0.1	–	–0.1
<b>Deferred tax asset (-) / tax liability (+)</b>	<b>3.7</b>	<b>0.0</b>	<b>6.8</b>	<b>10.5</b>

**NOTE 24 OTHER ASSETS**

SEK M	Dec. 31, 2011	Dec. 31, 2010
Accounts receivable	0.2	0.5
Other assets	1.0	0.5
<b>Total other assets</b>	<b>1.2</b>	<b>1.0</b>

**NOTE 25 PREPAID EXPENSES AND ACCRUED INCOME**

SEK M	Dec. 31, 2011	Dec. 31, 2010
Accrued interest income	1,915.6	1,418.3
Other accrued income	–	1.0
Prepaid expenses	0.5	0.4
<b>Total prepaid expenses and accrued income</b>	<b>1,916.1</b>	<b>1,419.7</b>

**NOTE 26 DUE TO CREDIT INSTITUTIONS**

SEK M	Dec. 31, 2011	Dec. 31, 2010
Swedish credit institutions	19,985.7	17,844.4
<b>Total liabilities due to credit institutions</b>	<b>19,985.7</b>	<b>17,844.4</b>
Payable on demand	–	–
Remaining term of not more than 3 months	1,947.0	3,014.8
Remaining term of more than 3 months but not more than 1 year	18,038.7	14,829.6
Remaining term of more than 1 year but not more than 5 years	–	–
Remaining term of more than 5 years	–	–
Credit granted in Länsförsäkringar Bank amounts to	SEK 20.5 billion	SEK 20.5 billion

Loans to credit institutions include borrowing of SEK 18,047.7 M (14,765.4) from the Parent Company. True repurchase transactions amounts to SEK 1,938.0 M (2,975), of which SEK 0 M (1,988) with Group companies.

**NOTE 27 DEBT SECURITIES IN ISSUE**

SEK M	Dec. 31, 2011	Dec. 31, 2010
Bond loans	85,396.2	79,695.4
<b>Total securities issued</b>	<b>85,396.2</b>	<b>79,695.4</b>
Remaining term of not more than 1 year	11,449.7	16,149.3
Remaining term of more than 1 year	73,946.5	63,546.1

All securities are covered bonds.

**NOTE 28 OTHER LIABILITIES**

SEK M	Dec. 31, 2011	Dec. 31, 2010
Accounts payable	5.5	0.4
Unpaid Group contributions	347.6	140.1
Other liabilities	2.3	5.8
<b>Total other liabilities</b>	<b>355.4</b>	<b>146.3</b>

**NOTE 29 ACCRUED EXPENSES AND DEFERRED INCOME**

SEK M	Dec. 31, 2011	Dec. 31, 2010
Accrued holiday pay	0.7	0.5
Accrued social security expenses	0.8	0.3
Accrued interest expense	2,715.7	2,260.0
Other accrued expenses	121.1	102.7
<b>Total accrued expenses and deferred income</b>	<b>2,838.3</b>	<b>2,363.5</b>

**NOTE 30 PROVISIONS****Defined-benefit pension plans**

The company has a defined-benefit pension plan that is a pension agreement from 2006 for the insurance sector. Persons born in 1955 or earlier are entitled to voluntarily retire from the age of 62. The terms and conditions of this plan are designed such that the pension comprises about 65% of the pensionable salary at age 62.

SEK M	Dec. 31, 2011	Dec. 31, 2010
<b>Pension commitments</b>		
Provisions for pensions	–	0.2
<b>Total</b>	<b>–</b>	<b>0.2</b>
<b>The year's change in capital value of own obligations for which there are no separated assets:</b>		
Opening capital value on January 1, in accordance with Swedish principles for calculation of pension commitments	0.2	0.2
Cost excluding interest expense charged to earnings	–	0.0
Interest expense	–	0.0
Amount claimed during the period	–0.2	–
<b>Capital value at December 31</b>	<b>–</b>	<b>0.2</b>
<b>Net pension commitments</b>	<b>–</b>	<b>0.2</b>
<b>The company's own pensions</b>		
Cost excluding interest expense	–	0.0
Interest expense	–	0.0
<b>Cost of the company's own pensions</b>	<b>–</b>	<b>0.0</b>
<b>Recognised net cost attributable to pensions</b>	<b>–</b>	<b>0.0</b>
<b>Assumptions pertaining to defined-benefit commitments:</b>		
Discount rate	–	2.3%
Percentage expected to retire voluntarily at age 62	–	20.0%
<b>Memorandum items</b>	<b>–</b>	<b>0.7</b>

**Defined-contribution pension plans**

Defined-contribution pension plans are plans according to which the company pays fixed contributions to a separate legal entity and does not have a legal or informal obligation to pay additional contributions. The company's payments of defined-contribution plans are recognised as expenses during the period in which the employee performed the services to which the contributions refer. Primarily, contributions to the Insurance Industry's Pension Fund (FPK) are recognised here. This plan includes all company employees.

	2011	2010
Expenses for defined-contribution plans	1.7	1.2

**NOTE 31 SUBORDINATED LIABILITIES**

SEK M	Dec. 31, 2011	Dec. 31, 2010
Subordinated debt	501.0	501.0
<b>Total subordinated liabilities</b>	<b>501.0</b>	<b>501.0</b>

Specification of subordinated debt from Länsförsäkringar Bank AB (publ)	Dec. 31, 2011		Coupon rate of interest
	Carrying amount	Carrying amount	
Subordinated debt 2005/2015 LF Bank	–	–	variable 3 months
Subordinated debt 2005/2015 LF Bank	–	–	variable 3 months
Subordinated debt 2007/2017 LF Bank	150.0	150.0	variable 3 months
Subordinated debt 2008/2018 LF Bank	40.0	40.0	variable 3 months
Subordinated debt 2008/2018 LF Bank	150.0	150.0	variable 3 months
Subordinated debt 2009/2019 LF Bank	161.0	161.0	variable 3 months
<b>Total</b>	<b>501.0</b>	<b>501.0</b>	

Subordinated debt is subordinate to the mortgage company's other liabilities, which means that they carry entitlement to payment only after the other creditors have received payment.

**NOTE 32 ASSETS AND LIABILITIES, FOREIGN CURRENCY**

SEK M	Dec. 31, 2011		Dec. 31, 2010	
	Foreign currency	SEK	Foreign currency	SEK
Debt securities in issue, CHF	394.2	2,889.8	284.2	2,050.0
Debt securities in issue, EUR	1,993.5	17,740.6	996.0	8,982.6
<b>Total</b>		<b>20,630.4</b>		<b>11,032.6</b>

Currency exchange rates are hedged with cross-currency interest-rate swaps.

**NOTE 33 EQUITY**

SEK M	Dec. 31, 2011	Dec. 31, 2010
<b>Restricted equity</b>		
Share capital (70,335 shares, quotient value SEK 100 per share)	70.3	70.3
Statutory reserve	14.1	14.1
<b>Total restricted equity</b>	<b>84.4</b>	<b>84.4</b>
<b>Non-restricted equity</b>		
Fair value reserve	145.6	29.6
Retained earnings	3,962.1	3,403.5
Net profit for the year	149.5	104.8
<b>Total non-restricted equity</b>	<b>4,257.2</b>	<b>3,537.9</b>
<b>Total equity</b>	<b>4,341.6</b>	<b>3,622.3</b>

**Conditional shareholders' contribution received totalled:**

During 2007	75.0
During 2008	125.0
During 2009	537.6
During 2010	745.0
During 2011	710.0
<b>Total</b>	<b>2,192.6</b>

The disclosure requirement in accordance with Chapter 5, Section 14 of the Swedish Annual Accounts Act regarding specification of changes in shareholders' equity compared with the preceding year's balance sheet is presented on page 31.

Specification of balance-sheet item	Dec. 31, 2011	Dec. 31, 2010
<b>Opening reserve</b>	<b>29.6</b>	<b>10.5</b>
Change in fair value of available-for-sale financial assets	157.4	25.9
Tax on available-for-sale financial assets	–41.4	–6.8
<b>Closing reserve</b>	<b>145.6</b>	<b>29.6</b>

**NOTE 34 MEMORANDUM ITEMS**

SEK M	Dec. 31, 2011	Dec. 31, 2010
<b>For own liabilities, pledged assets</b>		
Collateral paid due to repurchase agreement	1,938.0	2,975.2
Loan receivables, covered bonds	84,428.1	76,653.7
<b>For own liabilities, pledged assets</b>	<b>86,366.1</b>	<b>79,628.9</b>
<b>Other pledged assets</b>		
	None	None
<b>Contingent liabilities</b>		
Conditional shareholders' contribution	2,192.6	1,482.6
Early retirement at age 62 in accordance with pension agreement, 80%	–	0.7
<b>Contingent liabilities</b>	<b>2,192.6</b>	<b>1,483.3</b>
<b>Other commitments</b>		
Loans approved but not disbursed	3,893.7	3,226.3

Loans to the public were provided as collateral for issuance of covered bonds and mortgage bonds. In the event of the company's insolvency, bond holders have preferential rights to the assets that are registered as cover pool.

Other pledged securities will be transferred to the pledgee in the event of bankruptcy.

An assumption regarding the number of employees likely to utilise the option of early retirement was made in determining the contingent liabilities for early retirement according to pension agreements. This assumption was based on historical information. The pension agreement expires in 2017.

**NOTE 35 FINANCIAL ASSETS AND LIABILITIES BY CATEGORY**

Dec. 31, 2011	Loans and receivables	Financial assets at fair value through profit or loss			Available-for-sale financial assets	Total	Fair value
		Financial assets according to fair value option	Held for trading	Derivatives used in hedge accounting			
<b>Assets</b>							
Treasury bills and other eligible bills					8,341.5	8,341.5	8,341.5
Loans to credit institutions	1,912.1					1,912.1	1,912.1
Loans to the public	88,625.0					88,625.0	89,002.8
Bonds and other interest-bearing securities					14,504.5	14,504.5	14,504.5
Derivatives				1,470.3		1,470.3	1,470.3
Accounts receivable	0.2					0.2	
<b>Total assets</b>	<b>90,537.3</b>			<b>1,470.3</b>	<b>22,846.0</b>	<b>114,853.6</b>	
<b>Liabilities</b>							
<b>Liabilities</b>							
Due to credit institutions					19,985.7	19,985.7	19,985.7
Debt securities in issue					85,396.2	85,396.2	87,477.6
Derivatives				2,237.8		2,237.8	2,237.8
Accounts payable					5.5	5.5	
Subordinated liabilities					501.0	501.0	
<b>Total liabilities</b>				<b>2,237.8</b>	<b>105,888.4</b>	<b>108,126.2</b>	



**NOTE 35 FINANCIAL ASSETS AND LIABILITIES BY CATEGORY, cont.**

Dec. 31, 2010 SEK M	Financial assets at fair value through profit or loss				Available-for- sale financial assets	Total	Fair value
	Loans and receivables	Financial assets according to fair value option	Held for trading	Derivatives used in hedge accounting			
<b>Assets</b>							
Treasury bills and other eligible bills					2,820.7	2,820.7	2,820.7
Loans to credit institutions	8,155.8					8,155.8	8,155.8
Loans to the public	79,666.7					79,666.7	79,897.1
Bonds and other interest-bearing securities					12,483.3	12,483.3	12,483.3
Derivatives			1.9	994.0		995.9	995.9
Accounts receivable	0.5					0.5	
<b>Total assets</b>	<b>87,823.0</b>	<b>–</b>	<b>1.9</b>	<b>994.0</b>	<b>15,304.0</b>	<b>104,122.9</b>	

SEK M	Financial liabilities at fair value through profit or loss				Other financial liabilities	Total	Fair value
	Financial liabilities according to fair value option	Held for trading	Derivatives used in hedge accounting				
<b>Liabilities</b>							
Due to credit institutions					17,844.5	17,844.5	17,844.5
Debt securities in issue					79,695.4	79,695.4	80,664.4
Derivatives				1,864.8		1,864.8	1,864.8
Accounts payable					0.4	0.4	
Subordinated liabilities					501.0	501.0	
<b>Total liabilities</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,864.8</b>	<b>98,041.3</b>	<b>99,906.1</b>	

When calculating the fair value of fixed-rate deposits and lending, anticipated future cash flows have been discounted using a discount interest rate set at the current deposit and lending rates applied. For lending with variable interest rates, fair value corresponds to the carrying amount.

**NOTE 36 FAIR VALUE VALUATION TECHNIQUES**

Determination of fair value through published price quotations or valuation techniques  
For information and determination of fair value, refer to the accounting policies.

Dec. 31, 2011 SEK M	Instruments with published price quotations (Level 1)	Valuation techniques based on observable market prices (Level 2)	Valuation techniques based on unobservable market prices (Level 3)	Total
<b>Assets</b>				
Treasury bills and other eligible bills	8,341.5			8,341.5
Bonds and other interest-bearing securities	14,504.5			14,504.5
Derivatives		1,470.3		1,470.3
<b>Liabilities</b>				
Derivatives				

Dec. 31, 2010 SEK M	Instruments with published price quotations (Level 1)	Valuation techniques based on observable market prices (Level 2)	Valuation techniques based on unobservable market prices (Level 3)	Total
<b>Assets</b>				
Treasury bills and other eligible bills	2,820.7			2,820.7
Bonds and other interest-bearing securities	12,483.3			12,483.3
Derivatives		995.9		995.9
<b>Liabilities</b>				
Derivatives		1,864.8		1,864.8

**NOTE 37 DISCLOSURES ON RELATED PARTIES, PRICING AND AGREEMENTS****Related parties**

Related legal entities include the Länsförsäkringar AB Group's and the Länsförsäkringar Liv Group's companies, all associated companies, Länsförsäkringar Fastighetsförmedling AB and the 23 regional insurance companies with subsidiaries.

From 2006, the local insurance companies that hold shares in Länsförsäkringar AB are considered to be legal entities related to the Alliance.

Related key persons are Board members, senior executives and close family members to these individuals.

**Pricing**

The pricing level of the goods and services that Länsförsäkringar Hypotek AB purchases and sells within the Länsförsäkringar Alliance is determined by Länsförsäkringar AB's company management once a year in conjunction with the adoption of the business plan.

**Agreement**

Significant agreements for the company are primarily assignment agreements with the 23 regional insurance companies and assignment agreements with Länsförsäkringar AB for development, service, financial services and IT. The company has agreements with the other companies in the Bank Group for Group-wide services.

**Transactions between related parties**

SEK M	Receivables		Liabilities		Income		Expenses	
	Dec 31, 2011	Dec 31, 2010	Dec 31, 2011	Dec 31, 2010	2011	2010	2011	2010
Länsförsäkringar Bank AB (Parent Company)	1,906.3	8,133.0	18,609.0	17,374.6	86.2	107.5	463.5	181.6
Other companies in the Bank Group	0.4	1.0	0.0	0.1	-	-	1.1	1.7
Other companies in the Länsförsäkringar AB Group	-	-	294.8	140.1	-	-	-	0.3
Regional insurance companies	-	-	55.6	65.1	-	-	249.1	196.2

For information regarding remuneration to related key persons such as members of the Board and senior executives, refer to note 10 concerning staff costs.

In all other respects, no transactions took place between these individuals and their family members apart from normal customer transactions.

**NOTE 38 EVENTS AFTER BALANCE-SHEET DATE**

At the beginning of February, Martin Rydin took office as Executive Vice President and CFO, replacing Göran Laurén, former Executive Vice President, who became the Deputy Head of Asset Management at Länsförsäkringar AB.

### Statement from the Board

The Board of Directors and President affirm that this Annual Report was prepared in accordance with generally accepted accounting policies in Sweden and that the accounts were prepared in accordance with legally restricted IFRSs, meaning in accordance with the international accounting standards referred to in Regulation (EC) No 1606/2002 of the European Parliament and the Council issued on July 19, 2002 on the application of international accounting standards, with the limitations stipulated by the Swedish Annual Accounts Act and regulations. The Annual Report gives a true and fair view of the company's position and earnings. The Board of Directors' Report provides a true and fair overview of the company's operations, financial position and earnings, and describes the significant risks and uncertainties to which the company is exposed.

Stockholm, March 15, 2012

Rikard Josefson  
*Chairman*

Christian Bille  
*Board member*

Bengt Clemedtson  
*Board member*

Bengt Jerning  
*Board member*

Christer Malm  
*Board member*

Anders Borgcrantz  
*President*

My audit report was submitted on March 27, 2012

Johan Bäckström  
*Authorised Public Accountant*

This Annual Report is a translation of the Swedish Annual Report that has been reviewed by the company's auditors.

## To the annual meeting of the shareholders of Länsförsäkringar Hypotek AB (publ) Corporate identity number 556244-1781

### Report on the annual accounts

I have audited the annual accounts of Länsförsäkringar Hypotek AB (publ) for the year 2011. The annual accounts of the company are included in the printed version of this document on pages 14–49.

#### *Responsibilities of the Board of Directors and the Managing Director for the annual accounts*

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act of Credit Institutions and Security Companies, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

#### *Auditor's responsibility*

My responsibility is to express an opinion on these annual accounts based on my audit. I conducted my audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### *Opinions*

In my opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act of Credit Institutions and Security Companies and present fairly, in all material respects, the financial position of Länsförsäkringar Hypotek AB (publ) as of 31 December 2011 and of its financial performance and its cash flows for the year

then ended in accordance with Annual Accounts Act of Credit Institutions and Security Companies. A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts.

I therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet.

### Report on other legal and regulatory requirements

In addition to my audit of the annual accounts, I have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Länsförsäkringar Hypotek AB (publ) for the year 2011.

#### *Responsibilities of the Board of Directors and the Managing Director*

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act and the Banking and Financing Business Act.

#### *Auditor's responsibility*

My responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on my audit. I conducted the audit in accordance with generally accepted auditing standards in Sweden.

As basis for my opinion on the Board of Directors' proposed appropriations of the company's profit or loss, I examined whether the proposal is in accordance with the Companies Act.

As basis for my opinion concerning discharge from liability, in addition to my audit of the annual accounts, I examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. I also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, Banking and Financing Business Act, the Annual Accounts Act of Credit Institutions and Security Companies or the Articles of Association.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### *Opinions*

I recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director are discharged from liability for the financial year.

Stockholm, March 27, 2012

Johan Bäckström  
Authorised Public Accountant

# Board of Directors, Management and auditors

## BOARD OF DIRECTORS

RIKARD JOSEFSON



Born 1965. Board Chairman since June 2011. President of Länsförsäkringar Bank. Other Board appointments: Board Chairman of Wasa Kredit AB and Essen International AB. Board member of Länsförsäkringar Fondförvaltning and the foundation Livslust.

CHRISTIAN BILLE



Born 1962. Board member since 2010. President of Länsförsäkringar Halland. Other Board appointments: Board member of Länsförsäkringar Bank.

BENGT CLEMEDTSON



Born 1964. Board member since 2009. Head of Business at Länsförsäkringar Bank.

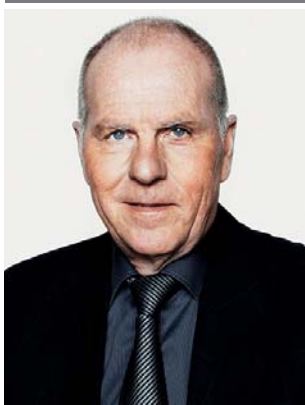
BENGT JERNING



Born 1953. Board member since 1992. Credit Manager until February 2012 and Executive Vice President of Länsförsäkringar Bank.

## MANAGEMENT

CHRISTER MALM



Born 1943. Board member since 2005. Other Board appointments: Board member of World Wide Fund for Nature.

ANDERS BORGCRANTZ



Born 1961. President. Employed since 2003.

MARTIN RYDIN



Born 1968. CFO and Executive Vice President. Employed since February 2012.

GÖRAN LAURÉN



Born 1962. CFO and Executive Vice President in 2011. Employed since 2007.

## AUDITOR

**Johan Bäckström**  
Authorised Public  
Accountant, KPMG AB.

# Definitions

## Capital base

Comprises the sum of Tier 1 and Tier 2 capital and the difference between expected losses and reserves established for probable loan losses.

## Capital adequacy ratio

Closing capital base in relation to the risk-weighted amount at year-end.

## Cost/income ratio

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

## Fixed-interest term

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

## Investment margin

Net interest in relation to average total assets.

## Impaired loan

A loan receivable is considered impaired if a payment is more than 60 days past due or if the counterparty for other reasons cannot meet its undertaking. The loan receivable is considered impaired to the extent that its whole amount is not covered by collateral.

## Loan losses in relation to lending

Net loan losses in relation to the carrying amount of loans to the public and to credit institutions.

## Percentage of impaired loans

Impaired loans in relation to the carrying amount of loans to the public and to credit institutions.

## Reserves in relation to loans

Reserves for impaired loans in relation to the total of loans to the public and loans to credit institutions.

## Return on equity

Operating profit after standard tax as a percentage of average equity, adjusted for changes in the value of financial assets that are recognised in equity.

## Return on total capital

Operating profit in relation to average total assets.

## Risk-weighted amount

Total assets in the 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

Comprises equity, excluding fair value reserve and Tier 1 capital contributions, which following approval from the Swedish Financial Supervisory Authority may be included in Tier 1 capital. Deductions are made for intangible assets and deferred tax assets and the difference between expected losses and reserves established for probable loan losses.

## Tier 1 ratio

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

## Tier 2 capital

Primarily comprises fixed-term subordinated debt.

# Financial Calendar 2012

## First quarter:

Interim report January–March April 23, 2012

## Second quarter:

Interim report January–June August 28, 2012

## Third quarter:

Interim report January–September October 25, 2012

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