Länsförsäkringar Hypotek
Annual Report 2012

This is Länsförsäkringar Hypotek

LÄNSFÖRSÄKRINGAR HYPOTEK IN BRIEF

The mortgage institution with Sweden's most satisfied customers

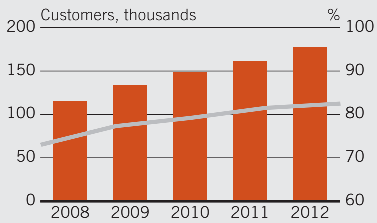
Länsförsäkringar Hypotek is one of Sweden's major mortgage institutions with mortgage volumes of SEK 101 billion and 177,000 customers. The strategy is to offer attractive mortgages primarily to the Länsförsäkringar Alliance's retail and home-insurance customers. Lending is conducted solely in Sweden and in SEK and has very high credit quality. Loan origination is primarily targeted towards retail mortgages for private individuals. Customer contact takes place at the branches of the regional insurance companies and via mobile services, the Internet and telephone. The real estate brokerage Länsförsäkringar Fastighetsförmedling also mediates customer contacts at its branches. Länsförsäkringar has Sweden's most satisfied retail mortgage customers for the eighth consecutive year, according to the Swedish Quality Index. Success is based on Länsförsäkringar's strong brand, local presence and the regional insurance companies being customer-owned.

LÄNSFÖRSÄKRINGAR IN BRIEF

Customer-owned regional insurance companies with local presence

Länsförsäkringar comprises 23 local and customer-owned regional insurance companies and the jointly owned Länsförsäkringar AB. Customers are provided with a complete offering of banking, insurance and real-estate brokerage services through the regional insurance companies. The basis is local presence – experience has proven that local decision-making combined with joint administration and product development create added value for customers. Long-term respect for the security of customers is also fundamental. There are no external shareholders and customers' needs and requirements thus comprise Länsförsäkringar's primarily task. The Länsförsäkringar Alliance has almost 3.5 million customers and approximately 5,800 employees.

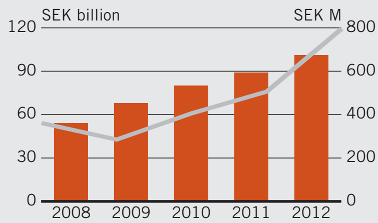
Customer trend



- Retail mortgage customers, thousands
- Percentage of retail mortgage customers who have Länsförsäkringar as their primary bank, %

The number of customers has increased an average of 14,000 per year over the past five years and the number of customers rose by 16,000 in 2012. The percentage of retail mortgage customers who have Länsförsäkringar as their primarily bank is 82%.

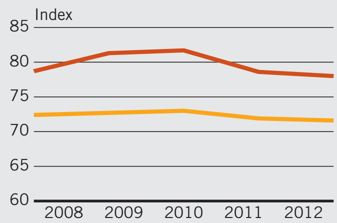
Loans and net interest income



- Loans, SEK billion
- Net interest income, SEK M

Loans have increased an average of 17% per year over the past five years and net interest income has risen an average of 31% per year over the same period.

Customer satisfaction, retail mortgage customers



- Länsförsäkringar
- Industry average

Source: Swedish Quality Index

Länsförsäkringar has Sweden's most satisfied retail mortgage customers for the eighth consecutive year, according to the Swedish Quality Index.

THE YEAR
IN BRIEF

Increase in net interest income and strengthened operating profit

- Operating profit rose 69% to SEK 319 M (189) and return on equity strengthened to 5.2% (3.6).
- Net interest income increased 57% to SEK 796 M (506).
- Loan losses amounted to SEK 2 M (–4), corresponding to unchanged loan losses of 0.00%.
- Lending rose 14% to SEK 101 billion (89).
- The Core Tier 1 ratio and Tier 1 ratio amounted to 22.3% (20.6) and the capital adequacy ratio to 24.2% (22.8).
- The number of customers rose 10% to 177,000 (161,000).

KEY FIGURES

	2012	2011	2010	2009	2008
Return on equity, %	5.2	3.6	3.5	4.1	4.1
Return on total capital, %	0.26	0.17	0.15	0.19	0.23
Investment margin, %	0.65	0.45	0.40	0.38	0.65
Cost/income ratio before loan losses	0.22	0.30	0.31	0.33	0.34
Cost/income ratio after loan losses	0.23	0.28	0.30	0.29	0.34
Capital adequacy ratio according to Basel II, %	24.2	22.8	22.3	24.2	27.6
Capital adequacy ratio according to transition rules, %	10.1	10.5	10.4	10.7	10.5
Tier 1 ratio and Core Tier 1 ratio according to Basel II, %	22.3	20.6	19.7	20.3	21.6
Tier 1 ratio and Core Tier 1 ratio according to transition rules, %	9.4	9.4	9.2	9.0	8.2
Percentage of impaired loans, net, %	0.00	0.00	0.01	0.00	0.11
Reserve ratio in relation to loans, %	0.04	0.04	0.05	0.05	0.07
Loan losses in relation to loans, %	0.00	0.00	0.00	–0.01	0.00

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STATEMENT BY THE PRESIDENT

Stable growth in mortgage volumes

Our retail mortgage lending operations have had a low risk profile and very high credit quality since they were started in 2001. All loans are granted in Sweden and primarily for private individuals' homes. During the year, Länsförsäkringar Hypotek reported stable growth and Länsförsäkringar has Sweden's most satisfied retail mortgage customers.

Sweden's most satisfied retail mortgage customers

Länsförsäkringar Hypotek reported stable growth in retail mortgage lending during the year. The number of customers rose 16,000 to 177,000 and thus we continued to build for the future. We have an attractive, reasonably priced mortgage offering which is an entry product to a broader relationship with the bank. We have Sweden's most satisfied retail mortgage customers for the eighth consecutive year, indicating that our mortgage offering is very attractive in a highly competitive market. The survey revealed that the areas of value-for-money, product quality and service and sound advice from bank advisors received the highest ratings from customers. We have committed and knowledgeable employees and I am very proud of the outstanding rating customers have given us concerning retail mortgages.

Primarily homes for private individuals

Our retail mortgage lending operations have had a low risk profile and very high credit quality since they were started in 2001. All loans are granted in Sweden and in SEK. Loans are primarily granted for private individuals' homes with low average commitments that are well distributed throughout Sweden. The credit regulations for the operations, which are decided by the Board, apply to the entire credit process. The customer-owned, independent regional insurance companies possess customer and market knowledge that provides high credit quality, along with the credit regulations. Repayments, particularly for mortgages with higher loan-to-value ratios, is something that we recommend to our customers and is also a good savings alternative.

Sweden stands strong

At the end of the year, we could see clear signs that Sweden had also been affected by the economic downturn in Europe and other parts of the world. As a whole, Swedish growth was relatively stable in 2012 and Sweden's government finances are in an excellent condition.

The trend in housing prices in Sweden remained stable during the year and was attributable to several fundamental factors. One of the main reasons for the stable trend in housing prices is that there is a structural shortage of housing in Sweden that will take a very long time to reduce. Construction also declined with the downturn in the Swedish economy. Swedish households have healthy finances and the average disposable income has risen in recent years.

Highly successful funding

The covered bonds, which hold the credit rating of AAA/stable from Standard & Poor's and Aaa/stable from Moody's, are the largest source of financing in the Bank Group. Funding was well-functioning during the year and we carried out many successful issuances and market activities that strengthened our brand in the capital market.

Concern in Europe and new regulations

The year in the capital market was characterised by the widespread uncertainty concerning the financial problems of several European countries and how they were to be handled. European cooperation has, to date, managed to solve the acute financial problems, and liquidity was added to the capital market in order for it to continue to function.

More and more regulations are being implemented, many of which are much-needed and will also influence the content of the product offering. What we can now see is that the stricter capital requirements imposed on banks will probably lead to greater differentiation of loan pricing.

A successful year

Overall, 2012 was another highly successful year for us with satisfied customers and stable growth. I look forward to continuing to build for the future with a sustained attractive mortgage offering and higher level of service to new and existing customers throughout Sweden.

Stockholm, February 2013

ANDERS BORGCRANTZ
President

STRATEGY
AND POSITION

A successful strategy

Länsförsäkringar Hypotek is one of the larger mortgage institutions in Sweden with profitable growth and Sweden's most satisfied retail customers.

Objectives

The aim is to continue to generate profitable growth, have the most satisfied customers and increase the share of retail mortgage customers who have both banking and insurance with Länsförsäkringar.

A strong position

Länsförsäkringar Hypotek is one of the larger mortgage institutions in Sweden and has Sweden's most satisfied retail mortgage customers, according to the Swedish Quality Index. In 2012, the market position was strengthened and mortgage volumes grew 14% to SEK 101 billion. The number of customers amounted to 177,000, up 10% or 16,000 during the year. The vast majority of Länsförsäkringars mortgage customers have chosen Länsförsäkringar as their primary bank. According to the Swedish Quality Index, Länsförsäkringar also has Sweden's most satisfied retail bank customers.

Business and mission

The business concept of the retail mortgages operations is primarily to offer mortgages to the Länsförsäkringar Alliance's customers. Länsförsäkringar Hypotek's mission is to finance banking and retail mortgage operations, and to develop products and concepts as well as to support the regional insurance companies in their mortgage sales and service to customers.

Strategy and distribution network

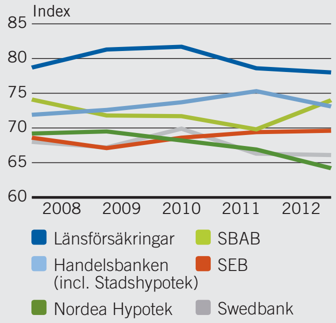
The strategy is to offer mortgages primarily to the Länsförsäkringar Alliance's 2.9 million retail customers and 1.8 million home-insurance customers. The mortgage offering is an entry product and a strongly integrated component of the bank offering. The local regional insurance companies are responsible for and provide these mortgages. Customer contact takes place during personal meetings at 130 of the 23 regional insurance companies' branches and via mobile services, the Internet and telephone. The real estate brokerage Länsförsäkringar Fastighetsförmedling also mediates customer contacts at its 150 branches.

With the entire banking and insurance offering, customers receive a secure, personal and attractive commitment with Länsförsäkringar. Success is based on Länsförsäkringar's strong brand, local presence and the regional insurance companies being customer-owned.

A strong brand

Länsförsäkringar has the highest reputation among banking and insurance companies, according to Nordic Brand's brand ranking and the Reputability Barometer for 2012. Länsförsäkringar's reputation is the highest in the retail market according to these surveys.

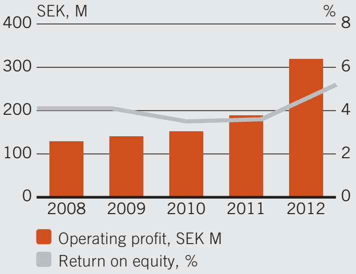
Customer satisfaction, retail mortgages



Source: Swedish Quality Index

Länsförsäkringar received the highest marks of all Swedish mortgage providers in the Swedish Quality Index's 2012 customer satisfaction survey. Länsförsäkringar received a high ranking for all of the categories measured and the largest difference compared with other mortgage providers was noted in loyalty.

Operating profit and return on equity



Operating profit has risen an average of 47% per year over the past five years, and the increase for 2012 was 69%. The return in equity amounted to 5.2% in 2012.

OFFERING

Reasonably priced and attractive mortgages

The offering comprises mortgages for private individuals' homes. Länsförsäkringar has existed for more than 200 years in Sweden and Länsförsäkringar Bank began its own retail mortgage lending operations in Länsförsäkringar Hypotek in 2001.

Mortgages

The offering primarily comprises mortgages for private individuals' homes. Mortgages up to 75% of the market value on the granting date are deposited with Länsförsäkringar Hypotek and other mortgages are offered by Länsförsäkringar Bank. Loans to the public rose 14% to SEK 101 billion during the year.

Local customer-owned

The mortgage operations, which are conducted only in Sweden, have a local presence with customer-owned regional insurance companies that manage all contact with customers. The insurance customers of the Länsförsäkringar Alliance own the regional insurance companies, meaning that the bank is operated based on the principles of customer ownership. The regional insurance companies' involvement, networks and local decision-making provides Länsförsäkringar with a broad and local presence.

Strong customer relationships are based on personal service and high quality service from mortgage advisors. According to the Swedish Quality Index, Länsförsäkringar has the most satisfied retail mortgage customers among mortgage providers for the eigth consecutive year. The survey shows that Länsförsäkringar is the mortgage provider that customers consider most reasonably priced and that best meets customer expectations in terms of quality, information and advice. Länsförsäkringar received a higher rating than its competitors in the survey criteria of loyalty, image and the quality of products and services. For the eighth time in nine years, Länsförsäkringar Bank also has Sweden's most satisfied retail bank customers and the vast majority of the retail mortgage customers have chosen Länsförsäkringar as their primary bank.

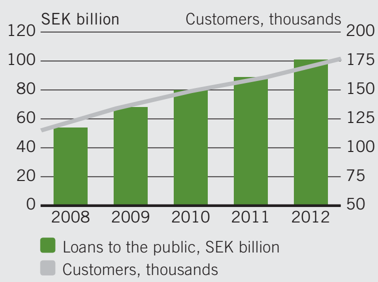
Long-term approach

The mortgage institution has low risk tolerance and a long-term approach to returns. All lending takes place based on low risk which leads to a high level of credit quality. Customer and market knowledge and presence in the local community, combined with the credit regulations and the credit scoring system for loan origination, generate growth with high credit quality.

Availability and service

Personal meetings with customers are a high priority within Länsförsäkringar and create trusting and long-term relationships. Personal meetings with customers take place at the local branches, which combined with mobile services and the telephone and Internet bank allow for all mortgage matters to be dealt with efficiently and smoothly.

Retail mortgages and customer trend



Retail mortgages have risen an average of 17% per year over the past five years and the number of customers has increased an average of 11% per year over the past five years.

ECONOMIC ENVIRONMENT AND MARKET

Sweden stands strong

Leading global economies were in different economic phases in 2012. The trend in the Swedish economy was relatively positive but declined towards the end of the year, primarily due to the weaker European economic climate. The status of Sweden's government finances remained excellent.

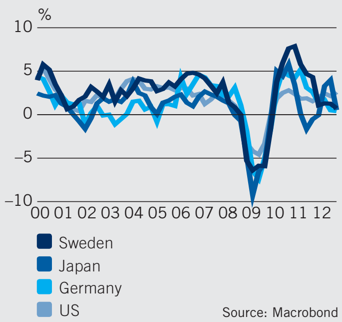
International economic climate and capital markets

At the start of the year, the ECB injected another large sum of liquidity into the European banking system by offering its second three-year Long Term Refinancing Operations (LTRO), which had a hugely positive effect on risk willingness among investors. Global stock markets rose for much of the first quarter of 2012 and issuance activities accelerated considerably in the Swedish and European capital markets.

The European economy subsequently weakened and the status of government finances in mainly Spain and Italy declined, causing attention to once again be directed to the serious fiscal, monetary and political challenges faced by Europe. Spain eventually applied for bailout loans for its banking sector and discussions on such subjects as a European banking union intensified.

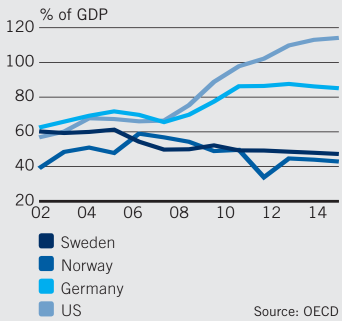
The increasingly gloomy economic climate and heightened uncertainty surrounding Spain's ability to refinance its government debt resulted in the ECB lowering its key interest rate from 1% to 0.75% in the summer of 2012, and later launching Outright Monetary Transactions (OMT). Under the OMT plan, the ECB will make conditional purchases of government bonds issued by European states with financial problems, which mainly resulted in lower government bond rates in Spain and Italy.

GDP growth



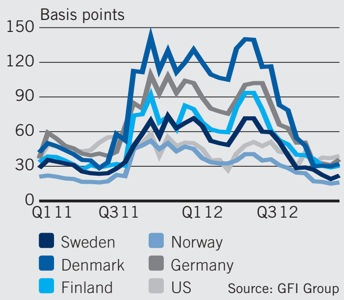
Trends in the Swedish economy during the year were relatively positive.

Government debt



Swedish government debt is low and amounted to 32% of GDP for 2012.

CDS levels



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

The Federal Reserve, Bank of England and Bank of Japan subsequently followed the ECB's example by also launching new stimulus packages and unconventional monetary policies in the form of quantitative easing to stimulate the economy. The Federal Reserve intends to retain a zero interest rate and continue its massive purchases of mortgage-backed securities until there is a significant improvement in the labour market.

The latter part of the year was dominated by the intense focus on the US and the outcome of the US presidential election. Attention was then directed to a solution to the fiscal cliff. A positive trend was that the US housing market showed clear indications of a start to recovery. China showed signs of avoiding a hard landing, while the economic outlook weakened for the previously resistant Germany. Overall, many countries found themselves in different economic phases by year-end.

Sweden

Trends in the Swedish economy during the year were relatively positive due to stable household consumption, continued low inflation and rising income. The year began with a stable economic performance, although the strong SEK together with the increasingly weak European economic climate led to a decline in Swedish export and the Swedish economy was also impacted by the economic slowdown in Europe. Order bookings fell in the summer and industrial production was lower, which combined with very low pressure on inflation resulted in the Riksbank lowering its repo rate on three occasions during the year from 1.75% to 1.00%. During the third quarter, GDP growth amounted to 0.7%. The labour market declined slightly during the second half of 2012 but recovered towards the end of the year and the unemployment rate was 7.8% at year-end.

Sweden's government debt remained low and amounted to 32% of GDP on December 31, 2012, while the government budget reported a very marginal deficit. The robust Swedish government finances form a sound basis for a more stimulative economic policy for the next few years.

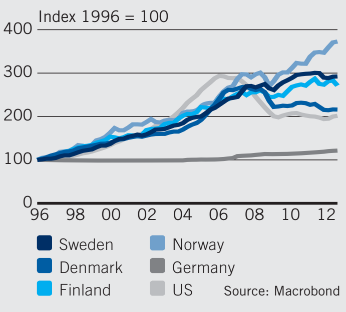
Stable housing prices

Swedish housing prices displayed a stable trend in 2012. Prices of single-family homes rose 2% during the year and prices of tenant-owned apartments increased 8%, according to Real Estate Agency Statistics. According to Valueguard's HOX index, prices of single-family homes rose 4% and prices of tenant-owned apartments increased 7%. Statistics from Statistics Sweden also revealed a stable trend in prices of single-family homes. Meanwhile, the slowdown in the economy led to a decline in housing construction during the second half of the year. Sweden has a huge shortage of housing that will take many years to overcome, and with fewer homes built this shortage will remain, suggesting that a stable housing-price trend will be maintained.

Slowdown in credit growth

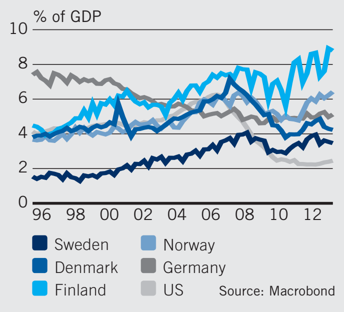
As a consequence of the weaker economy, credit growth among Swedish households slowed down during the year as mortgage rates fell. The mortgage cap introduced in the autumn of 2010 together with the higher requirements on borrowers imposed by the banks contributed to this slowdown, while housing prices stabilised. The interest ratio remained low thanks to low mortgage rates and favourable income trend. Stress tests conducted by the Swedish Financial Supervisory Authority showed that the repayment capacity of households also remained high with sharp increases in both interest rates and unemployment. Household wealth was significantly higher than household debt and total savings are high.

Housing-price trend



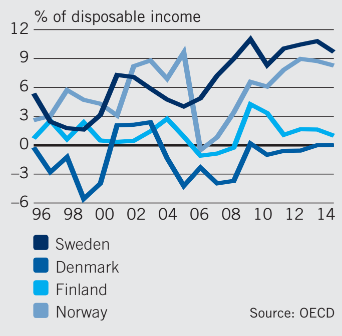
Swedish housing prices displayed a stable trend in 2012.

Housing construction



Sweden has a huge shortage of housing that will take many years to overcome, caused by low housing construction for nearly 20 years.

Household savings



Swedish household savings are high in relation to their disposable incomes.

LENDING AND CREDIT QUALITY

Low risk tolerance and high credit quality

All loans are granted in Sweden and in SEK. The loan portfolio mainly comprises retail mortgages to households and has an excellent geographic spread throughout Sweden with low commitments. The credit regulations are determined by the Board and apply to the entire retail mortgage lending operations.

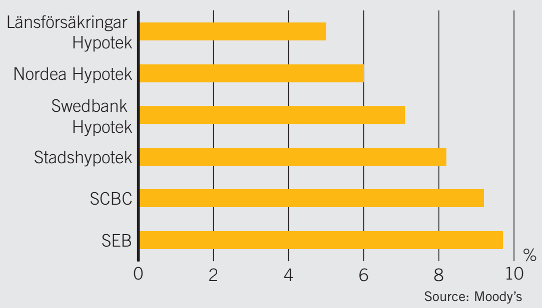
Credit process

Loan origination is primarily directed towards mortgages for private individuals' homes. All loans are calculated on the basis of the credit regulations determined by the Board and the credit scoring system is largely automated. The regional insurance companies are knowledgeable about their customers, possess in-depth local market knowledge and have a full-service customer approach that benefits the entire business. The remuneration model between Länsförsäkringar Hypotek and the regional insurance companies includes a strong incentive to maintain excellent credit quality. The retail mortgage operations impose strict requirements on customers' repayment capacity and the quality of collateral. In connection with credit scoring, the repayment capacity of borrowers and households is stress tested and the quality of the loan portfolio and the borrowers' repayment capacity is continuously monitored and reviewed. The decision-support model, combined with the expertise, local market knowledge and credit responsibility of the regional insurance companies, creates favourable conditions for balanced and consistent loan origination and a loan portfolio that maintains very high credit quality.

Retail mortgages for private housing

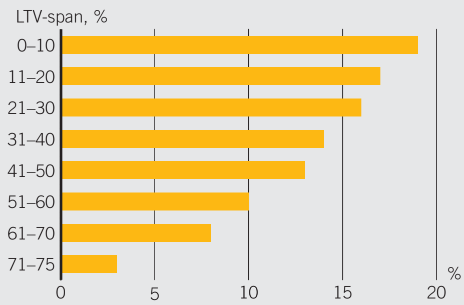
The loan portfolio exclusively comprises loans in Sweden, with 95% of lending for private housing in the form of single-family homes, tenant-owned apartments and vacation homes. Of the remaining 5% of lending,

Moody's 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 5.0% 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 63% on December 31, 2012, according to the by-start LTV calculation method.

COVER POOL

	Dec 31, 2012	Dec 31, 2011
Total volume, SEK billion	114	107
Swedish mortgages, SEK billion	95	84
Substitute collateral, SEK billion	19	21
Seperate deposit account SEK billion	1.5	1.6
Collateral	Private homes	Private homes
Weighted average LTV[1], %	63	61
OC[2], current level, %	25	22
Seasoning, months	58	58
Number of loans	236,639	215,668
Number of properties	109,057	98,766
Average commitment, SEK 000s	875	859
Average loan, SEK 000s	404	391
Interest-rate-fixing period, up to 12 months, %	52	58
Interest-rate-fixing period, more than 12 months, %	48	42
Impaired loans	None	None

[1] According to the Maximum LTV per property calculation method.
[2] OC is calculated using nominal values and excludes accrued interest rates.
Debt securities in issue in other currencies than SEK are translated into SEK with the swap rate.
Debt securities in issue include repurchase agreements.

4% comprises first-lien mortgages for multi-family housing and 1% first-lien mortgages for industrial and office properties.

Cover pool

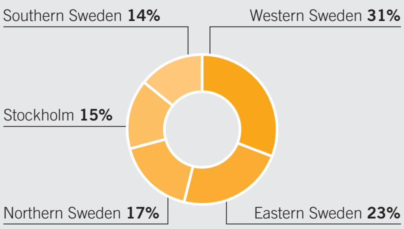
All lending, except 6%, is included in the cover pool. The collateral in the cover pool exclusively comprises private homes, including 78% single-family homes, 20% tenant-owned apartments and 2% vacation homes. At the end of 2012, the weighted average loan-to-value ratio (LTV) was 63% and the average loan amounted to SEK 404,000. Only 56 commitments have a value above SEK 5 M. The collateral in the cover pool is stress tested continuously at a 20% decline in the market value of the assets. 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 LTV amounted to 68% as of December 31, 2012. Market-value analyses of the cover pool are performed continuously.

Impaired loans and reserves

Impaired loans and loan losses are at a very low level, indicating that credit quality is high. The percentage of impaired loans in relation to loans amounted to 0.00% at year-end and the reserve ratio in relation to loans amounted to 0.04%. The cover pool contains no impaired loans. Loan losses remained very low at SEK 2 M, corresponding to loan losses of 0.00%.

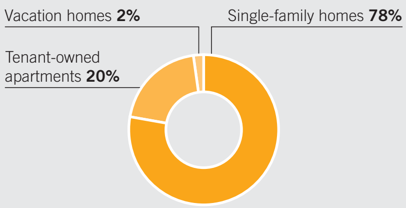
For more information concerning credit risks and credit quality, see note 3 Risks on page 28. For more information concerning loans, impaired loans and impairment of loan receivables, see Accounting policies on pages 21–27.

Cover pool, geographic distribution



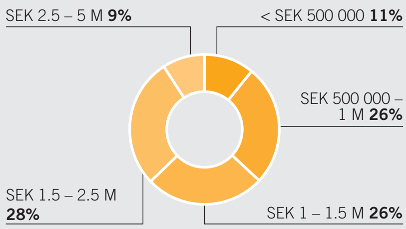
The cover pool is well distributed throughout Sweden in relation to the population.

Cover pool, collateral distribution



Collateral in cover pool comprises only private homes.

Cover pool, distribution of commitments



Commitments with a maximum loan amount of SEK 1.5 million account for 63%. Only 56 commitments have a loan amount of more than SEK 5 million, corresponding to 0.4% of the cover pool.

FUNDING AND LIQUIDITY

Strong liquidity position

The retail mortgage operations are mainly financed through funding with Länsförsäkringar Hypotek's covered bonds, which have the highest credit rating, Aaa/stable from Moody's and AAA/stable from Standard & Poor's.

Objectives
The aim of the funding operations is to ensure that the mortgage institution has a sufficiently strong liquidity position to manage turbulent periods in capital markets, when access to funding is limited or even impossible. The liquidity risk is controlled and limited on the basis of a survival horizon, meaning how long all known cash flows can be met without access to capital-market financing.

Financing sources
Retail mortgage operations are mainly financed through funding with Länsförsäkringar Hypotek's covered bonds, which have the highest credit rating, Aaa/stable from Moody's and AAA/stable from Standard & Poor's. The single most important source of financing is the Swedish covered bonds market, where Länsförsäkringar Hypotek has a number of outstanding liquid benchmark bonds. At year-end, Länsförsäkringar Hypotek had six outstanding benchmark loans with maturity periods of 2013–2018. The Swedish market is one of Europe's largest and most liquid, which secures excellent access to long-term financing.

Diversification
Since all assets in the balance sheet are in SEK, the mortgage institution has no structural need for financing in foreign currency. However, it has chosen to conduct a certain portion of its capital market funding in international markets in an effort to diversify and broaden the investor base. In recent years, funding has also taken place through issuance of Euro Benchmark Covered Bonds, which has increased the funding diversification and strengthened the brand in both the Swedish and European markets. At year-end, outstanding Euro Benchmark Covered Bonds with maturity in 2014 and 2015 amounted to EUR 2 billion. In addition, the long-term funding is supplemented with covered bonds in primarily CHF and NOK.

Market activities and derivative management
The mortgage institution works proactively with its outstanding liabilities by repurchasing bonds with short remaining terms against issuance of long-term liabilities as a means of managing and minimising the liquidity and refinancing risk. The market risks that arise in the lending and funding operations are managed through derivative instruments. Using derivatives increases the flexibility of funding activities, entailing that the financing can be based on market conditions without exposing the operation to interest-rate and currency risks.

Market trend
The European debt crisis continued to dominate the financial markets during the year and contributed to low key interest rates throughout the entire Western world. Growth expectations for global and Swedish economies were adjusted downwards, while investors' risk willingness was influenced by bailout packages from the ECB, the Federal Reserve and other central banks. The financial turmoil and considerably more stable Swedish economy, in relative terms, contributed to a major demand for investment in Swedish bonds, which had a positive effect on borrowing costs for Swedish banks. Credit spreads for covered bonds gradually narrowed during the year. The Swedish covered bonds market was highly successful.

Funding operations during the year
Retail mortgage operations had favourable access to funding throughout the entire year. Funding increased 7% to SEK 91 billion. During the year, a volume corresponding to a nominal amount of SEK 28.5 billion was issued. Issuances were also conducted in CHF and NOK. The covered bonds issued had a remaining average term of 2.3 years at year-end. In 2012, Länsförsäkringar Hypotek issued three new covered domestic benchmark loans: LF Hypotek 510, with maturity on June 17, 2015 was issued in August; LF Hypotek 507, with maturity on June 21, 2017 was issued in January and LF Hypotek 511, with maturity on June 20, 2018 was issued in October.

Liquidity

Successful management of liquidity and financing is characterised by effective long-term planning and a high level of control. A satisfactory liquidity reserve is in place to ensure that sufficient liquidity is always available. The liquidity reserve totalled a nominal amount of SEK 20.1 billion at December 31, 2012. The liquidity reserve is invested in Swedish interest-bearing securities with very high credit quality. A total of 85% of the liquidity reserve comprises Swedish covered bonds with the highest credit rating of AAA/Aaa, 7% Swedish government bonds, and 8% cash and cash equivalents in the separate deposit account.

Rating

Länsförsäkringar Hypotek's covered bonds have an unchanged highest rating of Aaa/stable from Moody's and AAA/stable from Standard & Poor's. Länsförsäkringar Hypotek is thus one of four issuers in the Swedish market for covered bonds with the highest rating from Standard & Poor's and Moody's. Länsförsäkringar Bank's credit rating for long-term funding is A/stable from Standard & Poor's and A2/negative from Moody's. The rating for short-term funding is A–1 from Standard & Poor's and P–1 from Moody's.

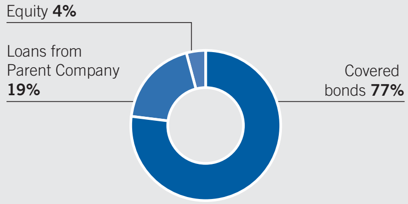
FUNDING PROGRAMMES

Programme	Limit, Nom, SEK billion	Issued in 2012, Nom, SEK billion	Issued in 2011, Nom, SEK billion	Outstanding, Dec 31, 2012, Nom, SEK billion	Outstanding, Dec 31, 2011, Nom, SEK billion	Remaining average term, years Dec 31, 2012	Remaining average term, years Dec 31, 2011
Swedish covered benchmark	Unlimited	22.7	11.7	58.8	53.9	2.4	2.6
MTCN	SEK 30	3.3	4.8	8.7	10.1	1.5	1.2
EMTCN	EUR 4	2.5	10.3	23.8	21.5	2.3	2.9
Total		**28.5**	**26.8**	**91.3**	**85.5**	**2.3**	**2.5**

SWEDISH COVERED BENCHMARK BONDS

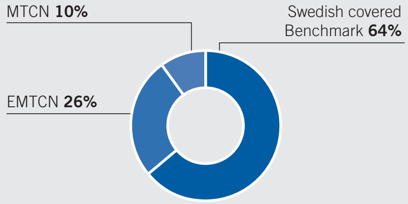
Loans	Date of maturity	Outstanding, SEK billion	Coupon, %
505	Sept. 18, 2013	5.5	4.50
506	May 5, 2014	13.8	4.50
510	June 17, 2015	3.7	2.25
508	Mar. 15, 2016	19.2	4.00
507	June 21, 2017	12.9	4.50
511	June 16, 2018	3.7	2.50
Total		**58.8**	

Financing sources



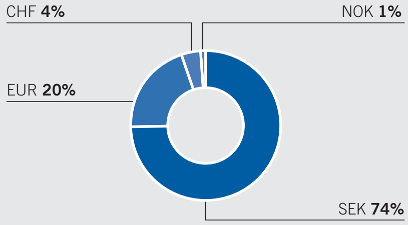
Loans were financed to 77% by covered bonds, 19% by loans from the Parent Company and 4% by equity.

Funding by programme



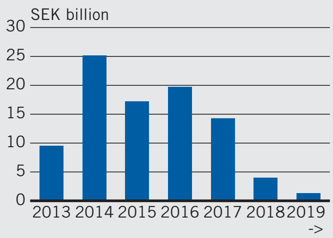
At year-end, programme funding comprised 64% Swedish covered benchmark bonds, 26% covered EMTN programme and 10% covered MTN programme.

Funding by currency



Funding at year-end comprised to 74% SEK, to 20% EUR and the remaining portion was in CHF and NOK.

Programme funding by maturity



BOARD OF DIRECTORS' REPORT

The Board of Directors and the President of Länsförsäkringar Hypotek AB (publ) hereby submit the Annual Report for 2012.

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 activities, strategic development activities and providing service. The aim is to create possibilities for the regional insurance companies to continue to grow and be 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), Länsförsäkringar Fondförvaltning AB (publ) (556364-2783) and Wasa Kredit AB (556311-9204). 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. The President and parts of the finance department have been employed in Länsförsäkringar Hypotek since 2005. Other administration is handled in its entirety by Länsförsäkringar Bank.

Focus of operations

The company conducts mortgages operations involving the origination of loans against collateral in the form of single-family homes, tenant-owned apartments and vacation homes and industrial and office properties. Lending, which is provided to private individuals and homeowners, is conducted at 130 (125) branches of the regional insurance companies throughout Sweden and via mobile services, the Internet and telephone. Sales and certain administration of banking and mortgage 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 150 (143) branches of Länsförsäkringar Fastighetsförmedling throughout Sweden.

Market commentary

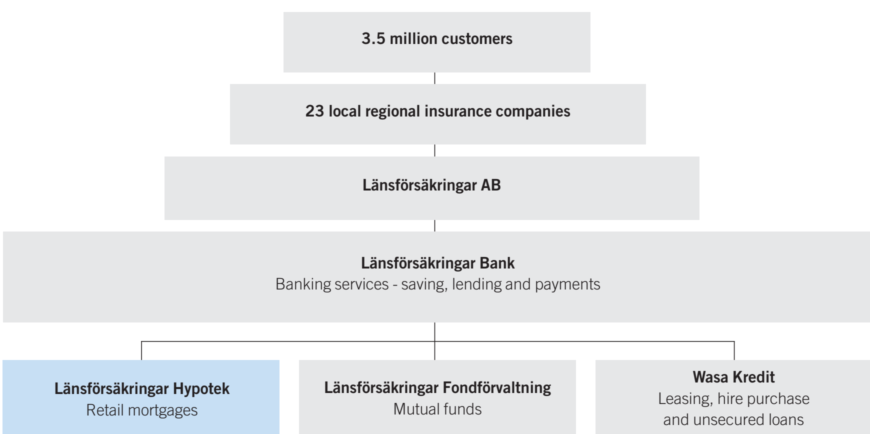
Leading global economies were in different economic phases in 2012. At the start of the year, the ECB injected another large sum of liquidity into the European banking system, which had a hugely positive effect on risk willingness among investors. The European economy subsequently weakened and the status of government finances in mainly Spain and Italy declined. During the summer, the ECB lowered its key interest rate from 1% to 0.75%. Later, a bailout package was launched to enable the ECB to make conditional purchases of government bonds issued by European states with financial problems, which mainly resulted in lower interest rates in Spain and Italy. The Federal Reserve, Bank of England and Bank of Japan subsequently followed the ECB's example by also launching new stimulus packages. The latter part of the year was dominated by a focus on the US and the outcome of the US presidential election. Attention was then directed to a solution to the fiscal cliff. A positive trend was that the US housing market showed clear indications of a start to recovery. China showed signs of avoiding a hard landing while the economic outlook weakened for the previously resistant Germany.

Trends in the Swedish economy during the year were relatively positive due to stable household consumption, continued low inflation and rising income. A strong SEK together with the increasingly weak European economic climate led to a decline in Swedish export and the Swedish economy was also impacted by the economic slowdown in Europe. The slowdown, combined with very low pressure on inflation, resulted in the Riksbank lowering its repo rate on three occasions during the year from 1.75% to 1.00%. Employment weakened slightly during the second half of 2012, totalling an unemployment rate of 7.8% at year-end.

The financial turmoil and considerably more stable Swedish economy, in relative terms, contributed to a major demand for investment in Swedish bonds, which had a positive effect on funding costs for Swedish banks. Credit spreads for covered bonds gradually narrowed during the year. The Swedish covered bonds market was highly successful.

The housing price trend in Sweden remained stable.

Länsförsäkringar Hypotek – part of the Länsförsäkringar Alliance



Growth and customer trend

Loans to the public rose 14%, or SEK 12 billion, to SEK 101 billion (89). The number of customers rose 10%, or 16,000, to 177,000 (161,000), and 82% of mortgage customers have Länsförsäkringar as their primary bank. According to the Swedish Quality Index, Länsförsäkringar has Sweden's most satisfied retail mortgage customers for the eighth consecutive year. The survey shows that Länsförsäkringar is the mortgage provider that customers consider most reasonably priced and that best meets customer expectations in terms of quality, information and advice. And as in 2011, loyalty, image and the quality of products and services receives the highest rating. Länsförsäkringar also has Sweden's most satisfied retail bank customers for the eighth time in nine years.

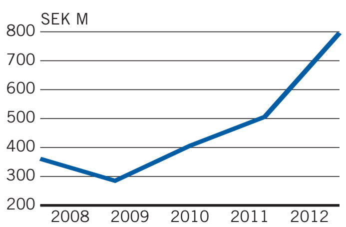
Earnings and profitability

Profit before loan losses increased 74% to SEK 322 M (185) and operating profit rose 69% to SEK 319 M (189) primarily due to higher net interest income. Return on equity strengthened to 5.2% (3.6).

Income

Net interest income rose 57%, or SEK 290 M, to SEK 796 M (506). This rise was attributable to increased volumes and margins. The investment margin strengthened to 0.65% (0.45). Net interest income was charged with a provision totalling SEK 37 M (34) for stability fund fees. Net gains from financial items amounted to SEK 2 M (4). Operating income increased a total of 57%, or SEK 150 M, to SEK 413 M (263), as a result of higher net interest income. Net commission fell to an expense of SEK 385 M (249) attributable to higher compensation to the regional insurance companies.

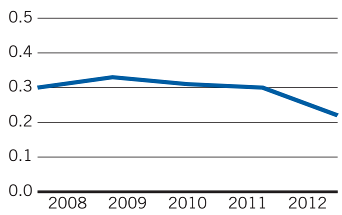
Net interest income



Expenses

Operating expenses rose 17% to SEK 91 M (78) as a result of the greater use of the Parent Company's services due to higher volumes. The cost/income ratio before loan losses strengthened to 0.22 (0.30) and the cost/income ratio after loan losses strengthened to 0.23 (0.28).

Cost/Income ratio before loan losses



Loan losses

Loan losses amounted to SEK 2 M (–4), net, corresponding to unchanged loan losses of 0.00%. Reserves amounted to SEK 40 M (34), providing a reserve ratio in relation to loans of 0.04%. Impaired loans amounted to SEK 3 M (1), corresponding to an unchanged percentage of impaired loans of 0.00%. For more information regarding loan losses, reserves and impaired loans, see notes 15 and 19.

Loans

Loans to the public rose 14%, or SEK 12 billion, to SEK 101 billion (89). Lending is conducted solely in SEK and in Sweden. The loan portfolio, comprising 75% single-family homes, 20% tenant-owned apartments, 4% multi-family housing and 1% other lending, continued to have favourable credit quality.

Cover pool

All loans, except for only 6%, are included in the cover pool. The collateral comprises private homes: 78% single-family homes, 20% tenant-owned apartments and 2% vacation homes. The geographic spread throughout Sweden is favourable and the average loan amount is SEK 404,000 (391,000). The weighted average loan-to-value ratio, LTV, was 63% (61) and the nominal, current OC amounted to 25% (22). 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 was 68% (67) on December 31, 2012. No impaired loans are included in the cover pool. Credit quality is high, which is also confirmed by Moody's key figure of collateral score from the report on October 9, 2012. The assets in Länsförsäkringar Hypotek's cover pool continue to maintain the highest credit quality among all Swedish covered- bond issuers and are among the best in Europe.

Funding

Debt securities in issue rose 7%, or SEK 6 billion, to SEK 91 billion (85). Funding was successful during the year and the maturity structure for funding was highly diversified. Covered bonds totalling a nominal amount of SEK 28.5 billion (26.8) were issued and a nominal amount of SEK 16.0 billion (12.3) was repurchased. Matured covered bonds amounted to a nominal amount of SEK 6.6 billion (7.9). For more information about the funding programmes, see page 11.

Liquidity

The liquidity reserve totalled a nominal amount of SEK 20.1 billion (22.8), of which 85% (60) is in Swedish covered bonds with an AAA/Aaa credit rating,

COVER POOL

	Dec 31, 2012	Dec 31, 2011
Cover pool, SEK billion	114	107
OC[1], nominal, current level, %	25	22
Weighted average Max-LTV, %	63	61
Collateral	Private homes	Private homes
Seasoning, months	58	58
Number of loans	236,639	215,668
Number of borrowers	108,527	98,296
Number of properties	109,057	98,766
Average commitment, SEK 000s	875	859
Average loan, SEK 000s	404	391
Fixed-interest period, variable, %	52	58
Fixed-interest period, fixed, %	48	42
Impaired loans	None	None

[1] OC is calculated using nominal values and excludes accrued interest rates. Debt securities in issue in other currencies than SEK are translated into SEK with the swap rate. Debt securities in issue include repurchase agreements. From June 1, 2012, OC is reported excluding the separate deposit account.

7% (33) is Swedish government bonds and 8% (7) comprises cash and cash equivalents in the separate deposit account. The level of the liquidity reserve corresponds to the refinancing requirement for all debt securities in issue falling due in about 1.5 years.

Rating

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

Capital adequacy

Länsförsäkringar Hypotek applies the Internal Ratings-Based Approach (IRB Approach). The advanced IRB Approach is applied to all retail exposure and to counterparty exposures to corporates and the agricultural sector up to SEK 5 M. The Foundation Internal Ratings-Based Approach is used for counterparty exposures to corporates and the agricultural sector in excess of SEK 5 M. The Standardised Approach is applied to other exposures. Tier 1 and Core Tier 1 capital amounted to SEK 4,739 M (4,140) and the Tier 1 and Core Tier 1 ratio was 22.3% (20.6) according to Basel II on December 31, 2012. The capital base amounted to SEK 5,143 M (4,584) and the capital adequacy ratio was 24.2% (22.8). For more information on the calculation of capital adequacy, see note 3.

Employees

Competent and forward-thinking employees are needed to grow, while retaining Sweden's most satisfied retail mortgage customers year after year. Involvement in business planning, a performance-based remuneration model, attractive internal development opportunities, and beneficial healthcare and insurance benefits are offered to the employees of the market's strongest financial brand. In 2012, the average number of employees was 6 (5), of whom 2 (1) were women and 4 (4) were men. With the aim of developing employees the focus in 2012 was clear leadership that utilises the potential of each individual employee and drives performance in an optimal manner. The working model for performance coaching was continuously monitored in the autumn of 2012. Marketing Länsförsäkringar as an attractive employer includes a social media presence, where students are active in both their free time and when seeking employment. The 23 regional insurance companies have many local partnerships with universities and colleges, which also strengthens the employer brand in the recruitment market. Both external and internal recruitment takes place.

Environment

The environmental work of the retail mortgage operations is directly linked to the joint environmental policy of the Länsförsäkringar AB Group. The aim of the environmental work is to reduce costs, improve customer service and achieve clear environmental gains that contribute to sustainable development for customers and society. The Länsförsäkringar AB Group acquired ISO 14001 certification – which guarantees a systematic approach to environmental management – several years ago. In 2012, this certification was confirmed by a new partnership with SFK Certification. As of the spring of 2012, the entire Länsförsäkringar AB Group now uses green electricity. The electricity has been designated a Good Environmental Choice by the Swedish Society for Nature Conservation. 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.

Risks and uncertainties

Länsförsäkringar Hypotek is exposed to a number of risks, primarily credit risks, liquidity risks and market risks. The macroeconomic situation in Sweden is critical for credit risk since all loans are granted in Sweden. Market risks primarily comprise interest-rate risks, which are restricted through narrow limits. The operations are characterised by a low risk profile. Loan losses remain low and the refinancing of business activities was highly satisfactory during the year.

For information about the risks in the operations, risk and capital management and the principles for risk governance, see note 3 Risks on page 28.

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

No significant events took place after the close of the year.

Proposed appropriation of profit

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

	SEK
Fair value reserve	81,684,842
Retained earnings	4,111,582,695
Group contribution paid, net	–182,039,000
Shareholders' contribution received	538,000,000
Net profit for the year	257,343,429
Profit to be appropriated	**4,806,571,966**

The Board proposes that SEK 4,806,571,966 be carried forward, of which SEK 81,648,842 be allocated to the fair value reserve.

RATING

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

[1] Pertains to the company's covered bonds.

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 18–44. See page 17 for the five-year summary. All figures in the Annual Report are reported in SEK M unless otherwise specified.

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 the Länsförsäkringar AB Group. Länsförsäkringar Hypotek is a public limited liability company whose bonds are listed on Nasdaq OMX Stockholm, the Luxembourg Stock Exchange and SIX Swiss Exchange. Länsförsäkringar Hypotek does not comply with the Swedish Code of Corporate Governance, referred to below as the Code.

Shareholders and General Meeting

Shareholders exercise their voting rights at the Annual General Meeting, which is the highest decision-making body. A general meeting is usually held once a year, the Annual General Meeting. Länsförsäkringar Bank AB owns 100% of the share capital and voting rights, and votes at the Meeting 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 and the Articles of Association.

The President of the Parent Company, Länsförsäkringar Bank AB, 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

The Board of Directors of Länsförsäkringar Hypotek is elected by the Annual General Meeting and, in accordance with the Articles of Association, is to 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 two years. The President is not a member of the board. 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 currently comprises a total of five members. The Chairman of the Board is the President of Länsförsäkringar Bank AB. A presentation of the Board members can be found on page 47.

Board responsibilities

The Board is responsible for the organisation and administration of the company and for handling and making all decisions concerning issues of material significance and of an overall nature relating to the company's operations. The Board appoints, evaluates and dismisses the President, adopts an appropriate organisation and the goals and strategies of the operations, and ensures that efficient systems are in place for internal control and risk management.

Every year, the Board adopts a formal work plan. The formal work plan includes regulations on the duties and responsibilities of the Board, its Chairman and its members, delegation of duties within the Board, the lowest number of Board meetings, procedures for reporting on the operations and financial reports, as well as procedures for Board meetings in terms of notices of meetings and presentation of materials, as well as disqualification from taking part in decisions.

The Board is to continuously remain informed about the performance of the company to be able to continuously assess the company's financial situation and position. Through its formal work plan, the Board has established that financial reporting is to take place through regular Board meetings.

The Board must also regularly manage and evaluate the company's risk development and risk management. 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. The Board receives regular reports from Compliance, Risk Control and Internal Audit. The Board continuously monitors current matters with authorities.

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. 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 governance 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 governance documents are subject to review and reassessment at least once a year. All governance 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 and are in line with guidelines issued by the Board. Based on its reviews, the Internal Audit function is to 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 governance documents in their area of responsibility and that procedures for self-assessments are in place.

Five-year summary

SEK M	2012	2011	2010	2009	2008
INCOME STATEMENT					
Interest income	7,205.9	6,891.7	4,018.9	3,641.8	5,146.8
Interest expense	–6,410.3	–6,385.3	–3,613.1	–3,356.4	–4,785.8
Net interest income	**795.6**	**506.4**	**405.8**	**285.4**	**361.0**
Net commission expense	–385.2	–248.6	–198.2	–162.8	–174.8
Net gains/losses from financial items	2.4	4.5	8.0	76.8	8.5
Other operating income	0.1	0.4	0.0	0.1	0.1
Total operating income	**412.9**	**262.7**	**215.6**	**199.5**	**194.8**
Staff costs	–12.9	–13.6	–10.4	–10.7	–11.1
Other administration expenses	–78.2	–64.4	–57.0	–55.4	–54.5
Depreciation	–0.1	0	–	–	–
Total operating expenses	**–91.2**	**–78.0**	**–67.4**	**–66.1**	**–65.6**
Profit before loan losses	**321.7**	**184.7**	**148.2**	**133.4**	**129.2**
Loan losses, net	–2.3	4.0	3.3	7.4	–0.2
Operating profit	**319.4**	**188.7**	**151.5**	**140.8**	**129.0**
Tax on net profit for the year	–62.1	–39.2	–46.7	–40.9	–36.2
Net profit for the year	**257.3**	**149.5**	**104.8**	**99.9**	**92.8**
BALANCE SHEET					
Assets					
Treasury bills and other eligible bills	1,544.9	8,341.5	2,820.7	–	–
Loans to credit institutions	1,696.2	1,912.1	8,155.8	9,389.0	9,723.0
Loans to the public	101,434.4	88,625.0	79,666.7	67,535.9	53,592.4
Bonds and other interest-bearing securities	18,218.7	14,504.5	12,483.3	2,056.7	–
Derivatives	1,746.4	1,470.3	995.9	1,416.8	2,167.5
Other assets and accrued income	2,678.0	2,558.4	1,547.1	1,351.6	1,701.1
Total assets	**127,318.6**	**117,411.8**	**105,669.5**	**81,750.0**	**67,184.0**
Liabilities and equity					
Due to credit institutions	22,984.2	19,985.7	17,844.4	20,476.2	18,221.0
Funding from the public	–	–	–	–	–
Debt securities in issue	90,962.4	85,396.2	79,695.4	54,679.5	42,284.8
Derivatives	2,824.3	2,237.8	1,864.8	842.8	1,188.8
Other liabilities and accrued expenses	5,155.2	4,949.5	2,141.4	2,291.9	2,475.5
Provisions	0.5	–	0.2	0.2	0.2
Subordinated liabilities	501.0	501.0	501.0	575.0	662.6
Equity	4,891.0	4,341.6	3,622.3	2,884.4	2,351.1
Total liabilities and equity	**127,318.6**	**117,411.8**	**105,669.5**	**81,750.0**	**67,184.0**
KEY FIGURES					
Return on equity, %	5.2	3.6	3.5	4.1	4.1
Return on total capital, %	0.26	0.17	0.15	0.19	0.23
Investment margin, %	0.65	0.45	0.40	0.38	0.65
Cost/income ratio before loan losses	0.22	0.30	0.31	0.33	0.34
Cost/income ratio after loan losses	0.23	0.28	0.30	0.29	0.34
Capital adequacy ratio according to Basel II, %	24.2	22.8	22.3	24.2	27.6
Capital adequacy ratio according to transition rules, %	10.1	10.5	10.4	10.7	10.5
Tier 1 ratio and Core Tier 1 ratio according to Basel II, %	22.3	20.6	19.7	20.3	21.6
Tier 1 ratio and Core Tier 1 ratio according to transition rules, %	9.4	9.4	9.2	9.0	8.2
Percentage of impaired loans, net, %	0.00	0.00	0.01	0.00	0.11
Reserve ratio in relation to loans, %	0.04	0.04	0.05	0.05	0.07
Loan losses in relation to lending, %	0.00	0.00	0.00	–0.01	0.00

FINANCIAL STATEMENTS

Income statement

SEK M	Note	2012	2011
Interest income	5	7,205.9	6,891.7
Interest expense	6	–6,410.3	–6,385.3
Net interest income		**795.6**	**506.4**
Commission income	7	2.4	2.2
Commission expense	8	–387.6	–250.8
Net gains from financial items	9	2.4	4.5
Other operating income	10	0.1	0.4
Total operating income		**412.9**	**262.7**
Staff costs	11	–12.9	–13.6
Other administration expenses	12, 13	–78.2	–64.4
Deprecation and impairment of property and equipment	14	–0.1	0.0
Total operating expenses		–91.2	–78.0
Profit before loan losses		**321.7**	**184.7**
Loan losses, net	15	–2.3	4.0
Operating profit		**319.4**	**188.7**
Tax	16	–62.1	–39.2
Net profit for the year		**257.3**	**149.5**

Statement of comprehensive income

SEK M	2012	2011
Net profit for the year	**257.3**	**149.5**
Other comprehensive income		
Available-for-sale financial assets		
Change in fair value	–48.0	161.0
Reclassification adjustments on realised securities	–38.4	–3.6
Tax	22.5	–41.4
Total other comprehensive income for the year, net after tax	**–63.9**	**116.0**
Comprehensive income for the year	**193.4**	**265.5**

Balance sheet

SEK M	Note	Dec 31, 2012	Dec 31, 2011
ASSETS			
Treasury bills and other eligible bills	17	1,544.9	8,341.5
Loans to credit institutions	18	1,696.2	1,912.1
Loans to the public	19	101,434.4	88,625.0
Bonds and other interest-bearing securities	20	18,218.7	14,504.5
Derivatives	21	1,746.4	1,470.3
Fair value changes of interest-rate-risk hedged items in portfolio hedge	22	781.1	640.5
Property and equipment	23	0.6	0.3
Deferred tax assets	24	3.3	0.3
Other assets	25	23.4	1.2
Prepaid expenses and accrued income	26	1,869.6	1,916.1
TOTAL ASSETS		**127,318.6**	**117,411.8**
LIABILITIES, PROVISIONS AND EQUITY			
Due to credit institutions	27	22,984.2	19,985.7
Debt securities in issue	28	90,962.4	85,396.2
Derivatives	21	2,824.3	2,237.8
Fair value changes of interest-rate-risk hedged items in portfolio hedge	22	2,067.7	1,755.8
Other liabilities	29	256.0	355.4
Accrued expenses and deferred income	30	2,831.5	2,838.3
Provisions	31	0.5	–
Subordinated liabilities	32	501.0	501.0
Total liabilities and provisions		**122,427.6**	**113,070.2**
Equity	34		
Share capital, 70,335 shares		70.3	70.3
Statutory reserve		14.1	14.1
Fair value reserve		81.7	145.6
Retained earnings		4,467.6	3,962.1
Net profit for the year		257.3	149.5
Total equity		**4,891.0**	**4,341.6**
TOTAL LIABILITIES, PROVISIONS AND EQUITY		**127,318.6**	**117,411.8**
Memorandum items	35		
For own liabilities, pledged assets/collateral		95,541.1	86,366.1
Other pledged assets/collateral		None	None
Contingent liabilities		2,730.6	2,192.6
Other commitments		4,952.2	3,893.7
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Cash-flow statement, indirect method

SEK M	2012	2011
Cash and cash equivalents, January 1	**5.8**	**22.9**
Operating activities		
Operating profit before tax	319.3	188.7
Adjustment of non-cash items	36.2	–64.1
Change in assets of operating activities		
Change in treasury bills and other eligible bills	6,446.1	–5,051.8
Change in loans to credit institutions	216.9	6,226.7
Change in loans to the public	–12,816.0	–8,952.1
Change in bonds and other interest-bearing securities	–3,618.6	–1,626.8
Change in derivatives	–83.2	259.1
Change in other assets	–22.0	–0.1
Change in liabilities of operating activities		
Change in due to credit institutions	3,051.2	2,126.1
Change in debt securities in issue	6,395.2	6,154.1
Change in other liabilities	–29.1	54.6
Change in derivatives	–85.1	136.6
Cash flow from operating activities	**–189.1**	**–549.0**
Investing activities		
Acquisition of property and equipment	–0.3	–0.3
Cash flow from investing activities	**–0.3**	**–0.3**
Financing activities		
Shareholders' contribution received	538.0	710.0
Group contribution paid	–347.5	–177.8
Cash flow from financing activities	**190.5**	**532.2**
Net cash flow for the year	**1.1**	**–17.1**
Cash and cash equivalents, December 31	**6.9**	**5.8**
Non-cash items		
Change in surplus value of financial assets	2.3	2.3
Other unrealised change in securities, net	–11.0	–35.9
Change in impairment of loan losses, excluding recoveries	5.9	–8.5
Change in accrued expense/income	40.0	–21.8
Provisions	0.6	–0.2
Other	–1.6	–
Total non-cash items	**36.2**	**–64.1**
Cash and cash equivalents comprise:		
Loans to credit institutions, payable on demand	6.8	5.8
Total cash and cash equivalents	**6.8**	**5.8**
Interest received amounts to	7,309.8	6,394.2
Interest paid amounts to	6,509.4	5,941.9
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
Opening balance, January 1, 2011	**70.3**	**14.1**	**29.6**	**3,403.5**	**104.8**	**3,622.3**
Net profit for the year					149.5	149.5
Other comprehensive income for the year			116.0			116.0
Comprehensive income for the year			*116.0*		*149.5*	*265.5*
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
Closing balance, Dec 31, 2011	**70.3**	**14.1**	**145.6**	**3,962.1**	**149.5**	**4,341.6**
Opening balance, January 1, 2012	**70.3**	**14.1**	**145.6**	**3,962.1**	**149.5**	**4,341.6**
Net profit for the year					257.3	257.3
Other comprehensive income for the year			–63.9			–63.9
Comprehensive income for the year			*–63.9*		*257.3*	*193.4*
Resolution by Annual General Meeting				149.5	–149.5	–
Group contribution paid				–247.0		–247.0
Tax on Group contribution paid				65.0		65.0
Conditional shareholders' contribution received				538.0		538.0
Closing balance, Dec 31, 2012	**70.3**	**14.1**	**81.7**	**4,467.6**	**257.3**	**4,891.0**

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, 2012. 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 February 14, 2013. Final approval of the Annual Report will be made by the company's Annual General Meeting on May 13, 2013.

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 (SEK M).

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 37, or when fair value hedge accounting is applied. Financial assets and liabilities measured at fair value comprise derivative instruments, financial 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 judgments 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 judgments and estimates are based on historic experiences and the best information available on the balance-sheet date. The actual outcome may deviate from these judgments 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. See note 8.

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 caused by new or amended IFRSs and interpretive statements

The changes applied by the company since January 1, 2012 are described below. Other changes to IFRS applicable from 2012 had no significant effect on the company's accounts.

Disclosures – Transfers of financial assets

According to the revised IFRS 7, disclosure is to be provided for financial assets that have been derecognised in their entirety or in part. This means that further information will need to be provided regarding the company's repurchase agreements.

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.

- IAS 1 *Presentation of Financial Statements*. This amendment pertains to the presentation of items in other comprehensive income. The items are to be divided into two categories: items that can be reclassified to net profit for the period and items that cannot be restated in net profit for the period. Other comprehensive income currently has only one category, which is why the amendment will not have any significant impact on the presentation of other comprehensive income. The amendment is to be applied from fiscal years beginning July 1, 2012 with retroactive effect.
- 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, 2012, 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 19,763.6 M, of which an expense of SEK 442.0 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 are to 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 already applies the suggested hierarchy (see note 37 Fair value valuation techniques) and therefore this framework will not have an appreciable change on the current accounting of the company. IFRS 13 also entails that changes in credit risks will affect the measurement of derivatives. The company has CSA agreements with all derivative counterparties, meaning that the credit risk is small. The amendment is to be applied to 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, Länsförsäkringar Fastighetsförmedling AB, Länsförsäkringar PE Holding (publ), Humlegården Holding I AB, Humlegården Holding II AB, Humlegården Holding III AB and Humlegården Fastigheter 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, is to 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 primarily utilises defined-contribution pension plans. The company 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 occur in accordance with IAS 19 Employee Benefits.

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 is, as a rule, to recognise its proportional share of the defined-benefit pension commitment and the plan assets and expenses associated with the pension commitment. Disclosure is also to 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. Probable loan losses are reversed when no impairment requirement is deemed to exist. Only the company's share of confirmed loan losses are recognised. The regional insurance companies' share of confirmed loan losses are settled through compensation to the regional insurance companies and is recognised on the line "Loan losses."

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 is to 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 asset 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 was not utilised in 2012.

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 35.

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 2012.

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 funding and lending 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 funding 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 the estimated recoveralde amount is lower than the carrying amount.

An individual impairment loss is recognised according to either an individual assessment or the statistical model when 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.

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 or where the assessment is that the possibility of receiving additional payments is very small, 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

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 RISKS

Länsförsäkringar Hypotek is exposed to a number of risks that are managed in accordance with guidelines and limits set by the Board. Risk management is performed by the employees working in the banking operations. Accordingly, risk awareness is prevalent in all day-today business decisions.

Risk categories

The types of risk to which the company is exposed and therefore must be managed are:

- **Credit risks** – Credit risk consists of the counterparty's inability to fulfil its commitments and whereby the company is affected by a financial loss. Accordingly, credit risk is assigned to the loan portfolio, but credit risk in the liquidity portfolio and derivative exposure are also included in this category.
- **Market risks** – Market risk refers to the risk of loss or lower future earnings due to changes in interest rates and exchange rates.
- **Liquidity risks** – Liquidity risk is defined as the risk that the company, due to insufficient cash funds, will be unable to fulfil its commitments or only be able to fulfil its commitments by raising cash at a significantly higher cost than normal or by divesting assets at a substantial deficit price.
- **Business risks** – Business risk comprises earnings risk, strategic risk and reputation risk.
- **Operational risks** – Operational risk is defined as the risk of losses arising due to inappropriate or inadequate internal processes, human error, incorrect systems or external events. Operational risk also includes legal risk.

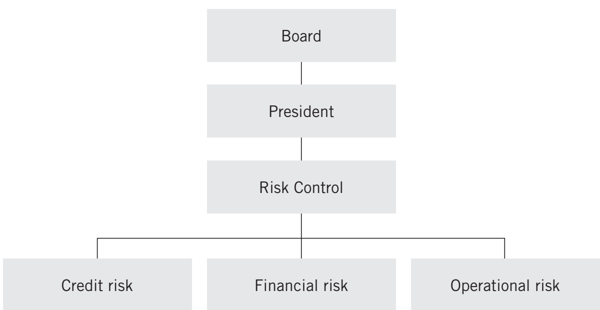
A detailed qualitative description has been prepared for each risk category above, in which the boundaries in relation to closely related risks, managing risk with risk-reduction measures and future risk exposure are also presented.

Market risk pertains to the risk of loss or lower future earnings due to changes in interest rates, exchange rates, share prices, credit spreads or other risk factors in the financial markets.

Business risk is defined as the risk of lower earnings due to lower volumes, price pressure or similar consequences due to a more difficult competitive situation. Business risk has three subcategories of risk: strategic risk, earnings risk and reputation risk.

Strategic risk refers to lower earnings due to institutional changes and changes in basic market conditions that may occur.

Hierarchy of responsibilities for Risk Control



Strategic risk also includes the ability of the Board of Directors and President to plan, organise, follow up on and control the operations and to continuously monitor market conditions.

Earnings risk refers to 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.

Reputation risk refers to the risk of a tarnished reputation among customers, owners, employees, authorities, rating agencies and other parties, which could lead to lower income or higher costs.

Operational risks are measured against a risk-tolerance scale established by the Board.

Authorities and responsibilities

The Board of Directors is ultimately responsible for ensuring that an effective risk-management system is in place and that the company's risk tolerance and risk appetite is well-defined. The Board approves all significant elements of the internal models utilised by the company. Through the company's Compliance, Risk Control and Internal Audit functions, the Board is also responsible for ensuring that regulatory compliance and risks are managed in a satisfactory manner.

The President is responsible for ensuring that daily management takes place in accordance with the strategies, guidelines and governance documents established by the Board. The President also ensures that the methods, models, systems and processes that form the internal measurement and control of identified risks work in the manner intended and decided by the Board. The President's responsibility also includes establishing more detailed regulations for the risk-management system within the framework determined by the Board. The President is to continuously ensure that each unit, including Risk Control, reports to the Board. The Risk Control unit is charged with the operational responsibility for the independent risk control and must thus objectively manage and report risks in the company. Risk Control's areas of responsibility are defined and documented in an instruction prepared by the President.

The company's risk management follows the division of roles and responsibilities according to the three lines of defence:

The first line of defence pertains to all risk-management activities carried out by line managers and employees. The operations that are exposed to risk also own the risk, which means that the daily risk management takes place within the operations. All employees assume individual responsibility for working towards a well-functioning risk culture by complying with internal rules regarding the company's risk-management system.

The second line of defence pertains to the Risk Control and Compliance functions, which establish principles and frameworks for risk management. Risk Control checks that there is adequate risk awareness and acceptance for managing risk on a daily basis. Risk Control also has a supportive function and works to ensure that the operations have all the processes, systems and tools necessary for maintaining ongoing risk management.

The third line of defence pertains to Internal Audit, which carries out independent, regular examinations of management, systems and internal controls.

Combined, this process is to ensure that the Board has an objective and clear understanding of the overall risk profile of the operations.

Risk-management system

The company has an effective and robust system for risk management, the risk-management system, which allows continuous evaluation and assessment of the risks associated with the business activities. The system is to be an integrated part of the company's decision-making processes and contribute to achieving the operational targets with a high degree of security.

The risk-management system contains strategies, processes and reporting procedures necessary for continuously identifying, measuring, monitoring, managing and reporting the risks associated with the business activities. The company is also to introduce methods and procedures required for managing the risks pertaining to the company's business activities.

The company's risk-management system is designed to not only comply with regulatory requirements but also to meet internal needs and adhere to sound market practice.

Länsförsäkringar Hypotek AB manages and evaluates its exposure to the risks to which its operations are exposed on the basis of:

- Clear and documented internal procedures and control systems.
- Clearly defined and documented responsibilities and authorities.
- Risk-measurement methods and systems support that are customised to the requirements, complexity and size of the operations.
- Regular incident reporting of the operations according to a documented process.
- Sufficient resources and expertise for attaining the desired level of quality in both the business and control activities.
- Documented and communicated contingency and continuity plans.
- Clear instructions for credit risk, operational risk, liquidity risk and market risk that are annually updated and approved by the President/Board.

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 8.

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 quality 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.

The change in the distribution of PD grades reported in the table below is due to the implementation of new models. The new PD models for the retail segment differentiate risk better than the previous model.

PD grade, SEK M	PD (%)	Dec 31, 2012	Dec 31, 2011
1	0.05	12,285	213
2	0.10	17,417	4,292
3	0.20	26,865	21,139
4	0.40	22,192	42,821
5	0.80	14,880	9,761
6	1.60	3,881	4,498
7	3.20	1,635	1,096
8	6.40	1,120	548
9	12.80	514	269
10	25.60	283	169
11	51.20	232	223
Default	100.00	156	95
Total IRB Approach		**101,460**	**85,124**
Not IRB classified		**14**	**3,535**
Loans to the public, gross		**101,474**	**88,659**

Credit quality

Lending increased to SEK 101 billion (89). 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 housing that qualify for inclusion in the cover pool but that Länsförsäkringar has chosen to exclude.

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

	Dec 31, 2012	Dec 31, 2011
Credit risk exposure for items recognised in the balance sheet		
Cash and balances with central banks	1,545	8,342
Loans to credit institutions	1,696	1,912
Loans to the public	101,434	88,625
Bonds and other interest-bearing securities	18,219	14,504
Derivatives	1,747	1,470
Other assets	27	2
Accrued income	1,870	1,916
Credit risk exposure for memorandum items		
Loan commitments and other credit commitments	4,952	3,894
Total	**131,490**	**120,665**

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

Cover pool

On December 31, 2012, the cover pool had a volume of SEK 114 billion (107). The geographic distribution in Sweden is favourable and collateral comprises private homes, single-family homes, tenant-owned apartments and, to a small extent, vacation homes. The quality of the loan portfolio remains high. The weighted average loan-to-value ratio (LTV) was 63% (61) and the average commitment per borrower was SEK 875,000 (859,000). The market value of all single-family homes, tenant-owned apartments and vacation homes in the loan portfolio is updated anually.

Loan portfolio by collateral, Länsförsäkringar Hypotek

	Dec 31, 2012		Dec 31, 2011	
Collateral	SEK M	%	SEK M	%
Single family homes and vacation homes	76,697	76	69,170	78
Tenant-owned apartments	19,892	20	16,998	20
Multi-family housing	4,382	4	2,173	2
Industrial properties	491	0	302	0
Other	12	0	16	0
Total	**101,474**	**100**	**88,659**	**100**

Cover pool	Dec 31, 2012	Dec 31, 2011
Cover pool, SEK billion	114	107[1]
of which, Swedish mortgages, SEK billion	95	84
of which, substitute collateral, SEK billion	19	21
Separate deposit account, SEK billion	1.5	1.6
Collateral	Private homes	Private homes
Weighted average LTV[2], %	63	61
Seasoning, months	58	58
Number of loans	236,639	215,668
Number of properties	109,057	98,766
Average commitment, SEK 000s	875	859
Average loan, SEK 000s	404	391
Interest-rate type, up to 12 months, %	52	58
Interest-rate type, more than 12 months, %	48	42
OC[3], current level, %	25	22.5
Impaired loans	None	None

1) The separate deposit account is not included in the cover pool from June 1, 2012.
2) According to the "Maximum LTV per property" calculation method.
3) 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, 2012, %	Dec 31, 2011[1], %
Stockholm	15	15
Eastern Sweden	23	23
Southern Sweden	14	14
Western Sweden	31	31
Northern Sweden	17	17
Total	**100**	**100**

1) Distribution in accordance with Associated Covered Bond Issuers' reporting for National Templates.

Cover pool by LTV

	Dec 31, 2012		Dec 31, 2011	
LTV interval, %	SEK M	%	SEK M	%
0–10	17,789	19	16,274	19
11–20	16,574	17	15,067	18
21–30	15,179	16	13,692	16
31–40	13,680	14	12,217	14
41–50	12,015	13	10,563	13
51–60	10,037	10	8,560	10
61–70	7,452	8	5,961	7
71–75	2,804	3	2,094	3
Total	**95,530**	**100**	**84,428**	**100.0**

Distribution of commitments in the cover pool

Commitment interval SEK 000s	Dec 31, 2012 SEK M	%	Dec 31, 2011 SEK M	%
< 500	10,428	11	9,694	12
500 – 1,000	24,372	26	22,019	26
1,000 – 1,500	24,473	26	21,629	26
1,500 – 2,500	26,494	28	23,141	27
2,500 – 5,000	9,424	9	7,706	9
> 5,000	339	0	239	0
Total	**95,530**	**100**	**84,428**	**100**

Only 56 commitments in the cover pool have a value of more than SEK 5 M. A total of 63% (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, 2012 SEK M	%	Dec 31, 2011 SEK M	%
Single-family homes	74,183	78	66,338	78
Tenant-owned apartments	19,729	2	16,779	2
Vacation homes	1,618	20	1,311	20
Total	**95,530**	**100**	**84,428**	**100**

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 68% compared with a current weighted average LTV of 63% on December 31, 2012.

Impaired loans

Impaired loans amounted to SEK 3 M (1), corresponding to a percentage of impaired loans of 0.00% (0.00) of the loan portfolio. Loan losses net, amounted to SEK 2 M (–4), 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, 2012	Dec 31, 2011
Single family homes and vacation homes	3.1	0.6
Tenant-owned apartments	0.0	0.2
Total	**3.1**	**0.8**

Non-performing loan receivables not included in impaired loans, SEK M	Dec 31, 2012	Dec 31, 2011
10–19 days	0.3	0
10–39 days	66.2	39.4
40–60 days	12.2	0
Total	**78.7**	**39.4**

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)

Financial credit risk 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 derivates, 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.

Bonds and other interest-bearing securities, SEK M	Dec 31, 2012	Dec 31, 2011
AAA/Aaa	18,218.7	14,504.5
Total	**18,218.7**	**14,504.5**

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 funding or covering the gap using 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, 2012, 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 64 M (20).

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 funding in EUR, CHF and NOK. In line with the Financial Policy, all funding 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 funding 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 funding programmes which, in combination, provide opportunities for managing risk since the contractual cash flows vary between assets and liabilities. For more information about funding programmes, see page 11.

The Board also decides on a liquidity and financing strategy with a finance plan appendix. This 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 CSA agreements that have derivative counterparties require that collateral is pledged for derivatives that have a negative value for the company. This collateral is pledged in the form of cash funds that are transferred to the counterparties, thus entailing a liquidity risk for the company. For derivatives with positive values for the company, collateral is received which can reduce this risk.

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 is to 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 six months of normal operations without funding 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 funding 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 20.1 billion (22.8) on December 31, 2012. All liquidity is invested in Swedish securities with high credit quality. A total of 85% (60) of the liquidity portfolio comprises covered bonds with the highest credit rating, 7% (33) securities with the government as the counterparty and 8% (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 funding 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, funding 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 funding.

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. 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, 2012, 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
Assets									
Treasury bills and other eligible bills					1,094.7	450.2			1,544.9
Loans to credit institutions	1,696.2								1,696.2
Loans to the public	40,577.1	16,767.7	4,561.6	9,460.3	25,188.9	4,286.6	620.3	–28.2	101,434.4
Bonds and other interest-bearing securities				2,915.9	12,607.9	2,694.9			18,218.7
Other assets								4,424.4	4,424,4
Total assets	**42,273.3**	**16,767.7**	**4,561.6**	**12,376.2**	**38,891.6**	**7,431.8**	**620.3**	**4,396.2**	**127,318.6**
Liabilities									
Due to credit institutions	22,984.2								22,984.2
Debt securities in issue		2,479.6	1,391.1	6,378.5	43,388.3	32,340.9	4,983.9		90,962.3
Other liabilities								7,980.1	7,980.1
Subordinated liabilities		501.0							501.0
Equity								4,891.0	4,891.0
Total liabilities and equity	**22,984.2**	**2,980.6**	**1,391.1**	**6,378.5**	**43,388.3**	**32,340.9**	**4,983.9**	**12,871.1**	**127,318.6**
Difference assets and liabilities	**19,289.1**	**13,787.1**	**3,170.6**	**5,997.7**	**–4,496.7**	**–24,909.1**	**–4,363.5**	**–8,474.5**	
Interest-rate derivatives, nominal values, net	574.8	–18,573.5	–5,645.0	–6,400.0	–19,340.0	25,620.0	3,425.0		
Net exposure	**19,864.0**	**–4,786.4**	**–2,474.4**	**–402.3**	**–23,836.7**	**710.9**	**–938.5**	**–8,474.5**	

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
Assets									
Treasury bills and other eligible bills					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
Total assets	**35,008.3**	**16,009.4**	**5,859.9**	**6,859.6**	**29,418.8**	**13,963.6**	**1,282.4**	**4,008.8**	**117,411.8**
Liabilities									
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
Total liabilities and equity	**20,435.7**	**17,671.7**	**219.9**		**38,831.9**	**28,266.1**	**457.6**	**11,529.0**	**117,411.8**
Difference assets and liabilities	**14,572.6**	**–1,662.3**	**10,640.9**	**6,859.6**	**–9,413.1**	**–14,302.4**	**824.8**	**–7,520.0**	
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		
Net exposure	**16,857.4**	**–13,244.1**	**1,951.9**	**–5.4**	**329.4**	**802.2**	**–58.7**	**–7,520.0**	

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

Dec 31, 2012, 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
Assets									
Treasury bills and other eligible bills				1,400.0			1,400.0	1,544.9	1,400.0
Loans to credit institutions	1,696.2						1,696.2	1,696.2	
Loans to the public			0.2	38.5	101,395.7		101,434.4	101,434.4	93,522.5
Bonds and other interest-bearing securities			2,850.0	14,350.0			17,200.0	18,218.7	14,350.0
Other assets						4,424.4	4,424.4	4,424.4	
Total	**1,696.2**		**2,850.2**	**15,788.5**	**101,395.7**	**4,424.4**	**126,155.0**	**127,318.6**	**109,272.5**
Liabilities									
Due to credit institutions		11.3	22,913.7				22,925.0	22,984.2	
Debt securities in issue		2,325.0	7,238.3	74,662.0	5,399.1		89,624.4	90,962.4	69,437.0
Other liabilities						7,980.0	7,980.0	7,980.0	
Subordinated liabilities					501.0		501.0	501.0	501.0
Total liabilities		**2,336.3**	**30,152.0**	**74,662.0**	**5,900.1**	**7,980.0**	**121,030.4**	**122,427.6**	**501.0**
Difference assets and liabilities	**1,696.2**	**–2,336.3**	**–27,301.8**	**–58,873.5**	**95,495.6**	**–3,555.6**	**5,124.6**	**4,891.0**	
Loans approved but not disbursed		4,952.2					4,952.2		
Total difference, excluding derivatives	**1,696.2**	**–7,288.5**	**–27,301.8**	**–58,873.5**	**95,495.6**	**–3,555.6**	**5,124.6**		

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
Assets									
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	9,050.0
Other assets						4,028.9	4,028.9	4,028.9	12,483.3
Total	**1,912.1**	**100.0**	**4,575.0**	**16,592.6**	**88,560.0**	**4,028.9**	**111,093.6**	**117,412.0**	**112,252.3**
Liabilities									
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
Total liabilities		**12,305.0**	**19,086.7**	**72,815.7**	**967.6**	**7,187.4**	**112,362.4**	**113,070.3**	**64,055.8**
Difference assets and liabilities	**1,912.1**	**–12,205.0**	**–14,511.7**	**–56,223.1**	**87,592.5**	**–3,158.5**	**–1,268.8**		
Loans approved but not disbursed		3,893.7					–1,268.8		
Total difference, excluding derivatives	**1,912.1**	**–16,198.7**	**–14,511.7**	**–56,223.1**	**87,592.5**	**–3,158.5**	**0.0**		

Liquidity exposure, derivatives

Dec 31, 2012, SEK M	< 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Total nominal cash flows
Derivatives at fair value through profit or loss					
– Currency					
– Interest					
Derivatives in hedge accounting					
– Currency	127.0	325.6	–931.9	52.3	–427
– Interest	120.0	–261.0	1,382.4	35.2	1,276.6
Total difference, excluding derivatives	**247.0**	**64.5**	**450.5**	**87.6**	**849.6**

Dec 31, 2011, SEK M	< 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Total nominal cash flows
Derivatives in hedge accounting					
– Currency	158.1	88.9	176.4	103.7	527.1
– Interest	212.5	422.2	554.1	–62.9	1,125.9
Other					
– Currency					
– Interest					
Total difference, excluding derivatives	**370.6**	**511.1**	**730.5**	**40.8**	**1,653.0**

Business risk

Business risk primarily comprises earnings risks. Earnings risk is defined 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 products and portfolios. The retail mortgages operations have a low level of volatility and thus a low earnings risk.

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 perform an analysis of the operational risk associated with the 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 subject to regular quality assurance. This is carried out to ensure that the risks remain within the company's tolerance 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. The Bank Group's procedures, implementation and results are to be reported to the Swedish Financial Supervisory Authority annually. The CRO 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/financialbank.

NOTE 3 RISKS

Capital-adequacy analysis

SEK M	Dec 31, 2012	Dec 31, 2011
Capital base		
Tier 1 capital and Core Tier 1 capital before deductions	4,809.3	4,196.0
Less deferred tax assets	–3.3	–0.3
Less IRB deficit	–67.2	–56.2
Tier 1 capital and Core Tier 1 capital	**4,738.8**	**4,139.5**
Tier 2 capital	471,0	501.0
Deductions for Tier 2 capital	–67.2	–56.2
Total capital base	**5,142.6**	**4,584.3**
Risk-weighted assets according to Basel II	**21,248.9**	**20,130.8**
Risk-weighted assets according to transition rules	**50,668.7**	**43,844.0**
Capital requirement		
Capital requirement for credit risk according to the Standardised Approach	291.6	355.0
Total capital requirement for credit risk according to IRB Approach	1,381.0	1,230.9
Capital requirement for operational risk	27.3	24.6
Capital requirement according to Basel II	**1,699.9**	**1,610.5**
Adjustment according to transition rules	2,353.6	1,897.0
Total capital requirement	**4,053.5**	**3,507.5**
Tier 1 ratio and Core Tier 1 ratio according to Basel II, %	22.3	20.6
Capital adequacy ratio according to Basel II, %	24.2	22.8
Capital ratio according to Basel II	3.03	2.85
Tier 1 ratio and Core Tier 1 ratio according to transition rules, %	9.4	9.4
Capital adequacy ratio according to transition rules, %	10.1	10.5
Capital ratio according to transition rules	1.27	1.31
Special disclosures		
IRB Provisions surplus (+)/deficit (–)	**–134.4**	**–112.4**
IRB Total provisions (+)	39.7	31.2
IRB Anticipated loss (–)	–174.1	–143.6
Capital requirements		
Credit risk according to Standardised Approach		
Exposures to institutions	80.6	69.5
Exposures to corporates	2.8	1.1
Retail exposures	57.3	46.1
Exposures secured on residential property	0.0	117.7
Past due items	0.0	0.2
Covered bonds	149.7	119.2
Other items	1.1	1.2
Total capital requirement for credit risk according to Standardised Approach	**291.6**	**355.0**
Credit risk according to IRB Approach		
Retail exposures		
Exposures secured by real estate collateral	1,122.9	1,150.3
Other retail exposures	1.2	0.6
Total retail exposures	**1,124.1**	**1,150.9**
Exposures to corporates	**256.9**	**80.0**
Total capital requirement for credit risk according to IRB Approach	**1,381.0**	**1,230.9**
Operational risks		
Standardised Approach	27.3	24.6
Total capital requirement for operational risk	**27.3**	**24.6**

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).

NOTE 4 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 5 INTEREST INCOME

SEK M	2012	2011
Loans to credit institutions	34.8	86.5
Loans to the public	3,687.0	3,149.7
Interest-bearing securities	576.5	568.5
Derivatives		
Hedge accounting	2,907.6	2,955.5
Non-hedge accounting	–	131.5
Total interest income	**7,205.9**	**6,891.7**
of which interest income on impaired loans	0.0	0.0
of which interest income from financial items not measured at fair value	3,721.8	3,236.1
Average interest rate on loans to the public during the year, %	3.9	3.7

NOTE 6 INTEREST EXPENSE

SEK M	2012	2011
Due to credit institutions	–540.1	–400.5
Interest-bearing securities	– 2,833.4	–2,729.9
Subordinated liabilities	–22.9	–23.7
Derivatives		
Hedge accounting	– 2,977.4	–3,072.1
Non-hedge accounting	–	–125.1
Other interest expense	–36.5	–34.0
Total interest expense	**–6,410.3**	**–6,385.3**
of which interest expense from financial items not measured at fair value	–3,432.9	–3,188.1

NOTE 7 COMMISSION INCOME

SEK M	2012	2011
Loans	2.4	2.2
Total commission income	**2.4**	**2.2**

NOTE 8 COMMISSION EXPENSE

SEK M	2012	2011
Remuneration to regional insurance companies	–386.3	–249.2
Other commission	–1.3	–1.6
Total commission expense	**–387.6**	**–250.8**

NOTE 9 GAINS FROM FINANCIAL ITEM

SEK M	2012	2011
Change in fair value		
Interest-related instruments	281.8	469.2
Currency-related instruments	–783.9	15.6
Change in fair value of hedged items	478.2	–506.5
Capital gains/losses		
Interest-related instruments	–23.4	1.4
Interest compensation	49.7	24.8
Total net gains/losses from financial items	**2.4**	**4.5**
Profit/loss by valuation category		
Available-for-sale financial assets, realised	377.0	21.1
Derivative assets intended for risk management, non-hedge accounting	–	–
Derivative liabilities intended for risk management, non-hedge accounting	–	–
Derivatives in hedge accounting, realised	–90.9	–0.2
Loans and receivables	49.7	24.8
Financial liabilities at amortised cost	–309.5	–15.2
Change in fair value of derivatives that are hedging instruments in a fair value hedge	–502.1	484.8
Change in fair value of hedged items with regard to the hedged risk in fair value hedges	478.2	–510.8
Total	**2.4**	**4.5**

NOTE 10 OTHER OPERATING INCOME

SEK M	2012	2011
Other income	0.1	0.4
Total other operating income	**0.1**	**0.4**

NOTE 11 EMPLOYEES, STAFF COSTS AND REMUNERATION TO SENIOR EXECUTIVES

Average number of employees, Sweden	2012	2011
Men	4	4
Women	2	1
Total number of employees	**6**	**5**

Salaries, other remuneration and social security expenses, other employees	2012	2011
Salaries and remuneration	2.6	3.0
of which variable remuneration	–	–
Social security expenses	2.5	2.5
of which pension costs	1.0	1.3
Total	**5.1**	**5.5**

Board of Directors and senior executives, 3 (3)	2012	2011
Salaries and remuneration	4.3	4.7
of which, fixed salary to the President and Executive Vice President	4.0	4.6
of which, variable remuneration to the President and Executive Vice President	–	–
Social security expenses	3.0	3.3
of which pension costs	1.4	1.5
Total	**7.3**	**8.0**

Total salaries, other remuneration and social security expenses	2012	2011
Salaries and remuneration	6.9	7.7
of which variable remuneration	–	–
Social security expenses	5.5	5.9
of which pension costs	2.4	2.8
Total	**12.4**	**13.6**

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.

NOTE 11 EMPLOYEES, STAFF COSTS AND REMUNERATION TO SENIOR EXECUTIVES, cont.

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
2012						
Anders Borgcrantz, President	2.5			1.0	3.5	35
Martin Rydin, Executive Vice President	1.6			0.4	2.0	25
Christer Malm, Board member	0.1				0.1	
Christian Bille, Board member	0.1				0.1	
Total 2012	**4.3**			**1.4**	**5.7**	
2011						
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	
Total 2011	**4.7**	**0.0**	**0.0**	**1.5**	**6.2**	

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). The retirement age for the Executive Vice President and other senior executives is 65. These 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). Furthermore, an additional pension premium corresponding to half a price base amount is paid every year.

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.

NOTE 11 EMPLOYEES, STAFF COSTS AND REMUNERATION TO SENIOR EXECUTIVES, cont.

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 employment for senior executives and employees with overall responsibility for one of the company's control functions.

Composition of Remuneration Committe
The composition and duties of the Remuneration Committee are regulated in the Board's formal work plan. The Remuneration Committee comprises the Board Chairman and one Board member.

Policies for remuneration to senior executives
Senior executives in the Länsförsäkringar AB Group are to have market-based employment terms and conditions. Total remuneration is to 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.

Number of women among senior executives, %	**Dec 31, 2012**	**Dec 31, 2011**
Board members	20	0
Other senior executives	0	0

Loans to senior executives	**Länsförsäkringar Hypotek**		**Länsförsäkringar AB Group**	
SEK M	**2012**	**2011**	**2012**	**2011**
Board members	**1.6**	**1.6**	**50.1**	**54.0**
of which, loans from Länsförsäkringar Bank	1.0	1.0	11.6	10.9
of which, loans from Länsförsäkringar Hypotek	0.6	0.6	38.5	43.1
of which loans from Wasa Kredit	–	–	–	–
President and Executive Vice Presidents	–	**–**	**17.8**	**18.3**
of which, loans from Länsförsäkringar Bank	–	–	3.8	3.3
of which, loans from Länsförsäkringar Hypotek	–	–	13.7	15.0
of which loans from Wasa Kredit	–	–	0.3	–
Senior executives	–	**–**	**36.4**	**30.7**
of which, loans from Länsförsäkringar Bank	–	–	6.6	6.1
of which, loans from Länsförsäkringar Hypotek	–	–	29.8	24.6
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 12 OTHER ADMINISTRATION EXPENSES

SEK M	**2012**	**2011**
Costs for premises	0.0	0.0
IT costs	–0.9	–1.6
Management costs	–2.1	–2.3
Other administration expenses	–75.2	–60.5
Total administration expenses	**–78.2**	**–64.4**

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

NOTE 13 REMUNERATION TO AUDITORS

SEK M	**2012**	**2011**
Audit fees		
KPMG		
– Audit assignments	–0.4	–0.5
– Audit activities other than audit assignments	–	–0.3
– Other assignments	–0.3	–
Deloitte		
– Audit assignments	–	–
– Audit activities other than audit assignments	–	–0.6
– Other services	–0.4	–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 14 DEPRECIATION AND IMPAIRMENT OF PROPERTY AND EQUIPMENT

SEK M	**2012**	**2011**
Depreciation of property and equipment	–0.1	0.0
Total depreciation and impairment of assets	**–0.1**	**0.0**

NOTE 15 LOAN LOSSES, NET

SEK M	**2012**	**2011**
Specific reserve for individually assessed loan receivables		
Write-off of confirmed loan losses during the year	–8.0	–17.5
Reversed earlier impairment of loan losses recognised as confirmed losses	1.8	4.8
Impairment of loan losses during the year	–4.6	–8.4
Payment received for prior confirmed loan losses	11.7	13.1
Reversed impairment of loan losses no longer required	1.1	6.7
Net income/expense for the year for individually assessed loan receivables	**2.0**	**–1.3**
Collective reserves for individually assessed receivables		
Provision/reversal of impairment of loan losses	–	–
Collectively assessed homogenous groups of loan receivables of limited value and similar credit risk		
Provision/reversal of impairment of loan losses	–4.3	5.3
Net income/expense for the year for collectively assessed homogenous loan receivables	**–4.3**	**5.3**
Net income/expense of loan losses for the year	–2.3	**4.0**

All information pertains to receivables from the public.

NOTE 16 TAX

SEK M	2012	2011
Current tax		
Current tax	–64.9	–39.4
Total current tax	**–64.9**	**–39.4**
Deferred tax		
Change in deferred tax expense on temporary differences	3.0	0.2
Total deferred tax	**3.0**	**0.2**
Total recognised tax expense	**–62.1**	**–39.2**
Reconciliation of effective tax rate		
Profit before tax	319.3	188.7
Tax at applicable tax rate	–84.0	–49.6
Tax on non-deductible costs	–0.2	–0.2
Tax attributable to changed tax rates	–0.7	–
Other	22.8	10.6
Total tax on net profit for the year	**–62.1**	**–39.2**
Applicable tax rate	26.3%	26.3%
Effective tax rate	19.4%	20.8%
Tax items recognised directly against equity		
Current tax in Group contribution paid	–64.9	–91.4
Tax items recognised in other comprehensive income		
Tax on available-for-sale financial assets	22.8	–41.4

	2012			2011		
SEK M	Before tax	Tax	After tax	Before tax	Tax	After tax
Tax attributable to other comprehensive income						
Available-for-sale financial assets	–86.8	22.8	–64.0	157.4	–41.4	116.0

NOTE 17 TREASURY BILLS AND OTHER ELIGIBLE BILLS

SEK M	Dec 31, 2012	Dec 31, 2011
Carrying amount		
Swedish government	1,544.9	8,341.5
Total treasury bills and other eligible bills	**1,544.9**	**8,341.5**
Fair value	1,544.9	8,341.5
Amortised cost	1,497.0	7,943.1
Nominal value	1,400.0	7,458.0
Remaining term of more than 1 year	1,544.9	8,341.5

NOTE 18 LOANS TO CREDIT INSTITUTIONS

SEK M	Dec 31, 2012	Dec 31, 2011
Loans to credit institutions	1,696.2	1,912.1
Total loans to credit institutions	**1,696.2**	**1,912.1**
Payable on demand	1,696.2	1,912.1

Loans to credit institutions include investments of SEK 1,683.8 M (1,906.3) in the Parent Company.

NOTE 19 LOANS TO THE PUBLIC

Loan receivables are geographically attributable in their entirety to Sweden.

SEK M	Dec 31, 2012	Dec 31, 2011
Loan receivables, gross		
Corporate sector	3,881.7	1,733.8
Retail sector	97,592.4	86,925.0
Total loan receivables, gross	**101,474.1**	**88,658.8**
Impairment of individually reserved loan receivables		
Retail sector	–1.9	–0.3
Total individual reserves	**–1.9**	**–0.3**
Impairment of collectively reserved loan receivables		
Corporate sector	–3.2	–2.5
Retail sector	–34.6	–31.0
Total collective reserves	**–37.8**	**–33.5**
Total provisions	**–39.7**	**–33.8**
Loan receivables, net		
Corporate sector	3,878.4	1,731.3
Retail sector	97,556.0	86,893.7
Total loans to the public	**101,434.4**	**88,625.0**
Payable on demand	–	–
Remaining term of not more than 3 months	57,316.6	49,018.6
Remaining term of more than 3 months but not more than 1 year	14,021.9	13,098.0
Remaining term of more than 1 year but not more than 5 years	29,475.6	25,259.9
Remaining term of more than 5 years	620.3	1,282.3
Impaired loans		
Retail sector	3.1	0.8
Total impaired loans	**3.1**	**0.8**

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 19 LOANS TO THE PUBLIC, cont.

Reconciliation of impairment of loan losses, SEK M	Individual impairments	Collective impairments	Dec 31, 2012	Individual impairments	Collective impairments	Dec 31, 2011
Opening balance	**–0.3**	**–33.5**	**–33.8**	**–3.4**	**–38.8**	**–42.2**
Reversed earlier impairment of loan losses recognised in the annual accounts as confirmed losses	1.8	–4.3	–2.5	4.8	5.3	10.1
Reversed impairment of loan losses no longer required	1.2	–	1.2	6.7	–	6.7
Impairment of loan losses during the year	–4.6	–	–4.6	–8.4	–	–8.4
Closing balance	**–1.9**	**–37.8**	**–39.7**	**–0.3**	**–33.5**	**–33.8**

NOTE 20 BONDS AND OTHER INTEREST-BEARING SECURITIES

Issued by organisations other than public bodies

SEK M	Dec 31, 2012	Dec 31, 2011
Carrying amount		
Swedish mortgage institutions	18,218.7	14,504.5
Total bonds and other interest-bearing securities	**18,218.7**	**14,504.5**
Fair value	18,218.7	14,504.5
Amortised cost	17,824.7	14,206.0
Nominal value	17,200.0	13,725.0
Market status		
Securities listed	18,218.7	14,504.5
Securities unlisted	–	–
Remaining term of not more than 1 year	2,915.9	4,723.3
Remaining term of more than 1 year	15,302.8	9,781.2

NOTE 21 DERIVATIVES

	Dec 31, 2012		Dec 31, 2011	
SEK M	Nominal value	Fair value	Nominal value	Fair value
Derivatives with positive values				
Derivatives in hedge accounting				
Interest	64,458.0	1,522.2	59,395.0	1,292.2
Currency	8,651.5	417.1	10,576.6	454.2
Collateral received, CSA	–	–192.9	–	–276.1
Other derivates				
Interest	–	–	–	–
Currency	–	–	–	–
Total derivatives with positive values	**73,109.5**	**1,746.4**	**69,971.6**	**1,470.3**
Remaining term of not more than 1 year	5,518.0	153.9	11,266.8	73.5
Remaining term of more than 1 year	67,591.5	1,785.4	58,704.8	1,672.9
Derivatives with negative values				
Derivatives in hedge accounting				
Interest	67,333.0	1,205.1	61,169.0	1,350.6
Currency	26,065.6	1,619.2	11,852.1	887.2
Other derivates				
Currency	–	–	–	–
Total derivatives with negative values	**93,398.6**	**2,824.3**	**73,021.1**	**2,237.8**
Remaining term of not more than 1 year	21,025.0	139.4	18,545.0	79.5
Remaining term of more than 1 year	72,373.6	2,684.9	54,476.1	2,158.3

NOTE 22 FAIR VALUE CHANGES OF INTEREST-RATE-RISK HEDGED ITEMS IN PORTFOLIO HEDGE

SEK M	Dec 31, 2012	Dec 31, 2011
Assets		
Carrying amount at beginning of year	640.5	126.4
Changes during the year pertaining to lending	140.6	514.1
Carrying amount at year-end	**781.1**	**640.5**
Liabilities		
Carrying amount at beginning of year	1,755.8	–378.9
Changes during the year pertaining funding	311.9	2,134.7
Carrying amount at year-end	**2,067.7**	**1,755.8**

NOTE 23 PROPERTY AND EQUIPMENT

SEK M	Dec 31, 2012	Dec 31, 2011
Equipment		
Opening cost	0.3	–
Purchase	0.4	0.3
Closing cost	**0.7**	**0.3**
Opening depreciation	0.0	–
Depreciation for the year	–0.1	0.0
Closing accumulated depreciation	**–0.1**	**0.0**
Total property and equipment	**0.6**	**0.3**

NOTE 24 DEFERRED TAX ASSETS AND TAX LIABILITIES

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

	Deferred tax assets		Deferred tax liabilities		Net	
SEK M	**Dec 31, 2012**	**Dec 31, 2011**	**Dec 31, 2012**	**Dec 31, 2011**	**Dec 31, 2012**	**Dec 31, 2011**
Liabilities	–3.3	–0.3	–	–	–3,3	–0.3
Deferred tax asset (–) /deferred tax liability (+)	**–3.3**	**–0.3**	**–**	**–**	**–3.3**	**–0.3**
Net deferred tax asset (–) /deferred tax liability (+)	**–3.3**	**–0.3**	**–**	**–**	**–3.3**	**–0.3**

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
Dec 31, 2012				
Liabilities	–0.3	–3.0	–	–3.3
Deferred tax asset (–)/ tax liability (+)	**–0.3**	**–3.0**	**–**	**–3.3**
Dec 31, 2011				
Other financial investment assets	10.6	–	–10.6	–
Liabilities	–0.1	–0.2	–	–0.3
Deferred tax asset (–)/ tax liability (+)	**10.5**	**–0.2**	**–10.6**	**–0.3**

NOTE 25 OTHER ASSETS

SEK M	Dec 31, 2012	Dec 31, 2011
Accounts receivable	–	0.2
Other assets	23.4	1.0
Total other assets	**23.4**	**1.2**

NOTE 26 PREPAID EXPENSES AND ACCRUED INCOME

SEK M	Dec 31, 2012	Dec 31, 2011
Accrued interest income	1,867.2	1,915.6
Other accrued income	–	–
Prepaid expenses	2.3	0.5
Total prepaid expenses and accrued income	**1,869.5**	**1,916.1**

NOTE 27 DUE TO CREDIT INSTITUTIONS

SEK M	Dec 31, 2012	Dec 31, 2011
Swedish credit institutions	22,984.2	19,985.7
Total liabilities due to credit institutions	**22,984.2**	**19,985.7**
Payable on demand	–	–
Remaining term of not more than 3 months	16.3	1,947.0
Remaining term of more than 3 months but not more than 1 year	22,967.9	18,038.7
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 funding of SEK 22,972.9 M (SEK 18,047.7) from the Parent Company. True repurchase transactions amounted to SEK 11.3 M (1,938.0), of which SEK 0 M (0) with Group companies.

NOTE 28 DEBT SECURITIES IN ISSUE

SEK M	Dec 31, 2012	Dec 31, 2011
Bond loans	90,962.4	85,396.2
Total securities issued	**90,962.4**	**85,396.2**
Remaining term of not more than 1 year	9,303.5	11,449.7
Remaining term of more than 1 year	81,658.9	73,946.5

All securities are covered bonds.

NOTE 29 OTHER LIABILITIES

SEK M	Dec 31, 2012	Dec 31, 2011
Accounts payable	0.4	5.5
Unpaid Group contributions	247.0	347.6
Other liabilities	8.6	2.3
Total other liabilities	**256.0**	**355.4**

NOTE 30 ACCRUED EXPENSES AND DEFERRED INCOME

SEK M	Dec 31, 2012	Dec 31, 2011
Accrued holiday pay	0.3	0.7
Accrued social security expenses	0.9	0.8
Accrued interest expense	2,657.5	2,715.7
Other accrued expenses	172.8	121.1
Total accrued expenses and deferred income	**2,831.5**	**2,838.3**

NOTE 31 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, 2012	Dec 31, 2011
Pension commitments		
Provisions for pensions	0.5	–
Total	0.5	–

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.

	2012	2011
Expenses for defined-contribution plans	1.7	1.7

NOTE 32 SUBORDINATED LIABILITIES

SEK M	Dec 31, 2012	Dec 31, 2011
Subordinated debt	501.0	501.0
Total subordinated liabilities	**501.0**	**501.0**

	Dec 31, 2012	Dec 31, 2011	
Specification of subordinated debt from Länsförsäkringar Bank AB (publ)	**Carrying amount**	**Carrying amount**	**Coupon rate of interest**
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
Total	**501.0**	**501.0**	

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 33 ASSETS AND LIABILITIES, FOREIGN CURRENCY

	Dec 31, 2012		Dec 31, 2011	
SEK M	**Foreign currency**	**SEK**	**Foreign currency**	**SEK**
Liabilities				
Debt securities in issue				
CHF	538.5	3,929.1	394.2	2,889.8
EUR	1,996.6	18,728.1	1,993.5	17,740.6
NOK	1,000.0	1,177.3	–	–
Total liabilities		**23,834.5**		**20,630.4**

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

NOTE 34 EQUITY

SEK M	Dec 31, 2012	Dec 31, 2011
Restricted equity		
Share capital (70,335 shares, quotient value SEK 100 per share)	70.3	70.3
Statutory reserve	14.1	14.1
Total restricted equity	**84.4**	**84.4**
Non-restricted equity		
Fair value reserve	81.7	145.6
Retained earnings	4,467.6	3,962.1
Net profit for the year	257.3	149.5
Total non-restricted equity	**4,806.6**	**4,257.2**
Total equity	**4,891.0**	**4,341.6**

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
During 2012	538.0
Total	**2,730.6**

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 in Statement of changes in shareholders' equity.

Specification of balance-sheet item Fair value reserve	Dec 31, 2012	Dec 31, 2011
Opening reserve	**145.6**	**29.6**
Change in fair value of available-for-sale financial assets	–86.7	157.4
Tax on available-for-sale financial assets	22.8	–41.4
Closing reserve	**81.7**	**145.6**

NOTE 35 MEMORANDUM ITEMS

SEK M	Dec 31, 2012	Dec 31, 2011
For own liabilities, pledged assets		
Collateral paid due to repurchase agreement	11.3	1,938.0
Loan receivables, covered bonds	95,529.8	84,428.1
For own liabilities, pledged assets	**95,541.1**	**86,366.1**
Other pledged assets	None	None
Contingent liabilities		
Conditional shareholders' contribution	2,730.6	2,192.6
Other commitments		
Loans approved but not disbursed	4,952.2	3,893.7

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.

NOTE 36 FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

Dec 31, 2012 SEK M	Loans and receivables	Financial assets at fair value through profit or loss: Financial assets according to fair value option	Financial assets at fair value through profit or loss: Held for trading	Derivatives used in hedge accounting	Available-for-sale financial assets	Total	Fair value
Assets							
Treasury bills and other eligible bills					1,544.9	1,544.9	1,544.9
Loans to credit institutions	1,696.2					1,696.2	1,696.2
Loans to the public	101,434.4					101,434.4	102,389.8
Bonds and other interest-bearing securities					18,218.7	18,218.7	18,218.7
Derivatives				1,746.4		1,746.4	1,746.4
Accounts receivable	23.4					23.4	
Total assets	**103,154.0**			**1,746.4**	**19,763.6**	**124,664.0**	

SEK M	Financial liabilities at fair value through profit or loss: Financial liabilities according to fair value option	Financial liabilities at fair value through profit or loss: Held for trading	Derivatives used in hedge accounting	Other financial liabilities	Total	Fair value
Liabilities						
Due to credit institutions				22,984.2	22,984.2	22,984.2
Debt securities in issue				90,962.4	90,962.4	96,094.7
Derivatives			2,824.3		2,824.3	2,824.3
Accounts payable				2.0	2.0	
Subordinated liabilities				501.0	501.0	
Total liabilities			**2,824.3**	**114,449.6**	**117,273.9**	

Dec 31, 2011 SEK M	Loans and receivables	Financial assets at fair value through profit or loss: Financial assets according to fair value option	Financial assets at fair value through profit or loss: Held for trading	Derivatives used in hedge accounting	Available-for-sale financial assets	Total	Fair value
Assets							
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	
Total assets	**90,537.3**			**1,470.3**	**22,846.0**	**114,853.6**	

SEK M	Financial liabilities at fair value through profit or loss: Financial liabilities according to fair value option	Financial liabilities at fair value through profit or loss: Held for trading	Derivatives used in hedge accounting	Other financial liabilities	Total	Fair value
Liabilities						
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	
Total liabilities			**2,237.8**	**105,888.4**	**108,126.2**	

For listed securities, medium prices at year-end or on the most recent trading dale are used. Deposits and loans are measured using actual lending rates at year-end including discounts.

NOTE 37 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, 2012 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
Assets				
Treasury bills and other eligible bills	1,544.9			**1,544.9**
Bonds and other interest-bearing securities	18,218.7			**18,218.7**
Derivatives		1,746.4		**1,746.4**
Liabilities				
Derivatives		2,824.3		**2,824.3**

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
Assets				
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**
Liabilities				
Derivatives		2,237.8		**2,237.8**

NOTE 38 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, associated companies, the 23 regional insurance companies with subsidiaries and other related parties. Other related parties comprise Länsförsäkringar Mäklarservice, Länsförsäkringar Fastighetsförmedling AB, Länsförsäkringar PE-Holding AB (publ), Humlegården Holding I AB, Humlegården Holding II AB, Humlegården Holding III AB and Humlegården Fastigheter AB.

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 whit 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

	Receivables		Liabilities		Income		Expenses	
SEK M	Dec 31, 2012	Dec 31, 2011	Dec 31, 2012	Dec 31, 2011	2012	2011	2012	2011
Länsförsäkringar Bank AB (Parent Company)	1,760.2	1,906.3	23,778.7	18,609.0	147.0	86.2	756.7	463.5
Other companies in the Bank Group	0.3	0.4	–	0.0	–	–	1.1	1.1
Other companies in the Länsförsäkringar AB Group	**0.2**	–	247.0	294.8	–	–	0.5	–
Regional insurance companies	–	–	113.2	55.6	–	–	386.3	249.1

For information regarding remuneration to related key persons such as members of the Board and senior executives, see note 11 concerning staff costs. In all other respects, no transactions took place between these individuals and their family members apart from normal customer transactions.

NOTE 39 EVENTS AFTER BALANCE-SHEET DATE

No significant events took place after the balance-sheet date.

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, February 14, 2013

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 February 14, 2013

Stefan Holmström
Authorised Public Accountant

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

Audit Report

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 2012. The annual accounts of the company are included in the printed version of this document on pages 12–45.

Responsibilities of the Board of Directors and the President for the annual accounts

The Board of Directors and the President 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 President 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 President, 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 December 31, 2012 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 Board of Directors' 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 President of Länsförsäkringar Hypotek AB (publ) for the year 2012.

Responsibilities of the Board of Directors and the President

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 President 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 President is liable to the company. I also examined whether any member of the Board of Directors or the President 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 Board of Directors' Report and that the members of the Board of Directors and President are discharged from liability for the financial year.

Stockholm, February 14, 2013

Stefan Holmström
Authorised Public Accountant

Board of Directors, Management and auditor

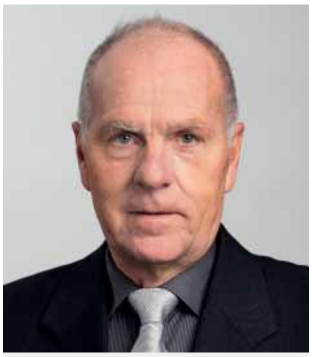
BOARD OF DIRECTORS

Rikard Josefson
Born 1965. Board Chairman since June 2011. President of Länsförsäkringar Bank. Other Board appointments: Board Chairman of Wasa Kredit AB. Board member of Länsförsäkringar Fondförvaltning, Fastighetsbyrån and the Livslust Foundation. Education: Bachelor's Degree. Background: 25 years at SEB in various senior positions.

Christian Bille
Born 1962. Board member since 2010. President Länsförsäkringar Halland. Other Board appointments: Board member of Länsförsäkringar Bank. Education: Master of Science in Business and Economics. Background: President Sparbanken Syd, Operating Manager Swedbank.

Bengt Clemedtson
Born 1964. Board member since 2009. Head of Business Länsförsäkringar Bank. Other Board appointments: Board Chairman of AB Superb Produkt. Education: Master of Science in Business and Economics. Background: President Skandiabanken Bolån AB.

Maria Jerhamre Engström
Born 1969. Board member since 2012. Head of Products and Processes Länsförsäkringar Bank. Other Board appointments: Board member Finansiell IDTeknik AB, BGC Bankgirot AB, Wasa Kredit AB. Education: University studies in law and psychology. Background: Head of Business and Head of Internet Bank Länsförsäkringar Bank.



Christer Malm
Born 1943. Board member since 2005. Other Board appointments: Board member World Wide Fund for Nature. Education: No academic education. Background: Executive Vice President Posten, President Postgirot, President SBAB and CEO HSB Sverige.

MANAGEMENT

Anders Borgcrantz
Born 1961. President. Employed since 2003. Education: Master of Science in Business and Economics. Background: Executive Vice President FöreningsSparbanken, President SPINTAB and Regional Manager FöreningsSparbanken.

Martin Rydin
Born 1968. Executive Vice President and CFO. Employed since February 2012. Education: Master of Laws. Background: Head of Long term funding Swedbank.

AUDITOR

Stefan Holmström
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.

Capital ratio
Capital base in relation to capital requirements.

Core Tier 1 capital
Tier 1 capital less capital contributions and reserves that may be included in the capital base as Tier 1 capital in accordance with Chapter 3, Section 4 of the Capital Adequacy and Large Exposures Act.

Core Tier 1 ratio
Core Tier 1 capital in relation to the risk-weighted amount.

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 recievable is considered impaired to the extent that its whole amount is not covered by collateral.

Loan losses, net
Confirmed loan losses and reserves for loan losses less recoveries of receivables and net expense for the year for loan losses for guarantees and other contingent liabilities.

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 2013

First quarter:	
Interim report January–March	April 24, 2013
Second quarter:	
Interim report April–June	July 19, 2013
Third quarter:	
Interim report July–September	October 25, 2013

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