Länsförsäkringar Bank Annual Report 2012

This is Länsförsäkringar Bank

LÄNSFÖRSÄKRINGAR BANK IN BRIEF

The bank with Sweden's most satisfied customers

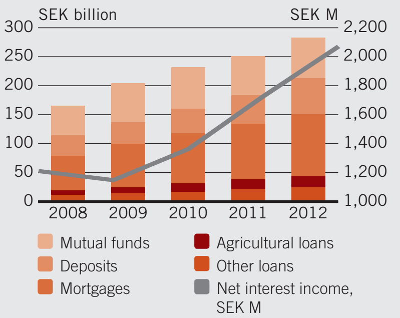
Länsförsäkringar Bank is the fifth largest retail bank in Sweden with a business volume of SEK 283 billion and 954,000 customers. The strategy is to offer attractive banking and insurance services primarily to the Länsförsäkringar Alliance's customers. Customer contact takes place in personal meetings at the branches of the regional insurance companies and via mobile services, the Internet and telephone. The bank has low risk tolerance and a long-term approach to returns. The credit quality of loans is at a high level and loan origination is primarily targeted towards retail mortgages for private individuals and small-scale family-owned agricultural operations. Länsförsäkringar has Sweden's most satisfied retail bank and mortgage customers, 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 ALLIANCE IN BRIEF

Customer-owned regional insurance companies with local presence

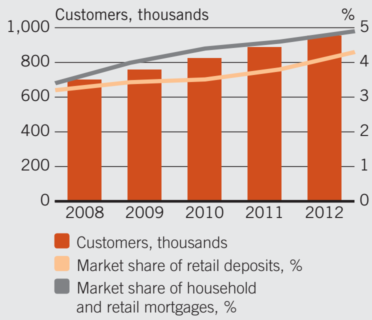
Länsförsäkringar comprises 23 local and customer-owned regional insurance companies and the jointly owned Länsförsäkringar AB. Customers are provided with a complete offering of banking, insurance and real-estate brokerage services through the regional insurance companies. The basis is local presence – experience has proven that local decision-making combined with joint administration and business development generate 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.

Business volumes and net interest income



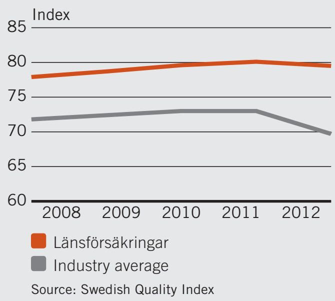
Business volumes have grown broadly in all areas by an average of 12% per year over the past five years. Net interest income has increased an average of 16% per year over the past five years and 20% in 2012.

Customers and market shares



The number of customers has risen an average of 58,000 per year over the past five years and increased by 65,000 in 2012. The market position is continuously strengthened.

Customer satisfaction, retail banking



Länsförsäkringar has Sweden's most satisfied retail bank customers for the eighth time in nine years, according to the Swedish Quality Index.

THE YEAR
IN BRIEF

Stronger net interest income, increased earnings and improved profitability

- Operating profit rose 44% to SEK 556 M (385).
- Return on equity strengthened to 6.3% (4.8).
- Net interest income increased 20% to SEK 2,071 M (1,728).
- Loan losses remain very low and amounted to SEK 91 M (48) corresponding to loan losses of 0.06% (0.04).
- Business volumes rose 13% to SEK 283 billion (251).
- Deposits rose 26% to SEK 62 billion (50).
- The Core Tier 1 ratio according to Basel II amounted to 13.1% (11.5). The Tier 1 ratio according to Basel II was 13.7% (12.1) and the capital adequacy ratio according to Basel II was 15.6% (14.0).
- The number of customers increased 7% to 954,000 (889,000), the number of bank cards rose 13% to 346,000 (306,000) and the number of deposit accounts rose 17% to 1,200,000 (1,029,000).

KEY FIGURES

	2012	2011	2010	2009	2008
Return on equity, %	6.3	4.8	5.0	4.2	4.4
Return on total capital, %	0.30	0.24	0.24	0.22	0.26
Investment margin, %	1.11	1.07	0.93	0.96	1.30
Cost/income ratio before loan losses	0.66	0.71	0.72	0.76	0.75
Cost/income ratio after loan losses	0.70	0.75	0.75	0.80	0.80
Core Tier 1 ratio according to Basel II, %	13.1	11.5	11.1	11.6	13.6
Tier 1 ratio according to Basel II, %	13.7	12.1	11.8	12.5	14.6
Tier 1 ratio according to transition rules, %	7.9	8.0	8.2	8.2	8.6
Capital adequacy ratio according to Basel II, %	15.6	14.0	13.5	14.8	17.7
Capital adequacy ratio according to transition rules, %	9.1	9.3	9.4	9.7	10.4
Percentage of impaired loans, %	0.19	0.17	0.17	0.21	0.22
Reserve ratio in relation to loans, %	0.21	0.21	0.24	0.30	0.35
Loan losses in relation to loans, %	0.06	0.04	0.03	0.04	0.07

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STATEMENT BY
THE PRESIDENT

A winning solution

» In January 2013, Länsförsäkringar won the prize for best mobile app at the Web Service Award. Continued investments in mobile services based on customer requirements and needs are a priority area.

The customer-owned bank where you feel at home

Over a number of years, customers have given us their recognition. Being customer-owned creates humility towards this mission. We will continue to do our utmost to make our existing and new customers feel at home at our bank.

I am very proud to serve as the President of Länsförsäkringar Bank; a bank that has profitable, strong growth and Sweden's most satisfied customers.

We work continuously on improving. During the year, we launched an investment savings account, a credit card for private individuals and an offering directed to young people, and our offering was further developed. We have one of the best mobile services in the market and this is where the bank will continue to hold a leading position.

The bank has received many awards and this was also the case this year. Länsförsäkringar has Sweden's most satisfied retail bank customers for the eighth time in nine years and Sweden's most satisfied retail mortgage customers for the eighth consecutive year. At the end of January 2013, Länsförsäkringar received the prize for best mobile app at the Web Service Award, proving that we have been effective at prioritising and developing a smart solution based on customer requirements and needs. The commitment and expertise of our advisors and employees are highly valued by our customers. Being customer-owned creates humility towards our mission and the conditions for customers to feel at home.

Continued crisis and new regulations

The crisis in the US, Japan and Europe continued during the year. Questions surrounding and the regulation of the European bank system remain to be solved. The acute crisis was alleviated by the central banks injecting more liquidity into the capital market.

Regulatory developments are more relevant than ever before. Many regulatory changes are in the pipeline for banks, ones that could have wide-ranging effects on banking operations in general. The most prominent include capitalisation and liquidity regulations, rules for internal governance and control and crisis management. Länsförsäkringar is monitoring regulatory developments and working continuously on adjustments to the rules. Given the information that has now been published, the bank is well-positioned for these changes.

The debate on banks continued during the year, with criticism being warranted in certain cases and simplistic in others. Critics often forget that banks are a necessity for the growth and welfare of society.

Secure savings

Länsförsäkringar encourages customers to save in order to create a sense of security. At Länsförsäkringar, we are pursuing this issue in several forums with the aim of encouraging our customers to adopt a culture of common sense for their private finances. Amortisations are also a healthy form of savings. Building up savings should be natural. Capital taxation rules should be revised to stimulate savings, and to limit tax deductions for interest expenses.

Profitable growth

Länsförsäkringar is the fifth largest retail bank in Sweden and we are continuing to grow. Total business volumes at year-end amounted to SEK 283 billion and the number of customers to 954,000. Growth in the bank is to always take place from a low risk tolerance. Success is based on the long tradition of offering security – with more than 200 years in the Swedish market. Today, the Länsförsäkringar Alliance has almost 3.5 million customers and Länsförsäkringar has Sweden's strongest brand in banking and insurance.

Focus on high credit quality

The in-depth local presence and market knowledge of the regional insurance companies lead to healthy and high-quality loan origination. We are directing major focus on maintaining a high level of credit quality. We are doing this in our daily activities by having loan origination with a low risk tolerance, a robust and strict credit research system and by continuously monitoring trends as regards customers' repayment capacity and the quality of collateral. Loans are granted exclusively in Sweden and primarily for private individuals' homes.

Expert advisory services

Länsförsäkringar advocates the accreditation of Swedish mortgage advisors, just as Swedish investment advisors must acquire accreditation. Purchasing a home is often the most significant element of household financing for a private individual or a family and therefore it is extremely important that customers receive sound advice when they take out a mortgage and understand the risks involved.

Our advisors will always be competent and well-informed about trends in the economic environment and the local market. They will be knowledgeable to ensure that customers always receive sound advice about their private finances and banking needs. In this manner, a long-term relationship with Länsförsäkringar can be established.

Make yourself at home

I look forward to the challenges over the next year. We will be the bank that our customers value the most and be the best place to work for our employees. We will meet customers on their terms and be where they need us. We will provide the right service and right quality and we will always meet customer expectations. The bank's mission is to do its utmost to ensure that all of our customers always feel at home.

Stockholm, February 2013

RIKARD JOSEFSON
President

STRATEGY
AND POSITION

A successful strategy

Länsförsäkringar Bank is one of Sweden's largest banks and has favourable growth and Sweden's most satisfied retail customers. The strategy is based on the Länsförsäkringar Alliance's large customer base, a strong brand and the regional insurance companies being customer-owned.

Objectives

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

A strong position

Länsförsäkringar Bank is Sweden's fifth largest retail bank and the market position was strengthened in 2012 with business volumes growing 13% to SEK 283 billion. Business volumes have grown on a broad front at an average of 12% over the past five years.

The number of customers amounts to 954,000, up 7% or 65,000 during the year. The number of customers who have chosen Länsförsäkringar as their primary bank rose 14% or 35,000 to 290,000, and of these customers, 93% are also insurance customers with Länsförsäkringar. According to the Swedish Quality Index, Länsförsäkringar has Sweden's most satisfied retail bank and mortgage customers. The banking operations have a total of 1,200 advisors and employees.

Business and mission

The business concept of the banking operations is to offer a complete range of banking services to private individuals, farmers and small businesses. This offering is to be simple and tailored to deliver high quality and a high level of service to customers. Länsförsäkringar Bank's mission is to develop and administer products and concepts, and to support the regional insurance companies in their sales and service to customers.

Strategy and distribution network

The strategy is to offer the Länsförsäkringar Alliance's customers attractive banking and insurance services. Success is based on Länsförsäkringar's strong brand, local presence and the regional insurance companies being customer-owned.

The bank has access to the joint distribution network and the established customer relationships that exist in the Länsförsäkringar Alliance. All customer contact takes place in personal meetings at the 130 branches of the 23 regional insurance companies and via mobile services, the Internet and telephone. The real estate brokerage Länsförsäkringar Fastighetsförmedling also mediates customer contacts at its 150 branches.

Large customer base

The bank has many opportunities to develop existing relationships with the almost 3.5 million customers of the Länsförsäkringar Alliance. The prioritised target groups are the 2.9 million retail customers, of which 1.8 million are home-insurance customers. Agricultural customers are another prioritised target group. The offering to agricultural customers and small businesses is growing and being continuously enhanced. With banking and insurance solutions from a single provider, customers can receive a secure, personal and attractive commitment with Länsförsäkringar.

A strong brand

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

CUSTOMER-OWNED WITH LOCAL PRESENCE

Local presence, availability and customer ownership

Länsförsäkringar is customer-owned and has a strong local presence. Availability and a high level of service are key priorities for building strong customer relationships, and customer-ownership facilitates a long-term approach to returns.

More than 200 years in Sweden

Security for customers is inherent in Länsförsäkringar's mission that dates back 200 years. Growth with low risk has been the focal point since the federal partnership was initiated within the Länsförsäkringar Alliance.

Länsförsäkringar Bank was founded in 1996 to further broaden the offering. In 2000, the strategy of becoming a full-service bank was adopted and in 2001 the bank started retail mortgage lending operations in Länsförsäkringar Hypotek.

Local customer-owned

The banking 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, network and local decision-making, provide a broad and in-depth local presence.

According to the Swedish Quality Index's surveys, Länsförsäkringar has the highest customer satisfaction in the industry. Strong customer relationships are based on genuine commitment and personal service from bank advisors. According to the Swedish Quality Index, Länsförsäkringar has met customers' high expectations for many years and has Sweden's most satisfied retail bank customers for the eighth time in nine years. Länsförsäkringar also has Sweden's most satisfied retail mortgage customers for the eighth consecutive year.

Long-term approach

The bank has low risk tolerance and a long-term approach to returns, which provides stable performance. All lending takes place at low risk, which ensures a high level of credit quality. The customer and market knowledge of the regional insurance companies, combined with the credit regulations and the systems support for loan origination, generate growth with high credit quality.

Availability and service

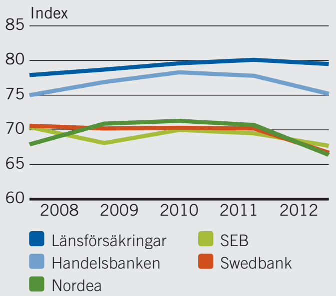
Personal meetings with customers are a high priority within Länsförsäkringar and create trusting and long-term relationships. Customers can have personal meetings at the local branches, which combined with mobile services and the telephone and Internet bank contribute to all banking matters being dealt with efficiently and smoothly.

Customer-driven business model

Länsförsäkringar Bank supports the 23 regional insurance companies in their advisory services and sales. Product development takes place in close cooperation between Länsförsäkringar Bank and the regional insurance companies. This cooperation features continuous efficiency enhancements to implement improvements that lead to better processes and advisory services, greater expertise and lower costs.

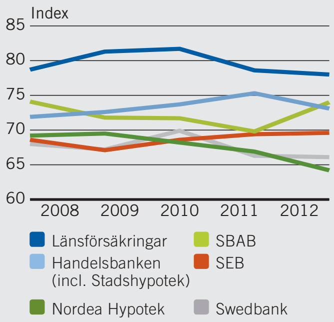
Several new products were launched during the year and the offering was further improved. Länsförsäkringar is making a major investment in mobile services and the aim is to secure a leading position in the Swedish bank market. The mobile services fared well in the competition.

Customer satisfaction, retail banking



Source: Swedish Quality Index

Customer satisfaction, retail mortgages



Source: Swedish Quality Index

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.

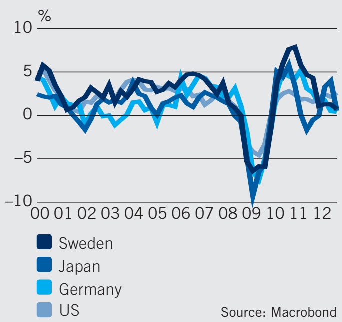
The European economy subsequently weakened and the status of government finances in mainly Spain and Italy declined, causing attention to once again be directed to the serious fiscal, monetary and political challenges faced by Europe. Spain eventually applied for bailout loans for its banking sector 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. Later, Outright Monetary Transactions (OMT) were launched. 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.

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.

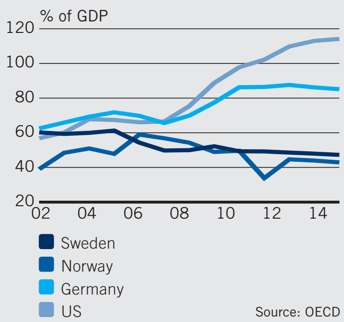
The latter part of the year was dominated by the intense focus on the US and the outcome of the US presidential election. Attention was then directed to a solution to the fiscal cliff. A positive trend was that the US housing market showed clear indications of a start to recovery china showed signs of avoiding a hard landing, while the eco-

GDP growth



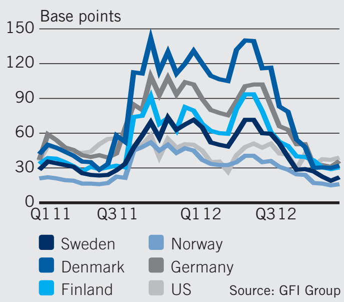
Trends in the Swedish economy during the year were relatively positive.

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.

nomic 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.

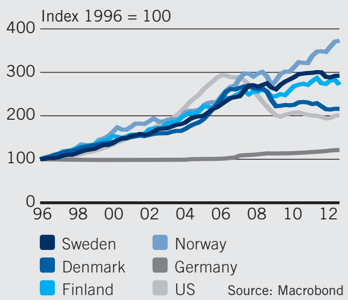
Stable housing prices

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

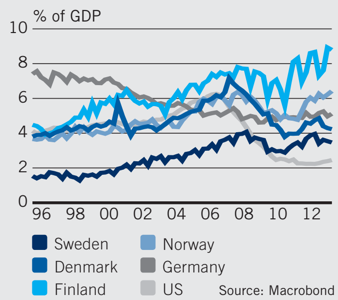
As a consequence of the weaker economy, credit growth among Swedish households slowed down during the year as mortgage rates fell. The mortgage cap introduced in the autumn of 2010 together with the higher requirements on borrowers imposed by the banks contributed to this slowdown, while housing prices 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



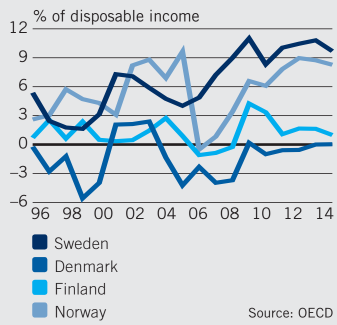
Swedish housing prices displayed a stable trend in 2012.

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.

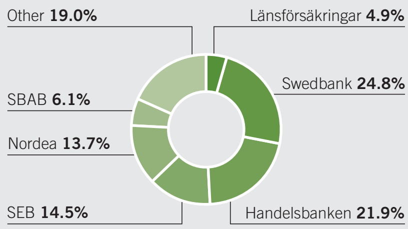
Household savings



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

OFFERING

Market share of household and retail mortgages



Source: Statistics Sweden

The market position in household and retail mortgages was strengthened from 4.6% to 4.9% during the year.

Offering strengthened and business growing broadly

Customer relationships are broadening in selected areas and the offering is being strengthened by new products and offerings for private customers, farmers and small businesses. Savings are in focus to meet customer requirements for personal savings.

Savings

Länsförsäkringar focuses on giving customers secure savings and the offering for planned savings was improved during the year. An Investment Savings Account (ISK) was one of the products launched in January.

Deposits from the public increased 26% to SEK 62 billion and the market share strengthened to 4.3% during the year. Deposits are growing stably and distribute between different types of accounts, such as fixed-income, transaction and savings accounts. The number of deposit accounts rose 17% to 1,200,000 (1,029,000).

Fund offering

Länsförsäkringar is Sweden's fifth largest fund company with a market share of 3.8%. The fund offering includes some 80 funds, of which 30 are under Länsförsäkringar's own brand. Several of Länsförsäkringar's funds have the highest rating from Morningstar. A number of changes to own funds were made in 2012 in order to further improve them.

Länsförsäkringar Fondförvaltning works responsibly with investments in partnership with the analyst firm GES Investment Services on its own funds. The aim of this partnership is to influence the companies that the funds invest in to encourage them to follow the international conventions and guidelines on such matters as the environment and human rights.

The volume of managed funds rose 5% to SEK 70 billion during the year. Funds are available as direct fund savings, Individual Pension Savings (IPS), Investment Savings Accounts (ISK), unit-linked insurance and PPM savings.

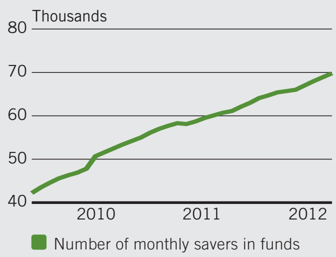
Equities and structured products

Trading in equities and other securities is growing steadily among customers and the number of securities depositories rose during the year. Customers are also offered structured products.

Household and retail mortgages

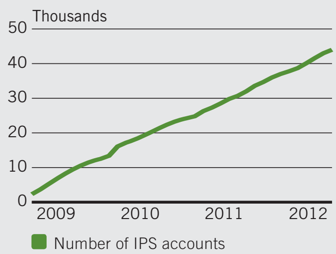
Retail mortgages accounted for 71% of lending. Mortgages up to 75% of the mar-

Number of monthly savers in funds



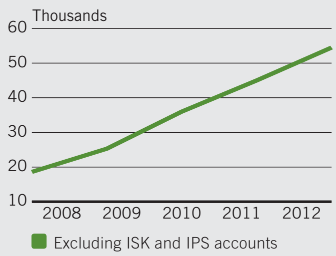
Monthly savers in funds reported healthy growth.

Number of IPS accounts



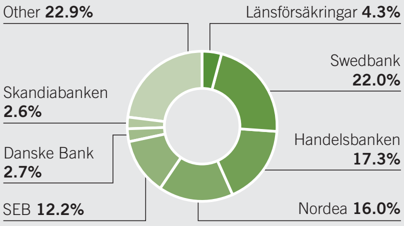
The Individual Pension Savings (ISP) product reported stable growth.

Number of securities depositories



The number of securities depositories is rising steadily.

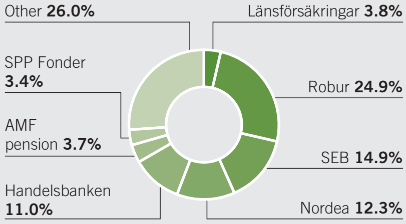
Market share of deposits in retail market



Source: SCB

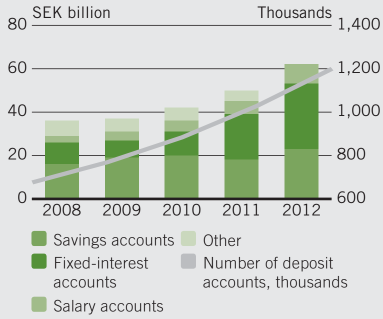
The market position in retail deposits strengthened during the year from 3.8% to 4.3%.

Market share of mutual fund volumes



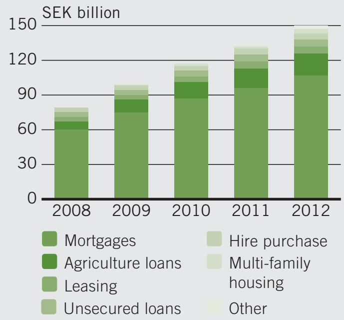
Länsförsäkringar is Sweden's fifth largest fund company with a market share of 3.8%.

Deposits and deposit accounts



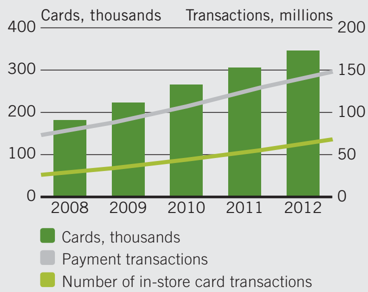
Deposit volumes have risen an average of 16% per year over the past five years. The number of deposit accounts is steadily increasing.

Loans



The increase in lending volume has been an average of 18% per year over the past five years. Loans primarily comprise mortgages for private individuals' homes and agricultural loans for small-scale family-owned agricultural operations.

Bank cards and payment transactions



The number of bank cards and number of payment transactions is steadily increasing.

ket value on the granting date are deposited with Länsförsäkringar Hypotek and other mortgages are offered by Länsförsäkringar Bank. The credit card for private individuals was one of the new products launched during the year.

Loans to the public rose 12% to SEK 150 billion during the year and the market share strengthened to 4.9%.

Agricultural offering

Länsförsäkringar is the fourth largest company in agricultural loans in Sweden and the percentage of agricultural customers that have both banking and insurance with Länsförsäkringar was 98% at year-end.

The offering to farmers, which is broad, was supplemented with a fixed-interest forestry account during the year. The primary target group is family-owned agricultural operations that are offered first-lien mortgages for agricultural and forestry properties. Agricultural loans increased 15% to SEK 19.3 billion and the share of first-lien mortgages for agricultural and forestry properties rose to 86%. Agricultural deposits amounted to SEK 5.3 billion at year-end.

Small-business offering

The offering to small businesses is being continuously developed based on customer needs and volume growth is taking place at a sustained low risk level. Deposits from small businesses are higher than loans to small businesses, and rose 55% to SEK 7.5 billion during the year. Loans to small businesses amounted to SEK 1.6 billion.

Offering to young people

A favourable offering to young people aged 12–17 was launched in 2012. The offering includes a young person's account with a bank card, Internet and telephone banking and mobile services. Additional services can be added once the account holder has turned 16, such as payment services and higher withdrawals limits.

Bank cards and payments

Bank cards are being continuously developed to ensure that customers can feel secure and receive a high level of service in their payment services. All bank cards were fully migrated from Mastercard to VISA during the year. Swish was launched at year-end to make it easier for retail customers to pay using their mobile telephones. The service allows for payments to be sent directly to the recipient's account number using the number of the payer's mobile telephone.

The number of bank cards rose 13% to 346,000. Income from payment mediation continued to increase in 2012. In-store bank card transactions rose 23% to 69 million and payment transactions increased a total of 15% to 149 million.

LOANS 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. The portfolio has a highly well-diversified geographic spread and average commitments are low.

Credit process

Loan origination is primarily directed towards retail mortgages for private individuals and small-scale family-owned agricultural operations with a low risk level. All loans are calculated on the basis of credit regulations determined by the bank's Board and the credit scoring system is largely automated.

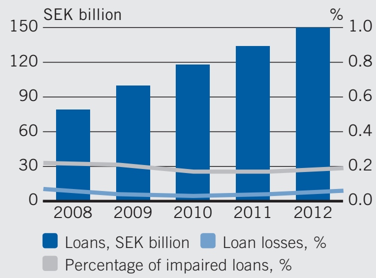
The regional insurance companies are knowledgeable about their customers and possess in-depth local market knowledge. In the remuneration model between Länsförsäkringar Bank and the regional insurance companies, there is also a strong incentive to maintain excellent credit quality. The banking operations impose strict requirements in terms of 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 borrowers' repayment capacity are continuously monitored and reviewed. The decision-support model, combined with the expertise of the regional insurance companies, provides favourable conditions for balanced and consistent loan origination and a loan portfolio of high credit quality. The bank imposes strict requirements for amortisations of second-lien mortgages and advises customers to amortise on their first-lien mortgages.

Mortgage lending for private housing

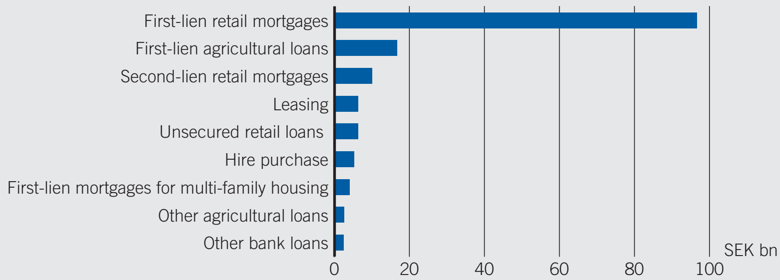
A total of 71% of the loan portfolio comprises retail mortgages, meaning lending for private housing in the form of single-family homes and tenant-owned apartments. First-lien mortgages with loan-to-value ratios of up to 75% of the market value at the time the mortgage is granted account for 91% of retail mortgages. A total of 80% of the collateral for retail mortgages comprises single-family homes, while 20% is tenant-owned apartments. The average loan for each borrower is low at SEK 1.0 M, and only 8% of borrowers have a loan commitment of more than SEK 3.0 M. Market-value analyses of the collateral in the mortgage portfolio are continuously performed and market values are updated at least once per year for all single-family homes, tenant-owned apartments and vacation homes in the Bank Group.

First-lien mortgages for multi-family housing amounted to slightly less than 3% of the loan portfolio.

Loans, impaired loans and loan losses



Product distribution loans



The loan portfolio primarily comprises first-lien mortgages for private housing and family-owned agricultural operations.

First-lien mortgages to agricultural operations

A total of 86% of loans to the agricultural segment, which accounts for 13% of the loan portfolio, comprises first-lien mortgages. Family-owned agricultural operations account for 95% of agricultural loans. The average commitment is low at SEK 1.7 M per borrower. The geographic spread throughout Sweden is well-diversified.

Leasing, hire purchase and unsecured loans

Wasa Kredit's loans, which amount to 9% of the loan portfolio, comprise 47% leasing, 39% hire purchase and 14% unsecured loans to Swedish households and businesses. These lending products entail higher earnings and a slightly higher risk.

Loans to small businesses

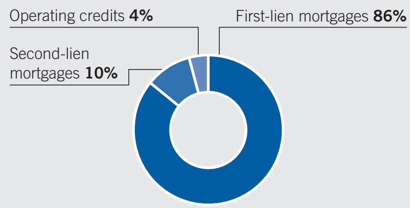
Loans to small businesses totalled SEK 1.6 billion at year-end, with SEK 0.7 billion pertaining to industrial and office properties and SEK 0.9 billion to operating credits to small businesses. These operations are continuing to be developed and volume growth is based on maintaining a low level of risk.

Impaired loans and reserves

Impaired loans and loan losses are at very low levels, demonstrating that credit quality remains high. Impaired loans amounted to SEK 298 M, corresponding to a percentage of impaired loans in relation to loans of 0.19% at year-end. Reserves amounted to SEK 325 M and the reserve ratio in relation to loans amounted to 0.21%. Loan losses remained low and amounted to SEK 91 M, of which SEK 67 M pertains to Wasa Kredit. The loan loss level is low and amounted to 0.06%.

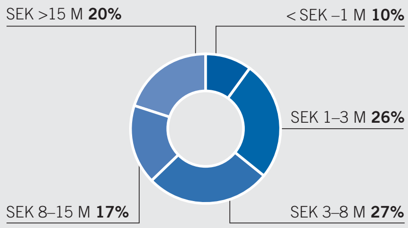
For more information concerning credit risks and credit quality, see note 3 Risks on page 42. For more information concerning loans, impaired loans and impairment of loan receivables, see Accounting policies on pages 33–41.

Product distribution, agricultural loans



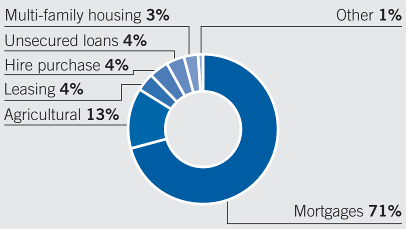
A total of 86% of agricultural loans are first-lien mortgages, up from 82% first-lien mortgages in 2011. Other agricultural loans comprise second-lien mortgages and operating credits.

Distribution of commitments, agricultural loans



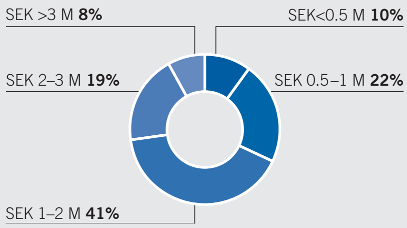
The average agricultural commitment is low. Slightly more than 35% of agricultural loans have a commitment of up to SEK 3 M.

Product distribution loans



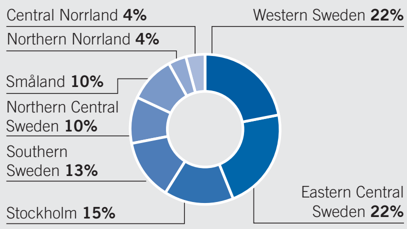
The loan portfolio primarily comprises retail mortgages and agricultural loans.

Distribution of commitments, mortgages



The average mortgage commitment is low. Slightly more than 73% of mortgages have a commitment of up to SEK 2 M.

Geographic distribution, mortgages



All loans are granted in Sweden and in SEK. Retail mortgages are well distributed throughout Sweden.

FUNDING
AND LIQUIDITY

Strong liquidity position

The Group is mainly financed by customer deposits and funding through Länsförsäkringar Hypotek's covered bonds, which have the highest credit rating from Moody's (Aaa/stable) and Standard & Poor's (AAA/stable).

Objectives

The aim of the funding operations is to ensure that the Group has a sufficiently strong liquidity position to manage turbulent periods in capital markets, when access to funding is limited or even impossible. The bank's 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

The bank is a retail bank with a major retail mortgage lending operation and is thus mainly financed with customer deposits and funding through covered bonds, which have the highest credit rating from Moody's (Aaa/stable) and Standard & Poor's (AAA/stable). Long-term senior funding and short-term commercial paper funding takes place in Länsförsäkringar Bank. The bank maintains a sound balance of covered and senior funding and capital market funding is conducted under a number of funding programmes.

The single most important source of financing is the Swedish covered bond 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

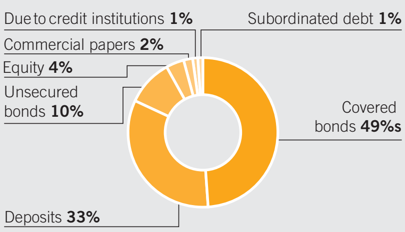
Since all assets in the balance sheet are in SEK, the Group has no structural need for financing in foreign currency. However, the bank has chosen to conduct a certain portion of its capital market funding in international markets in an effort to diversify and broaden the investor base. In recent years, funding has taken place through issuance of Euro Benchmark Covered Bonds, which has increased funding diversification and strengthened the brand in both the Swedish and European markets. In addition, the long-term funding is supplemented with covered bonds in primarily NOK and CHF.

Market activities and derivative management

The bank works pro-actively with its outstanding liabilities by repurchasing bonds with short remaining terms against issuance of long-term debt as a means of managing and minimising the liquidity and refinancing risk.

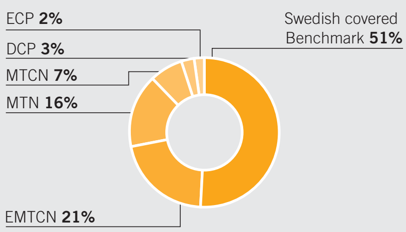
The market risks that arise in the lending and funding operations are managed through

Financing sources



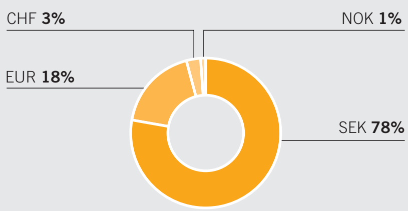
The largest source of financing in the Group is covered bonds, representing 49%. Deposits are steadily increasing and amounted to 33% of the Group's financing.

Funding by programme



Program funding primarily takes place in Swedish benchmark bonds, representing 51%. International funding with covered bonds accounts for 21%.

Programme funding by maturity



Programme funding primarily takes place in the Swedish market and in SEK.

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.

Deposits

The share of deposits in the Group's total financing continued to increase during the year, amounting to 33% on December 31, 2012. The Group's position in the deposits market was strengthened, primarily a result of the bank's robust growth in volume and customers. This trend also demonstrates that deposits increased more as a percentage than loans during the year.

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 FED 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 funding costs for Swedish banks. The credit spreads for both covered and senior unsecured bonds gradually became narrower during the year. The Swedish covered bond market was highly successful. The market for senior unsecured bonds was stronger than in the past two years, with favourable issue volumes in Sweden, but first and foremost in the international market.

Funding operations during the year

The banking operations had favourable access to funding throughout the entire year. Funding increased 13% to SEK 114 billion. Covered bonds were issued at a volume corresponding to a nominal amount of SEK 28.5 billion, and issuances in CHF and NOK were also implemented. During the year, Länsförsäkringar Bank issued senior unsecured bonds for a nominal amount of SEK 11.4 billion. During the year, Länsförsäkringar Hypotek issued three new domestic covered benchmark loans. The outstanding volume of commercial paper programmes was stable and at year-end the outstanding volume of the Swedish commercial paper programme amounted to a nominal amount of SEK 3.1 billion and to a corresponding nominal amount of SEK 1.9 billion in the international Euro-commercial paper programme (ECP).

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 management and investment of reserves complies with the established limits set out in the Financial Policy.

The liquidity reserve totalled a nominal amount of SEK 37.5 billion at December 31, 2012. The liquidity reserve is invested in securities with very high credit quality. A total of 77% of the reserve comprises

FUNDING PROGRAMMES, LÄNSFÖRSÄKRINGAR BANK GROUP

Programme, SEK billion, Nominal	Limit, Nominal	Issued in 2012	Issued in 2011	Outstanding, Dec 31, 2012	Outstanding, Dec 31, 2011	Remaining average term, Dec 31, 2012, years
Benchmark (Hypotek)	Unlimited	22.7	11.7	58.8	53.9	2.4
MTCN (Hypotek)	SEK 30 billion	3.3	4.8	8.7	10.1	1.5
EMTCN (Hypotek)	EUR 4 billion	2.5	10.3	23.8	21.5	2.3
Total covered bonds		**28.5**	**26.8**	**91.3**	**85.5**	**2.3**
MTN (Bank)	SEK 20 billion	11.4	7.2	18.2	11.2	1.5
EMTN (Bank)	EUR 2 billion	–	–	–	–	–
Total senior unsecured bonds		**11.4**	**7.2**	**18.2**	**11.2**	**1.5**
DCP (Bank)	SEK 15 billion	N/A	N/A	3.1	4.7	0.4
ECP (Bank)	EUR 1.5 billion	N/A	N/A	1.9	0	0.1
Total commercial papers		**N/A**	**N/A**	**5.0**	**4.7**	**0.4**
Total Group		**39.9**	**34.0**	**114.5**	**101.4**	**2.1**

Swedish covered bonds; 18% comprises Swedish government bonds, 4% comprises other Swedish bonds with a credit rating of AAA/Aaa, and 1% comprises German government securities. The average Liquidity Coverage Ratio (LCR) for the fourth quarter was 248%. The LCR in EUR totalled 158% on December 31, 2012.

Rating

Länsförsäkringar Bank's long-term credit rating is A/stable from Standard & Poor's and A2/negative from Moody's. The short-term credit ratings are A-1 from Standard & Poor's and P-1 from Moody's.

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.

Regulatory developments

According to the original schedule, the new capital-adequacy regulations known as CRD IV/CRR were to come into effect at EU level from January 1, 2013. Due to delays at EU level in negotiations regarding certain issues, there was uncertainty in 2012 regarding both the content of the final version of the rules and the date on which the new rules were to come into effect.

Negotiations were still in progress at year-end 2012, meaning that the original schedule with an effective date of January 1, 2013 was rendered impossible.

The new capital-adequacy requirements will impose more robust requirements on the banks' capital in the form of more stringent capital requirements, stricter regulations regarding what is considered to comprise capital and stricter rules on calculating risk-weighted assets. The new requirements will also contain new rules on liquidity risk, in the form of quantitative requirements on Liquidity Coverage Ratios (LCR) and Net Stable Funding Ratios (NSFR).

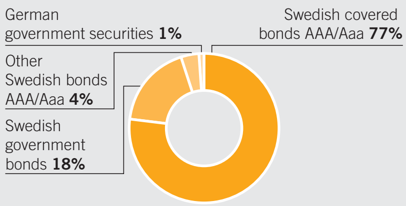
Sweden has chosen not to await EU regulations on liquidity risk and has introduced quantitative LCR requirements for credit institutions, securities companies and financial corporate groups with total assets in excess of SEK 100 billion. These Swedish rules are valid from January 1, 2013.

Länsförsäkringar well-positioned

Regulatory developments are continuously monitored and, given the information that is currently known, it is the assessment that the bank will be well-positioned to meet the new regulatory requirements.

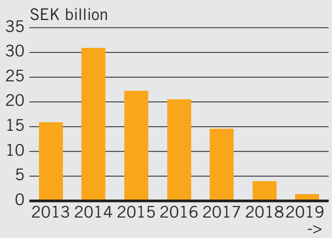
At the end of the year, the Swedish Financial Supervisory Authority introduced a risk weight floor of 15% for mortgages within the framework of Pillar 2. The current assessment is that the Bank Group's Core Tier 1 ratio under Pillar 2 will be only marginally affected since a score for the risk weight floor has essentially already been included under Pillar 1.

Liquidity reserve



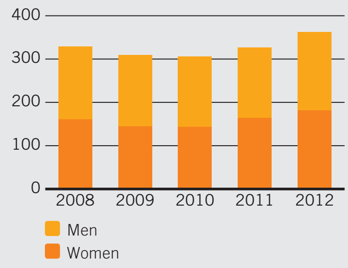
The liquidity reserve of SEK 37.5 billion is invested in securities with very high credit quality.

Programme funding by maturity



EMPLOYEES

Number of employees, men and women



The number of men and women working at the bank is evenly distributed.

Successful performance coaching

Employees who feel satisfied and perform well are the key to success over time. The Länsförsäkringar AB Group, to which the Bank Group belongs, works pro-actively with a clear business focus, combined with the will to constantly improve and simplify daily procedures for employees.

Leadership and performance

Performance management focuses clearly on the business, and the core values of openness, commitment, trust and professionalism. The goal is to drive and develop employees in both the long and the short term. The focus in 2012 was clear leadership that utilises the potential of each individual employee and drives performance in an optimal manner. To succeed in these efforts, managers have a working model that has proved successful when coaching employees. The model is based on a number of activities, including employee meetings on the subjects of individual targets, values and leadership. Employees receive regular feedback on their performance to help them achieve the goals in their personal goal contract.

The working model for performance coaching was continuously monitored in the autumn of 2012. Employees were asked to evaluate their manager based on the activities identified as successful. The results show an upward curve throughout the entire organisation. The organisation has also introduced joint leadership practices.

Employees in 2012

In 2012, the Group had an average of 363 employees, of whom women numbered 181 with an average age of 42 and men numbered 182 with an average age of 42. The bank had 57 employees in managerial positions and the percentage of women in such positions amounted to 30%. In addition to the employees of the Bank Group, there were 850 bank advisors and employees in the 23 the regional insurance companies.

Focus on internal mobility and skills

The Länsförsäkringar AB Group and the independent regional insurance companies offer a major internal labour market and career development opportunities for employees. During the year, about 500 vacant positions were advertised internally in the Länsförsäkringar Alliance to increase internal mobility. The aim is to create a corporate culture that stimulates internal mobility that develops both individuals and the organisation. In order to meet future changes, the increasing demands of the economic environment and to support the regional insurance companies' development and service operations, the issue of skills is constantly relevant.

Strong employer brand

Länsförsäkringar's reputation is the highest among banking and insurance companies, according to the Reputability Barometer for 2012. Länsförsäkringar has breadth and is a bank, insurer and real-estate broker and for potential employees this presents major opportunities for development in a diversity of professions.

Marketing Länsförsäkringar as an attractive employer involves a social media presence. The communication channel for this target group is a career page on Facebook and Careerbook. The regional insurance companies have many local partnerships with universities and colleges, which also strengthens the employer brand in the recruitment market.

Greater equality

The Länsförsäkringar AB Group endeavours to offer employees an equal opportunity workplace. The initial goal is to create a more even gender distribution among managers at all levels. The current distribution is 60% men and 40% women. A number of activities for securing a better balance were identified, and this focus will intensify in coming years. The target figure for 2015 is 50% men and 50% women in corporate management and at department and Group management level. A quality-assured salary level for men and women in executive positions at all levels is another

ENVIRONMENTAL WORK AND SUSTAINABILITY

activity, as well as increasing the number of temporary project manager assignments/team leader roles specifically aimed at women who want to test managerial roles.

The Parent Company Länsförsäkringar AB has been nominating candidates to Ruter Dam, an executive development and mentor programme for women in management, for several years, most recently in 2012 and now for 2013. The programme contributes to the goal of increasing the number of women in management who take executive positions.

Health

Maintaining a positive health and working environment is essential for improving performance. Taking regular breaks is encouraged by management as well as physical activity during working hours. A major project, involving extensive reconstruction of the fitness facility where employees can participate in a range of activities, was implemented in the spring of 2012. The investment in health makes Länsförsäkringar an even more attractive employer and is also intended to reduce sick leave.

All employees have health care insurance that provides rapid access to specialised care. Sick leave in the Bank Group was very low during the year and amounted to 2.1%. Medical advice and follow-ups are provided through the sickness reporting service and managers receive professional illness and rehabilitation advice, if required, to achieve optimal rehabilitation outcomes for employees.

Environmental work and sustainable investments

The aim of the Länsförsäkringar AB Group's environmental work, which the bank is part of, is to reduce costs, improve customer service and achieve clear environmental gains that contribute to sustainable development for customers and society.

Joint environmental policy

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. A new three-year period commenced, with annual follow-up audits that provide opportunities to improve the environmental adaptation of the operations.

The bank's environmental work

The environmental work of the banking operations is directly linked to the joint environmental policy. 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 bank can primarily impact the environment in such areas as loan origination, the fund company's investment products, paper-based communication and product management with customers, by directing customers to the Internet service and recycling security code generators and bank cards.

Credit scoring with environmental responsibility

The credit regulations are consistent with environmental legislation and promote sustainable development. When credit scoring is conducted for business and agricultural customers, the customer's environmental responsibility is also reviewed to rule out any breaches of environmental law.

Sustainable investments in fund offering

During the year, the fund company adopted an owner control policy that includes involvement in nominations to the Boards of companies in which the company owns shares, participation in Annual General Meetings and the utilisation of voting powers as a means of influencing sustainability issues. To optimise the efficiency of work with responsible investments, the Council for Responsible Investment was established and held its first meeting in early 2012. At year-end 2011, a partnership was also initiated with GES Investment Services, a company that conducts sustainability screenings of companies regarding their compliance with international conventions

(Global Ethical Standard) in such areas as the environment, human rights, child labour, labour practices, bribery, corruption and inhumane weapons. GES Investment Services also conducts negotiations and lobbies companies that do not comply with the international conventions. The fund company conducts sustainability work through dialogue with the managers who have ongoing contact with the companies in order to achieve improvements. If this dialogue is unsuccessful, the companies are excluded from the funds. During the year, several companies were excluded from the funds as a result of this process. The fund offering will always reflect the fund company's profile as a global and long-term investor.

Reduced paper-based communication

In recent years, a large degree of customer communication – traditionally paper-based – has been replaced by Internet and mobile services. One example of digitized customer communication is application processes for several of the bank's products. The annual statement to customers will be an online service and the number of copies that are printed will fall every year. The long-standing aim is to reduce the volume of paper-based communication with customers by 80% by changing the customer dialogue. The long-term goal is to completely eliminate paper-based processes.

Environmentally certified suppliers

The bank ensures that all bank-product suppliers are environmentally certified, such as ATM suppliers, and that bank cards are not produced from environmentally harmful material. Continuous efforts are made to encourage the recycling of security code generators and increase the number of online payments.

Green travel and efficient meetings

For business travel, rail travel takes precedence over flying, wherever possible. The company-car policy approves only environmentally friendly cars and the target of company cars being 100% environmentally friendly, in accordance with the policy's definition, was achieved. Employees are also offered bicycles and public transport travel cards for local travel during working hours. Investments were made in technical equipment that will enable meetings to be held by telephone, video or online to reduce business travel.

Lower energy consumption

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. Energy efficiency and cost-savings are achieved with smart lighting systems that match lighting to the time of day.

Reviews and efficiency enhancements are continuously carried out to reduce the direct impact on the environment due to emissions of carbon dioxide and other substances. Heating and cooling systems are reviewed, as is the use of office lighting and low-energy lamps.

Environmental work on the website and environmental training

Information about environmental work is presented on both internal and external Länsförsäkringar websites. All new employees at the Länsförsäkringar AB Group undergo compulsory environmental training. A number of parameters in the Environmental Handbook are reviewed every year during an external environmental audit as a contribution to sustainable development in the society.

For more information about sustainability and environmental activities, see Länsförsäkringar AB's Annual Report, which contains a GRI sustainability report.

BOARD OF DIRECTORS' REPORT

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

GROUP

Ownership and Group structure

Länsförsäkringar Bank AB (publ) is part of the Länsförsäkringar AB Group, with Länsförsäkringar AB (publ) as the Parent Company, which is owned by 23 independent and customer-owned regional insurance companies and 14 local insurance companies. All customer contacts are made at the regional insurance companies. 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 Bank AB (publ) (Corp. Reg. No. 516401-9878) is 100% owned by Länsförsäkringar AB (publ) (Corp. Reg. No. 556549-7020). The Bank Group comprises the Parent Company Länsförsäkringar Bank AB (publ) and the wholly owned subsidiaries Länsförsäkringar Hypotek AB (publ) (Corp. Reg. No. 556244-1781), Länsförsäkringar Fondförvaltning AB (publ) (Corp. Reg. No. 556364-2783) and Wasa Kredit AB (Corp. Reg. No. 556311-9204). All companies have their registered offices in Stockholm and the abbreviated forms of these company names are used in the remainder of the Board of Directors' Report.

Focus of operations

The operations offer banking services to private individuals, agricultural customers and small businesses. The lending products of leasing, hire purchase and unsecured loans are offered to private individuals and companies through the wholly owned subsidiary Wasa Kredit AB.

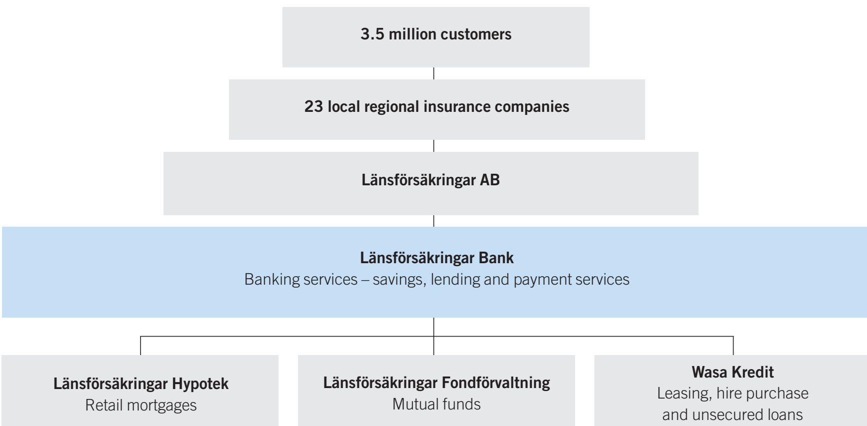
Sales, advisory services and customer services are carried out through the 130 (125) branches of the 23 regional insurance companies and via mobile services, the Internet and telephone. The regional insurance companies are reimbursed for sales, administration and customer care through a volume-based reimbursement system. 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% and 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 avoid-

Länsförsäkringar Bank – part of the Länsförsäkringar Alliance



ing 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 stronger 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, with 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. The credit spreads for both covered and senior unsecured bonds gradually became narrower during the year. The Swedish covered bond market was highly successful. The market for senior unsecured bonds was stronger than in the past two years, with favourable issue volumes in Sweden, but first and foremost in the international market.The housing price trend in Sweden remained stable.

Sweden's most satisfied retail bank and mortgage customers

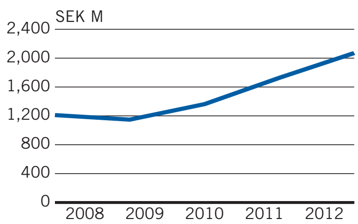
Länsförsäkringar has Sweden's most satisfied retail mortgage customers for the eighth consecutive year according to the 2012 Swedish Quality Index. The survey showed that Länsförsäkringar is the mortgage provider that best meets customer expectations and is perceived to be the most reasonably priced. Image and loyalty also received the highest rating, as did the quality of products and services. According to the 2012 Swedish Quality Index, Länsförsäkringar has Sweden's most satisfied retail bank customers for the eighth time in nine years.

Business volumes increased 13%, or SEK 32 billion, to SEK 283 billion (251). The number of customers rose 7%, or 65,000, to 954,000 (889,000).The number of customers with Länsförsäkringar as their primary bank increased 14%, or 35,000, to 290,000 (255,000) and the number of products per customer rose to 4.8 (4.7). Of those customers who have Länsförsäkringar as their primary bank, 93% are also Länsförsäkringar insurance customers. The number of bank cards increased 13%, or 40,000, to 346,000 (306,000) and the number of deposit accounts rose 17% to 1,200,000 (1,029,000).

Earnings and profitability

Profit before loan losses increased 49% to SEK 647 M (434) and operating profit rose 44% to SEK 556 M (385), primarily due to higher net interest income. Return on equity strengthened to 6.3% (4.8).

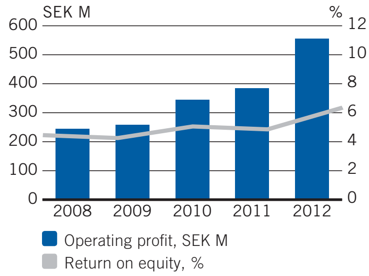
Net interest income



Income

Operating income increased a total of 24%, or SEK 362 M, to SEK 1,882 M (1,520), as a result of higher net interest income. Net interest income increased 20%, or SEK 343 M, to SEK 2,071 M (1,728), attributable to higher lending and deposit volumes and improved lending margins. The investment margin strengthened to 1.11% (1.07). Net interest income was charged with SEK 65 M (56) for fees to the stability fund. Net commission amounted to an expense of SEK 385 M (416), mainly comprising compensation to the regional insurance companies. Commission income increased 4% to SEK 984 M (948), primarily attributable to higher income from bank cards. Commission expenses amounted to SEK 1,369 M (1,364). Net gains from financial items amounted to SEK 5 M (10).

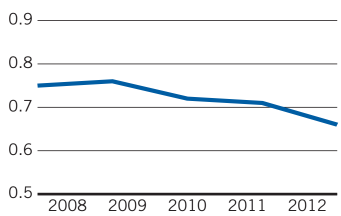
Operating profit and return on equity



Expenses

Operating expenses rose 14% to SEK 1,235 M (1,086), attributable to investments in IT administration and higher volume-based costs. The cost/income ratio before loan losses strengthened to 0.66 (0.71) and the cost/income ratio after loan losses strengthened to 0.70 (0.75).

Cost/income ration before loan losses



Loan losses

Loan losses remained very low and amounted to SEK 91 M (48), net, corresponding to loan losses of 0.06% (0.04). Reserves totalled SEK 325 M (284), corresponding to an unchanged provision ratio of 0.21%. Impaired loans amounted to SEK 298 M (233) and the percentage of impaired loans was 0.19% (0.17).

For more information regarding loan losses, reserves and impaired loans, see notes 17 and 21.

Business volumes

Business volumes increased 13%, or SEK 32 billion, to SEK 283 billion (251). The Group's lending increased 12%, or SEK 16 billion, to SEK 150 billion (134). Retail mortgages in Länsförsäkringar Hypotek increased 14%, or SEK 12 billion, to SEK 101 billion (89), of which SEK 4.1 billion was attributable to multi-family housing with the majority for loans to tenant-owners' associations. Deposits rose 26% or SEK 12 billion to SEK 62 billion (50). The volume of managed funds increased 5% or SEK 3 billion to SEK 70 billion (67). Deposits from small businesses totaled SEK 7.5 billion on December 31, 2012. Business lending amounted to SEK 1.6 billion, of which SEK 0.7 billion pertained to first-lien mortgages for industrial and office properties and the remaining SEK 0.9 billion was operating credits for small businesses.

Savings

Deposits from the public increased 26%, or SEK 12 billion, to SEK 62 billion (50). The market share strengthened to 4.3% (3.8) in 2012 and the share of market growth was 10%, according to data from Statistics Sweden. The volume of managed funds increased 5% or SEK 3 billion to SEK 70 billion (67). Monthly savings in funds performed well, as did fund transfers, Individual Pension Savings (IPS) and the number of securities depositories.

Loans

Loans to the public rose 12%, or SEK 16 billion, to SEK 150 billion (134). Retail mortgages in Länsförsäkringar Hypotek increased 14%, or SEK 12 billion, to SEK 101 billion (89). All loans are granted in Sweden and in SEK. The market share for household deposits and retail mortgages strengthened to 4.9% (4.6) in 2012. The loan portfolio, totalling SEK 150 billion (134), has a favourable geographic distribution and maintains a high level of quality. A total of 88% (81) of the portfolio comprises household credits. Most of the totalportfolio, 71% (72), pertain to retail mortgages, of which 80% (80) comprised collateral in single-family homes and 20% (20) tenant-owned apartments. First-lien mortgages for agricultural properties rose 22% to SEK 16.7 billion (13.7) and agricultural lending increased 15% to a total of SEK 19.3 billion (16.7). First-lien mortgages, mainly to family-owned agricultural operations, accounted for 86% (82) of agricultural lending, and the average agricultural commitment was low at SEK 1.7 M (1.6) on December 31, 2012.

LOAN PORTFOLIO

Lending segment, %	Dec 31, 2012	Dec 31, 2011
Retail mortgages	71%	72%
Agricultural loans	13%	12%
Leasing	4%	4%
Hire purchase	4%	4%
Unsecured loans	4%	4%
Multi-family housing	2.5%	2%
Industrial and office properties	0.5%	0.2%
Other	1.0%	1.8%
Total	**100%**	**100%**

Funding

Debt securities in issue rose 13%, or SEK 13 billion, to SEK 114 billion (101), of which covered bonds increased to SEK 91 billion (85). The Group has a low refinancing risk and long-term financing in the capital market primarily takes place through covered bonds. Issued covered bonds totalled a nominal amount of SEK 28.5 billion (26.8) and repurchased covered bonds a nominal amount of SEK 16.0 billion (12.3). Covered bonds that matured during the year amounted to a nominal amount of SEK 6.6 billion (7.9). Financing is also conducted through Länsförsäkringar Bank's funding programmes. Covered bonds in the nominal amount of SEK 11.4 billion (7.2) were issued under the MTN programme. The maturity structure of the Group's funding is highly diversified. For more information about the funding programmes, see page 13.

Rating

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

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

Liquidity

The liquidity reserve totalled a nominal amount of SEK 37.5 billion (30.5) at December 31, 2012. The liquidity reserve is invested in securities with very high credit quality, of which 77% comprises Swedish covered bonds, 18% Swedish government bonds, 4% other Swedish bonds with the credit rating of AAA/Aaa, and 1% German government securities. The liquidity of the investments is high and all Swedish securities included in the liquidity reserve are eligible for transactions with the Riksbank and, where appropriate, with the ECB. By utilising the liquidity reserve, contracted undertakings for approximately 1,5 years can be met without needing to secure new borrowing in the capital market. The Group's Liquidity Coverage Ratio (LCR) amounted to an average of 248% during the fourth quarter of 2012. The LCR in EUR amounted to 158% on December 31, 2012.

Rating

The credit ratings are A/stable from Standard & Poor's and A2/negative from Moody's. Länsförsäkringar Hypotek's covered bonds have the highest credit ratings, Aaa/stable from Moody's and AAA/stable from Standard & Poor's.

Capital adequacy

The Group 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 used for other exposures. On December 31, 2012, 88% of the loan portfolio comprised retail credits in accordance with the advanced IRB Approach.

The Core Tier 1 ratio according to Basel II strengthened to 13.1% (11.5). The capital base strengthened to SEK 7,546 M (6,686) and the capital adequacy ratio according to Basel II was 15.6% (14.0). Tier 1 capital amounted to SEK 6,612 M (5,747) net, and the Tier 1 ratio according to Basel II strengthened to 13.7% (12.1). For more information on the calculation of capital adequacy, see note 3 on page 55.

Employees

In 2012, the Bank Group had an average of 363 employees, of whom women numbered 181 with an average age of 42 and men numbered 182 with an average age of 42. The bank had 57 employees in managerial positions and the percentage of women in such positions amounted to 30%. In addition to the employees of the Bank Group, there were 850 bank advisors and employees in the 23 the regional insurance companies on December 31, 2012.

The Länsförsäkringar AB Group endeavours to offer employees an equal opportunity workplace. The initial goal is to create a more even gender distribution among managers at all levels. With the aim of developing performance, the focus in 2012 was leadership that is clear, utilises the potential of each individual employee and drives performance in an optimal manner. During the year, about 500 vacant positions were advertised internally in the Länsförsäkringar Alliance since the emphasis is on increasing internal mobility. Marketing Länsförsäkringar as an attractive employer includes a social media presence, for example on Facebook and Careerbook. The 23 regional insurance companies have many local partnerships with universities and colleges, which also strengthens the employer brand in the recruitment market.

In addition to the strong brand, a business-driven corporate culture and a highly successful organisation for creating motivation and raising skills, considerable focus is directed to long-term and preventive healthcare and fitness. All employees have health care insurance that provides rapid access to specialised care. Medical advice and follow-ups are provided through the sickness reporting service and managers receive professional illness and rehabilitation advice, if required, to achieve optimal rehabilitation outcomes for employees.

Environment

The environmental work of the banking 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. During the year, the fund company adopted an owner control policy that includes involvement in nominations to the Boards of companies in which the company owns shares, participation in Annual General Meetings and the utilisation of voting powers as a means of influencing sustainability issues. To optimise the efficiency of work with responsible investments, the Council for Responsible Investment was established in early 2012. At year-end 2012, a partnership was also initiated with GES Investment Services, a company that conducts sustainability screenings of companies regarding their compliance with international conventions (Global Ethical Standard).

The bank can primarily impact the environment in such areas as loan origination, the fund company's investment products, paper-based communication and product management with customers, by directing customers to the Internet service and recycling security code generators and bank cards. In recent years, a large degree of customer communication – traditionally paper-based – has been replaced by Internet and mobile services. The long-standing aim is to reduce the volume of paper-based communication with customers by 80% by changing the customer dialogue.

For business travel, rail travel takes precedence over flying, wherever possible. The company-car policy approves only environmentally friendly cars and the target of company cars being 100% environmentally friendly, in accordance with the policy's definition, was achieved. Employees are also offered bicycles and public transport travel cards for local travel during working hours. Investments were made in technical equipment that will enable meetings to be held by telephone, video or online to reduce business travel. The bank ensures that all bank-product suppliers are environmentally certified, and that bank cards are not produced from environmentally harmful material. As of the spring of 2012, the entire Länsförsäkringar AB Group uses green electricity.

Risks and uncertainties

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

For more information about the risks in the operations, risk and capital management and the principles for risk governance, see note 3 Risks on page 42.

Expectations regarding future development

The banking operations intend to follow the strategic direction of profitable growth with high credit quality, by further refining existing products and on the basis of maintaining a high 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. Strong 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

To further strengthen the capital base the Parent Company, Länsförsäkringar AB, will provide a shareholders' contribution of SEK 335 M not later than March 31, 2013. The contribution would, proforma as of December 31, 2012, have increased the Bank Group's Core Tier 1 ratio by 0.7 percentage points.
The current assessment of the Board of Directors of Länsförsäkringar Bank is that

the Bank Group's Core Tier 1 ratio should be at approximately 13% and the total capital ratio at approximately 16%. With this new assessment, the current capital target, a Tier 1 ratio target of 12% with a tolerance level of ±0.5 percentage points, has been withdrawn. The Board intends to announce a new capital target once the final structure of the new capital adequacy regulations has been determined.

PARENT COMPANY

Deposits and some lending are conducted by the Parent Company. Most of the lending and funding operations are conducted through the subsidiary Länsförsäkringar Hypotek. Loans to the public rose 5%, or SEK 2 billion, to SEK 35 billion (33). Deposits from the public increased 26%, or SEK 13 billion, to SEK 63 billion (50). Debt securities in issue rose 47%, or SEK 7 billion, to SEK 23 billion (16).

Earnings

The operating result declined to a loss of SEK 34 M (16). Operating income increased a total of 14% to SEK 649 M (541) due to higher net interest income. Higher lending and deposit volumes boosted net interest income by 2% to SEK 743 M (726). Net interest income was charged with SEK 28 M (22) for fees to the stability fund. Commission income increased 13% to SEK 238 M (210) due to higher bank card volumes. Commission expense fell 19% to SEK 554 M (681). Operating expenses rose 18% to SEK 660 M (558), attributable to higher administrative expenses due to a broader product offering. Net loan losses remained low and amounted to SEK 22 M (–1).

The Group's unappropriated earnings amounted to SEK 6,198 M.

PROPOSED APPROPRIATION OF THE PARENT COMPANY'S UNAPPROPRIATED EARNINGS

SEK	
Fair value reserve	44,155,192
Retained earnings	5,339.396,114
Shareholders' contribution received	742,000,000
Net loss for the year	–36,939,729
Profit to be appropriated	**6,088,611,577**

The Board of Directors proposes that SEK 6,088,611,577 be carried forward, of which SEK 44,155,192 be allocated to the fair value reserve.

SUBSIDIARIES

Länsförsäkringar Hypotek AB

Retail mortgages in the bank's mortgage institution increased 14%, or SEK 12 billion, to SEK 101 (89). Retail mortgages up to 75% of the market value of the collateral on the granting date are granted by Länsförsäkringar Hypotek and the remainder by the Parent Company. Net interest income rose 57% to SEK 796 M (506) due to higher volumes and margins. Operating profit rose 69% to SEK 319 M (189) attributable to higher net interest income. Loan losses amounted to SEK 2 M (–4), net, corresponding to unchanged loan losses of 0.00%. The number of retail mortgage customers increased 10% to 177,000 (161,000).

Länsförsäkringar Hypotek AB, SEK M	Dec 31, 2012	Dec 31, 2011
Total assets	127,319	117,412
Lending volume	101,434	88,625
Net interest income	796	506
Operating profit	319	189

Wasa Kredit

Lending volumes increased 11% to SEK 13.3 billion (12.0). Operating income increased 7% to SEK 178 M (166), as a result of higher net interest income. Net interest income increased 8% to SEK 531 M (493). Expenses rose 9% to SEK 410 M (377) and loan losses amounted to SEK 67 M (53), net.

Wasa Kredit, SEK M	Dec 31, 2012	Dec 31, 2011
Total assets	13,704	12,378
Lending volume	13,295	11,987
Net interest income	531	493
Operating profit	178	166

Länsförsäkringar Fondförvaltning

Länsförsäkringar is Sweden's fifth largest fund company with a market share of 3.8% (3.9). Fund volumes rose 5%, or SEK 3 billion, to SEK 70 billion (67). The company manages 30 (33) mutual funds with different investment orientations. The funds are available as direct fund savings, IPS, ISK, unit-linked insurance and through the PPM system. Operating profit declined 11% to SEK 87 M (98).

Länsförsäkringar Fondförvaltning, SEK M	Dec 31, 2012	Dec 31, 2011
Total assets	235	247
Assets under management	70,405	66,994
Net flow	–2,252	972
Net commission expense	273	262
Operating profit	87	98

For more information on the company's recognised earnings, financial position and average number of employees, see the following income statement, balance sheet, cash-flow statement, changes in shareholders' equity and notes on pages 29–87. See page 28 for the five-year summary. All figures in the Annual Report are reported in SEK M unless otherwise specified.

CORPORATE GOVERNANCE REPORT

INTRODUCTION

Länsförsäkringar Bank AB (Länsförsäkringar Bank) is a wholly owned subsidiary of Länsförsäkringar AB, which in turn is owned by 23 customer-owned regional insurance companies and 14 local insurance companies. Länsförsäkringar AB, with its subsidiaries and owners, jointly comprise the Länsförsäkringar Alliance.

Länsförsäkringar Bank is a public limited liability company whose bonds are listed on Nasdaq OMX Stockholm and the Luxembourg Stock Exchange.

Länsförsäkringar Bank complies with the Swedish Code of Corporate Governance (the Code), where appropriate, taking into consideration that the bank is not a listed company. The major deviations from the provisions of the Code and explanations for such deviations are presented under Deviations from the Code on page 26.

CORPORATE GOVERNANCE

Länsförsäkringar Bank, with its subsidiaries Länsförsäkringar Fondförvaltning AB (publ), Länsförsäkringar Hypotek AB (publ) and Wasa Kredit AB (Wasa Kredit), comprises the Bank business unit of the Länsförsäkringar AB Group.

Länsförsäkringar AB has a corporate-governance system that is based on Länsförsäkringar AB's mission from its owners. The Bank business unit has a corporate governance system that ensures satisfactory control and management of the legal entities in the business unit.

The corporate-governance system encompasses a number of components, such as organisational structure, decision-making procedures and division of authorities and responsibilities, risk-management systems and internal-control systems. The risk management system is also to ensure that the legal entities in the business unit are continuously able to identify, manage and report risks. 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 line of defence is independent in relation to the first line and the third line is independent in relation to the first and second lines.

Other components in the corporate-governance system include the structure for internal rules and regulations, subcontracting policies, suitability requirements pertaining to employees and Board members, as well as continuity plans.

An outline of the governance structure is provided in the diagram on page 24.

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 AB owns 100% of the share capital and voting rights.

Decisions are made at the Annual General Meeting pertaining to the Annual Report, the election of members of the Board and auditors, remuneration to the Board members and auditors and other important matters to be addressed in accordance with laws and the Articles of Association. The proposal for remuneration to Board members presented at the Annual General Meeting is specified for the Chairman, Deputy Chairman and other Board members, and committee work.

Nomination Committee

Nomination process

The Annual General Meeting of Länsförsäkringar AB appoints a Nomination Committee. The Nomination Committee is charged with the task of presenting proposals regarding the Board of Directors and auditors of Länsförsäkringar AB, and, in consultation with the CEO of Länsförsäkringar AB, proposals regarding the Board of Directors and auditors of Länsförsäkringar Bank and other subsidiaries, and fees to these members and auditors. The Nomination Committee follows an instruction adopted by the Annual General Meeting of Länsförsäkringar AB. The Nomination Committee is responsible for ensuring that the suitability assessment of proposed Board members is performed. The Nomination Committee is to apply established processes and procedures for the suitability assessment and ensure that the suitability assessment of the Board members takes places during the current mandate period.

Nomination Committee prior to 2013 Annual General Meeting

The Nomination Committee has comprised Göran Trobro as Chairman, Länsförsäkringar Göinge Kristianstad; Ulf W Eriksson, Länsförsäkringar Värmland; Otto Ramel, Länsförsäkringar Skåne; Conny Sandström, Länsförsäkringar Västerbotten and Örian Söderberg, Länsförsäkringar Jönköping, since the 2012 Annual General Meeting of Länsförsäkringar AB.

Prior to Annual General Meeting, the Nomination Committee

- studied the Board's evaluation of its work,
- studied the Board Chairman's and Board members' views on the operations, the Board's work and requirements for expertise and experience, and
- reviewed and discussed requirements for

expertise and experience with respect to the needs of the operations and regulatory requirements.

Prior to 2013 Annual General Meeting, the Nomination Committee will

- make a decision regarding the independence of candidates,
- nominate Board members, the Board Chairman, Deputy Chairman and auditors,
- carry out suitability assessments of Board members in accordance with established processes and procedures, and
- propose fees to Board members and auditors.

External auditors

The Annual General Meeting appoints the external auditors. Nominations are made to the Nomination Committee. In accordance with the Articles of Association, Länsförsäkringar Bank is to have between one and three auditors and between zero and three deputy auditors. Auditors are appointed for a period in office of a maximum of four years. At the 2012 Annual General Meeting, Stefan Holmström, KPMG AB, was appointed auditor and Dan Beitner, KPMG AB, deputy auditor for the period until the 2015 Annual General Meeting. Stefan Holmström previously served as the company's deputy auditor. Alongside Länsförsäkringar Bank, his major audit assignments include Länsförsäkringar AB and Svenska Handelsbanken. Stefan Holmström has no other assignments in any other company that affects his independence in relation to Länsförsäkringar Bank.

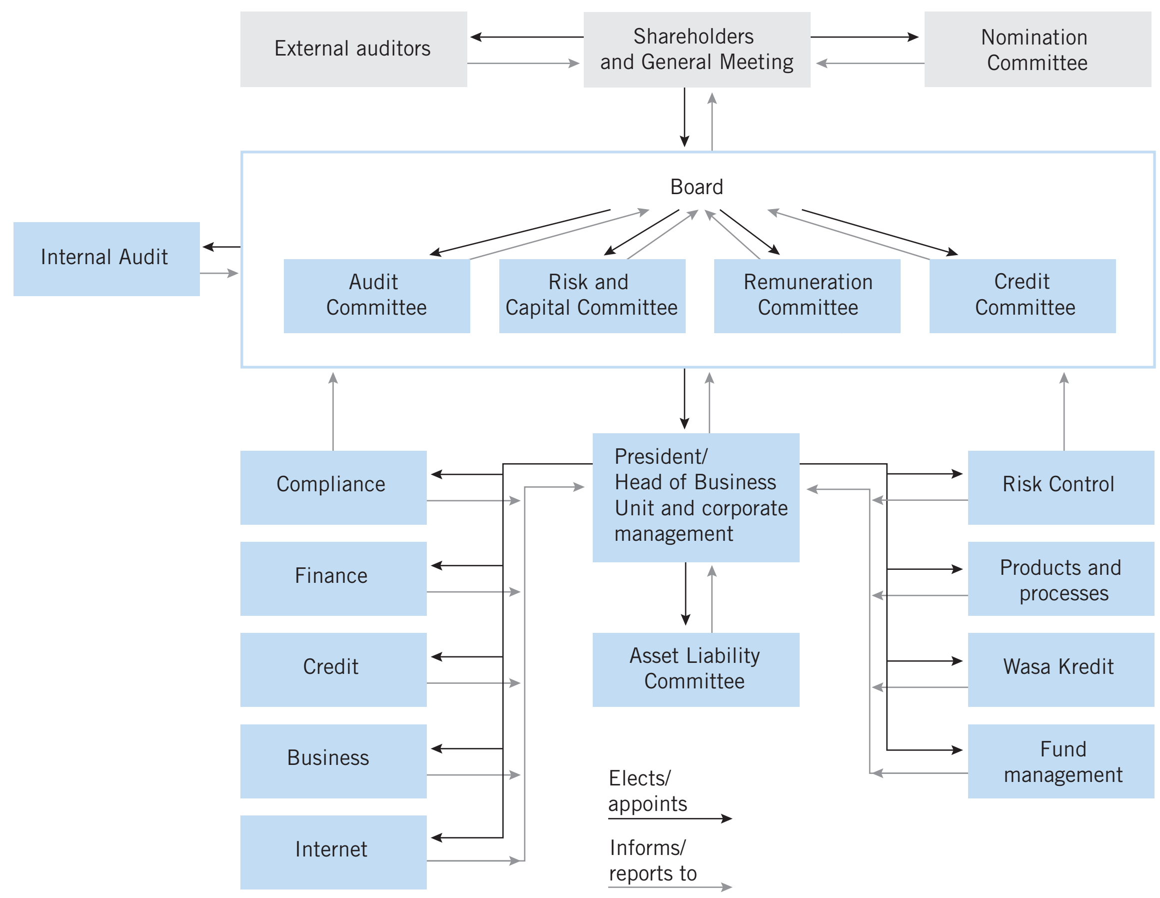
The auditor examines Länsförsäkringar Bank's Annual Report and Corporate Governance Report, as well as the administration of the Board and the President. The auditor presented his audit results and observations to the Board once during 2012. The auditor also participates in the meetings of the Board's Audit Committee. Furthermore, the auditor normally meets with representatives of the Swedish Financial Supervisory Authority during the fiscal year. The auditor reviews Länsförsäkringar Bank's six-month accounts and year-end reports.

Board of Directors

Composition of the Board of Directors

The Board of Directors of Länsförsäkringar Bank is elected by the Annual General Meeting and, in accordance with the Articles of Association, is to comprise between six and nine Board members elected by the Annual General Meeting, with no more than six deputies. Board members are elected for a mandate period of two years. In addition, members appointed by trade-union organisations are also members of the Board. The President is not a member of the Board. Länsförsäkringar Bank 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 and Deputy Chairman of the Board are appointed by the Annual General Meeting. The President, Executive Vice President

LÄNSFÖRSÄKRINGAR BANK'S GOVERNANCE STRUCTURE



and Board Secretary participate in Board meetings except for matters in which there may be a conflict or interest or when it would otherwise be inappropriate for them to attend. Employees reporting on particular issues attend meetings when they make their presentations.

The Board currently comprises a total of nine members and two deputy members. Seven members are appointed by the Annual General Meeting. Two members and two deputy members are appointed by the trade-union organisations. A presentation of the Board members can be found on page 90.

Board responsibilities and delegation of duties

The Board is responsible for the organisation and administration of the company and shall handle and make all decisions concerning issues of material significance and an overall nature relating to the company's operations. 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.

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

The Board is also to regularly manage and evaluate the company's and the Group'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.

Chairman

According to the formal work plan, the Chairman is to lead the Board's work and ensure that the Board fulfils its duties. The Chairman is also to ensure that the Board meets as required, that Board members are provided with the opportunity to participate in meetings and receive satisfactory information and documentation for decision-making, and that the Board applies an appropriate working methodology. On the basis of ongoing contact with the President and in addition to Board meetings, the Chairman is also to keep himself informed of significant events and developments in Länsförsäkringar Bank, and support the President in his work.

Work of the Board

In its formal work plan, the Board has established annually recurring items of business and a standard for its agenda and information and decision-making material. In a company directive, the Board has established the company's and the Group's operational structure and clarified the distribution of work duties between the various units and executives in the company and the Group.

In addition to the formal work plan and company directive, at least once a year the Board establishes its directive for the President as well as a large number of governance documents for the operations.

The Board has established an Audit Committee, a Remuneration Committee, a 9Risk and Capital Committee and a Credit Committee. The duties of the Committees are determined by the Board in its formal work plan or in separate instructions. None of the Committees has any general decision -making mandate, except for the Credit Committee. Each Committee must regularly report on its activities to the Board.

The Board conducts annual strategic seminars and evaluations of the President's work and terms of employment. The Board meets the company's auditors at least once per year; see also section Audit Committee on page 26.

The dates of Board meetings are established at the first scheduled meeting following the Annual General Meeting for the next 18-month period. A notice of each meeting, including a preliminary agenda, is sent out about 14 days prior to the meeting. Documentation for the meeting is normally discussed about a week prior to the meeting. All documents and materials presented at the meeting are saved electronically.

During 2012, the Board devoted particular attention to such issues as the new capital adequacy rules, the financial situation in the economic environment, effects on the operations and the banking operation's future strategy.

The number of Board meetings and members' attendance at these meetings are presented in the table below.

Evaluation of the Board's work

Every year, the Board Chairman initiates an evaluation of the Board's work. The 2012 evaluation was based on an electronic ques-

Meetings and attendance

The table below shows the number of meetings held in each body since the 2012 Annual General Meeting until December 2012, and the attendance by each Board member.

	Board of Directors	Audit Committee	Remuneration Committee	Risk and Capital Committee	Credit Committee
Total number of meetings	**9**	**4**	**0**	**4**	**9**
Sten Dunér	9	4	0	4	8
Christian Bille	9			3	9
Ingrid Ericson	9				
Per-Åke Holgersson	7				
Ingemar Larsson	9	4	0	3	6
Bengt-Erik Lindgren	9	4			6
Max Rooth	9				
Örian Söderberg	9				
Christer Villard	6			1	4
Torleif Carlsson, deputy	7				
Maria Eriksson, deputy	0				

tionnaire completed by the Board members. The results were compiled, reported to and discussed by the Board.

Audit Committee

The Audit Committee is responsible for preparing the Board's work in the following areas:

- Monitoring and quality assuring the company's and Group's financial reporting.
- Monitoring the efficiency of the company's and Group's internal governance and control.
- The direction, scope and coordination of the Internal Audit function's work.
- Studying the external auditors' observations and evaluating the work, impartiality and independence of the external auditor.
- Outsourced operations.

At the statutory Board meeting following the 2012 Annual General Meeting, Ingemar Larsson was appointed Chairman, Sten Dunér and Bengt-Erik Lindgren were appointed members of the Audit Committee.

The number of Audit Committee meetings and members' attendance at these meetings are presented in the table on page 25.

Remuneration Committee

The Remuneration Committee is to prepare issues on remuneration of the President and other members of corporate management and employees with overall responsibility for any of the company's control functions, as well as prepare decisions for measures to monitor application of the remuneration policy.

At the statutory Board meeting following the 2012 Annual General Meeting, Sten Dunér was appointed Chairman and Ingemar Larsson was appointed member of the Remuneration Committee.

The number of Remuneration Committee meetings and members' attendance at these meetings are presented in the table on page 25.

Risk and Capital Committee

The Risk and Capital Committee is to support the Board in risk and capital adequacy issues and serve as a forum for analysing and holding in-depth discussions on the Bank Group's level of risk and capital requirements. The Board subsequently makes decisions on these issues.

At the statutory Board meeting following the 2012 Annual General Meeting, Sten Dunér was appointed Chairman, Ingemar Larsson, Christian Bille and Christer Villard were appointed members of the Risk and Capital Committee.

The number of Risk and Capital Committee meetings and members' attendance at these meetings are presented in the table on page 25.

Credit Committee

The Credit Committee is to prepare credit issues for amounts within the framework of the Committee's mandate according to an instruction adopted by the Board.

At the statutory Board meeting following the 2012 Annual General Meeting, Sten Dunér was appointed Chairman, Ingemar Larsson, Bengt-Erik Lindgren, Christian Bille and Rikard Josefson were appointed members of the Credit Committee.

The number of Credit Committee meetings and members' attendance at these meetings are presented in the table on page 25.

President and corporate management

Rikard Josefson has served as the President of Länsförsäkringar Bank AB since June 2011. Rikard Josefson was born in 1965 and has worked in the banking sector since 1986.

The organisational structure of the Bank Group is divided into departments. In addition, there are three control functions: Risk Control, Compliance and Internal Audit. To ensure that the operations of each subsidiary comply with the overall objectives for the Bank Group, the President is the head of the Bank business unit of the Länsförsäkringar AB Group and, as a general rule, also the Chairman of the Board of each subsidiary.

Corporate management comprises the President and the heads of the departments. Management discusses and decides on matters pertaining to the business unit. The influence of trade-union organisations at Group level is also ensured through management.

The President has established a committee called the Asset Liability Committee (ALCO) to address capital and finance issues. The members of this Committee are appointed by the President. The Committee is governed by a separate instruction.

Control functions

Internal Audit

The Board appointed an internal audit function independent from the operating activities, with the primary task of ensuring that the scope and direction of the operations agree with the guidelines issued by the Board and that the operations are being conducted towards the targets established by the Board. The Internal Audit function is also responsible for examining and assessing the organisation of Länsförsäkringar Bank, its procedures, governance and control of the operations. The Board has adopted a separate instruction for the Internal Audit function. The function reports to the Board of Länsförsäkringar Bank.

Compliance

The role of compliance is to provide support and control for ensuring that the operations comply with regulatory requirements. The function is to identify and provide information about such issues as risks that may arise due to lack of regulatory compliance, assist in the production of internal rules, monitor regulatory compliance and ensure that the operations are informed about new and amended regulations. Compliance risks and action taken are to be regularly reported to the President and Board of Länsförsäkringar Bank and its subsidiaries. Compliance also has a function for counteracting money laundering.

Risk Control

Risk Control is a function for the control and analysis of all of the Bank Group's risks. Risk Control has an independent position in relation to the corporate operations that it controls. Risks and action taken are to be continuously reported to the President and Board of the companies included in the business unit.

Deviations from the Code

Länsförsäkringar Bank complies with the applicable sections of the Swedish Code of Corporate Governance taking into consideration that Länsförsäkringar Bank is not a stock-market company. The major deviations from the provisions of the Code and explanations for such deviations are presented below.

Nomination Committee and holding of Annual General Meeting

Deviation from the provisions of the Code occurs with respect to the fact that Länsförsäkringar Bank is not a stock-market company and has only one shareholder. For more information, see the section entitled Shareholders and General Meeting on page 23.

Composition of Board of Directors

Deviation from the provisions of the Code occurs regarding independence of Board members and Committee members. According to the instruction for the Nomination Committee, the Board of Directors is to be appropriately composed with respect to Länsförsäkringar Bank's operations, stage of development and other circumstances, and be characterised by diversity and breadth in terms of the members' competencies, experience and background. It has been decided that these requirements can be fulfilled within the framework of the Länsförsäkringar Alliance.

Period in office for Board members

Deviation from the provision of the Code occurs in respect of a maximum period of office of one year. The period of office for Board members is, as a general rule, two years. A longer period of office contributes to ensuring continuity and establishing competence within the Board.

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 efficient business operations, reliable financial reporting and information about the operations and compliance with applicable internal and external regulations. The internal-control system encompasses all parts of the organisation and is an integral part of the operations.

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

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

Control environment

The foundation of internal control relating to financial reporting is the control environment, consisting of the organisation, decision-making procedures and allocation of authorities and responsibilities among the various bodies that the Board of Directors and the President have established for the bank. 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 task of the Audit Committee is to assume responsibility for preparing the Board's quality assurance of the financial reporting and to monitor the efficiency of the internal governance and control. The Committee is also to prepare the direction, scope and coordination of the work of the Internal Audit and study the observations and recommendations from the external auditors.

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 material risks affecting internal control relating to financial reporting. These risks are analysed at company and Group level. Länsförsäkringar Bank is governed through common processes, in which risk management is built into every process and various methods are used to value and restrict risks and to ensure that identified risks are managed in accordance with established guidance documents.

The processes and control activities associated with key risks are assessed based on the risk analysis to identify material errors in the financial reporting.

Control activities

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

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

Information and communications

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

Follow-up

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

Five-year summary for the Group

SEK M	2012	2011	2010	2009	2008
INCOME STATEMENT					
Interest income	10,429.0	9,529.8	5,634.4	5,320.7	7,463.2
Interest expense	–8,357.9	–7,801.5	–4,271.6	–4,172.4	–6,251.7
Net interest income	**2,071.1**	**1,728.3**	**1,362.8**	**1,148.3**	**1,211.5**
Net commission expense	–384.9	–416.2	–173.4	–109.6	–142.4
Dividends received	0.0	0.0	0.2	0.0	2.6
Net gains from financial items	5.4	9.9	10.0	100.5	1.4
Other operating income	190.3	197.6	168.8	147.5	147.7
Total operating income	**1,881.9**	**1,519.6**	**1,368.4**	**1,286.7**	**1,220.8**
General administration expenses	–1,133.3	–1,003.1	–899.2	–916.9	–862.5
Depreciation/amortisation	–101.6	–82.9	–82.3	–75.5	–52.3
Total expenses before loan losses	**–1,234.9**	**–1,086.0**	**–981.5**	**–992.4**	**–914.8**
Profit before loan losses	**647.0**	**433.6**	**386.9**	**294.3**	**306.0**
Loan losses, net	–91.3	–48.2	–41.6	–36.6	–61.0
Profit from banking operations/Operating profit	**555.7**	**385.4**	**345.3**	**257.7**	**245.0**
Tax	–122.7	–87.6	–100.0	–79.9	–67.7
Net profit for the year	**433.0**	**297.8**	**245.3**	**177.8**	**177.3**
BALANCE SHEET					
Cash and balances with central banks	109.4	66.9	84.8	80.5	81.3
Treasury bills and other eligible bills	5,222.3	8,341.5	4,170.0	1,999.8	–
Loans to credit institutions	2,852.9	1,706.1	1,529.8	3,215.9	9,830.9
Loans to the public	149,941.9	134,011.3	117,910.2	99,581.6	78,563.9
Bonds and other interest-bearing securities	32,684.7	20,628.2	21,203.3	22,701.1	10,445.6
Shares and participations	11.0	10.4	10.4	10.4	10.8
Derivatives	1,874.8	1,566.7	1,041.9	1,231.9	2,546.2
Fair value changes of interest-rate-risk hedged items in portfolio hedge	878.1	709.9	140.6	767.9	1,131.9
Intangible assets	445.8	438.6	372.7	329.8	327.3
Property and equipment	9.2	9.7	13.1	18.1	20.5
Deferred tax assets	12.3	6.0	3.1	2.2	14.4
Other assets	558.6	251.2	254.4	265.0	273.5
Prepaid expenses and accrued income	2,558.2	2,309.9	1,799.5	1,092.4	890.1
Total assets	**197,159.2**	**170,056.4**	**148,533.8**	**131,296.6**	**104,136.4**
Due to credit institutions	1,062.9	2,192.0	5,212.3	21,232.4	9,112.6
Deposits and funding from the public	62,396.3	49,610.2	41,590.1	37,365.0	35,090.2
Debt securities in issue	114,263.3	101,279.5	89,248.0	62,016.2	48,985.3
Derivatives	3,104.0	2,458.2	2,093.6	1,195.2	1,546.8
Fair value changes of interest-rate-risk hedged items in portfolio hedge	2,176.6	1,836.6	–392.4	762.1	1,024.6
Deferred tax liabilities	83.1	58.7	72.9	65.3	60.0
Other liabilities	1,282.4	991.2	780.6	652.6	762.4
Accrued expenses and deferred income	4,112.2	3,791.6	3,130.9	2,046.0	1,973.3
Provisions	16.8	16.3	18.9	17.6	40.3
Subordinated liabilities	1,489.7	1,489.7	1,250.0	1,250.0	1,250.0
Equity	7,171.9	6,332.4	5,528.9	4,694.2	4,290.9
Total liabilities and equity	**197,159.2**	**170,056.4**	**148,533.8**	**131,296.6**	**104,136.4**
KEY FIGURES					
Return on equity, %	6.3	4.8	5.0	4.2	4.4
Return on total capital, %	0.30	0.24	0.24	0.22	0.26
Investment margin, %	1.11	1.07	0.93	0.96	1.30
Cost/income ratio before loan losses	0.66	0.71	0.72	0.76	0.75
Cost/income ratio after loan losses	0.70	0.75	0.75	0.80	0.80
Core Tier 1 ratio according to Basel II, %	13.1	11.5	11.1	11.6	13.6
Core Tier 1 ratio according to transition rules, %	7.6	7.6	7.7	7.7	8.0
Tier 1 ratio according to Basel II, %	13.7	12.1	11.8	12.5	14.6
Tier 1 ratio according to transition rules, %	7.9	8.0	8.2	8.2	8.6
Capital adequacy ratio according to Basel II, %	15.6	14.0	13.5	14.8	17.7
Capital adequacy ratio according to transition rules, %	9.1	9.3	9.4	9.7	10.4
Percentage of impaired loans, %	0.19	0.17	0.17	0.21	0.22
Reserve ratio in relation to loans, %	0.21	0.21	0.24	0.30	0.35
Loan losses in relation to lending, %	0.06	0.04	0.03	0.04	0.07

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated income statement

SEK M	Note	2012	2011
Interest income	5	10,429.0	9,529.8
Interest expense	6	–8,357.9	–7,801.5
Net interest income		**2,071.1**	**1,728.3**
Dividends received	7	0.0	0.0
Commission income	8	984.2	947.7
Commission expense	9	–1,369.1	–1,363.9
Net gains/losses from financial items	10	5.4	9.9
Other operating income	11	190.3	197.6
Total operating income		**1,881.9**	**1,519.6**
Staff costs	12	–396.6	–351.0
Other administration expenses	13, 14, 15	–736.7	–652.1
Total administration expenses		**–1,133.3**	**–1,003.1**
Depreciation/amortisation and impairment of property and equipment/intangible assets	16	–101.6	–82.9
Total operating expenses		**–1,234.9**	**–1,086.0**
Profit before loan losses		**647.0**	**433.6**
Loan losses, net	17	–91.3	–48.2
Operating profit		**555.7**	**385.4**
Tax	18	–122.7	–87.6
NET PROFIT FOR THE YEAR		**433.0**	**297.8**

Consolidated statement of comprehensive income

SEK M	2012	2011
Net profit for the year	**433.0**	**297.8**
Other comprehensive income		
Available-for-sale financial assets		
Change in fair value	–19.2	193.6
Reclassification adjustments on realised securities	–38.4	–26.5
Tax	14.9	–43.9
Other comprehensive income for the year, net after tax	**–42.7**	**123.2**
Comprehensive income for the year	**390.3**	**421.0**

Consolidated balance sheet

SEK M	Note	Dec 31, 2012	Dec 31, 2011
ASSETS			
Cash and balances with central banks		109.4	66.9
Treasury bills and other eligible bills	19	5,222.3	8,341.5
Loans to credit institutions	20	2,852.9	1,706.1
Loans to the public	21 22	149,941.9	134,011.3
Bonds and other interest-bearing securities	23	32,684.7	20,628.2
Shares and participations	24	11.0	10.4
Shares and participations in associated companies	25	0.0	–
Derivatives	26	1,874.8	1,566.7
Fair value changes of interest-rate-risk hedged items in portfolio hedge	27	878.1	709.9
Intangible assets	28	445.8	438.6
Property and equipment	29	9.2	9.7
Deferred tax assets	30	12.3	6.0
Other assets	31	558.6	251.2
Prepaid expenses and accrued income	32	2,558.2	2,309.9
TOTAL ASSETS		**197,159.2**	**170,056.4**
LIABILITIES AND EQUITY			
Due to credit institutions	33	1,062.9	2,192.0
Deposits and funding from the public	34	62,396.3	49,610.2
Debt securities in issue	35	114,263.3	101,279.5
Derivatives	26	3,104.0	2,458.2
Fair value changes of interest-rate-risk hedged items in the portfolio hedge	27	2,176.6	1,836.6
Deferred tax liabilities	30	83.1	58.7
Other liabilities	36	1,282.4	991.2
Accrued expenses and deferred income	37	4,112.2	3,791.6
Provisions	38	16.8	16.3
Subordinated liabilities	39	1,489.7	1,489.7
Total liabilities		**189,987.3**	**163,724.0**
Equity	41		
Share capital		954.9	954.9
Other capital contributed		5,767.5	5,025.5
Reserves		125.8	168.5
Retained earnings		–109.3	–114.3
Net profit for the year		433.0	297.8
TOTAL EQUITY		**7,171.9**	**6,332.4**
TOTAL LIABILITIES AND EQUITY		**197,159.2**	**170,056.4**
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Consolidated cash-flow statement (indirect method)

SEK M	2012	2011
Cash and cash equivalents, January 1	1,369.7	1,182.7
Operating activities		
Operating profit	555.7	385.4
Adjustment of non-cash items	168.8	128.4
Change in assets of operating activities		
Change in treasury bills and other eligible bills	2,762.1	–3,702.7
Change in loans to credit institutions	–413.7	22.1
Change in loans to the public	–15,997.5	–16,100.7
Change in bonds and other interest-bearing securities	–11,836.1	1,051.1
Change in derivatives	–72.8	249.1
Change in other assets	–307.4	3.2
Change in liabilities of operating activities		
Change in due to credit institutions	–1,293.2	–2,857.3
Change in deposits and funding from the public	12,786.1	7,863.6
Change in debt securities in issue	13,821.6	12,441.9
Change in other liabilities	451.3	29.2
Change in derivatives	–105.1	163.8
Cash flow from operating activities	**519.8**	**–322.9**
Investing activities		
Purchase of property and equipment	–5.5	–3.4
Divestment of property and equipment	–	–
Acquisition of intangible assets	–102.8	–142.0
Acquisition of other financial assets	–0.5	–
Cash flow from investing activities	**–108.8**	**–145.4**
Financing activities		
Shareholders' contribution received	742.0	798.0
Group contribution paid	–563.8	–382.4
Subordinated loans, received	22.4	1,199.7
Subordinated loans, amortisation	–	–960.0
Cash flow from financing activities	**200.6**	**655.3**
NET CASH FLOW FOR THE YEAR	**611.6**	**187.0**
Cash and cash equivalents, December 31	**1,981.3**	**1,369.7**

SEK M	2012	2011
Non-cash items		
Depreciation of property and equipment/amortisation of intangible assets	101.6	82.9
Impairment of property and equipment and intangible assets	–	–
Unrealised portion of net gains/losses from financial items	–72.5	–101.8
Change in surplus value of financial assets	2.3	2.3
Loan losses, excluding recoveries	64.6	–2.7
Change in accrued expense/income	72.3	150.3
Provisions	0.5	–2,6
Total non-cash items	**168.8**	**128.4**
Cash and cash equivalents comprise:		
Cash and balances with central banks	109.4	66.9
Loans to credit institutions	2,256.0	1,522.8
Due to credit institutions	–384.0	–220.0
Total cash and cash equivalents	**1,981.4**	**1,369.7**
Interest received	10,112.9	9,032,9
Interest paid	8,164.7	7,221.7
Gross investments	108.3	145.4
Income tax paid	0.0	0.0

Cash and cash equivalents is defined as cash and balance at central banks, lending and due to credit institutions payable on demand, as well as day-to-day loans and investments with the Riksbank that mature on the following banking day.

Consolidated statement of changes in shareholders' equity

SEK M	Share capital	Other capital contributed	Reserves	Retained earnings	Net profit for the year	Total
Opening balance, January 1, 2011	**954.9**	**4,227.5**	**45.3**	**55.9**	**245.3**	**5,528.9**
Net profit for the year					297.8	297.8
Other comprehensive income for the year			123.2			123.2
Comprehensive income for the year			*123.2*		*297.8*	*421.0*
Resolution by Annual General Meeting				245.3	–245.3	–
Group contribution paid				–563.8		–563.8
Tax on Group contribution paid				148.3		148.3
Conditional shareholders' contribution received		798.0				798.0
Closing balance, Dec 31, 2011	**954.9**	**5,025.5**	**168.5**	**–114.3**	**297.8**	**6,332.4**
Opening balance, January 1, 2012	**954.9**	**5,025.5**	**168.5**	**–114.3**	**297.8**	**6,332.4**
Net profit for the year					433.0	433.0
Other comprehensive income for the year			–42.7			–42.7
Comprehensive income for the year			*–42.7*		*433.0*	*390.3*
Resolution by Annual General Meeting				297.8	–297.8	0.0
Group contribution paid				–397.4		–397.4
Tax on Group contribution paid				104.6		104.6
Conditional shareholders' contribution received		742.0				742.0
Closing balance, Dec 31, 2012	**954.9**	**5,767.5**	**125.8**	**–109.3**	**433.0**	**7,171.9**

Other capital contributed
Refers to equity that has been provided by the owners.

Reserves
The reserves comprise the accumulated net change in 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 in the Parent Company and subsidiaries. Paid and received Group contributions after tax are also included.

All figures in SEK M if not otherwise stated

NOTE 1 COMPANY INFORMATION

The consolidated accounts for Länsförsäkringar Bank AB (publ) (Corp. Reg. No. 516401-9878) were presented on December 31, 2012. Länsförsäkringar Bank AB is a bank 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 AB (publ), Corp. Reg. No. 556549-7020, with its registered office in Stockholm. The Parent Company in the largest and smallest Group in which Länsförsäkringar Bank AB (publ) is the subsidiary and in which the consolidated accounts are prepared is Länsförsäkringar AB (publ), Stockholm. The consolidated accounts for Länsförsäkringar Bank AB (publ) were authorised for issue by the Board and President on February 19, 2013. Final approval of the consolidated accounts will be made by the Parent Company's Annual General Meeting on May 13, 2013.

NOTE 2 ACCOUNTING POLICIES

Compliance with standards and legislation

The consolidated accounts are prepared according to International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations of these standards issued by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the EU. In addition, the Swedish Financial Reporting Board's (the Reporting Board) recommendation RFR 1 Supplementary Accounting Rules for Groups and the Reporting Board's statements, certain supplementary regulations in the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL) and the regulations and general advice of the Swedish Financial Supervisory Authority regarding annual accounts for credit institutions and securities companies (FFFS 2008:25, including amendment regulations) were applied. The Parent Company applies the same accounting policies as the Group except for the cases described under the Parent Company's note 2 regarding accounting policies. The deviations arising between the Parent Company's and the Group's accounting policies are due to the limitations on the possibility of applying IFRS in the Parent Company, as a result of the Swedish Annual Accounts Act and the Pension Obligations Vesting Act and in certain cases for tax reasons.

Conditions relating to the preparation of the Parent Company's and consolidated financial statements

The Parent Company Länsförsäkringar Bank's functional currency is Swedish kronor (SEK), which is also the reporting currency of the Parent Company and the Group. The functional currency is the currency in the primary financial environments in which the Group companies conduct their 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 43, 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 and financial liabilities measured at fair value in profit and loss or as available-for-sale financial assets.

The accounting policies for the Group stated below have been applied to all periods presented in the consolidated financial statements, unless otherwise stated.

Judgements and estimates

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

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

- The selection of categories and valuation techniques for financial instruments. These are described in the paragraph below on financial instruments.
- The Group's compensation to the regional insurance companies, which the Group has opted to recognise as commission expense. The regional insurance companies are compensated for their work with Länsförsäkringar Bank's customer-related matters in each of the regional insurance companies' geographic areas. See note 9.

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 measured 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 firstly 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, see the section Loans and credit quality on page 10.

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

The amendments applied by the Group since January 1, 2012 are described below. Other amendments to IFRS applicable from 2012 did not have any significant effect on the consolidated financial statements.

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 Group'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 in advance in the preparation of 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 to 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.
- IAS 19 *Employee Benefits*. With the amendment, the corridor method is no longer to be used. Actuarial gains and losses are to be recognised against other comprehensive income. Expected returns on plan assets are not recognised. Returns on plan assets are to be recognised in profit and loss calculated based on the interest rate utilised for discounting pension commitments. The difference between the calculated and actual return on plan assets is to be recognised against other comprehensive income. The amendments are to be applied to the fiscal year beginning on or after January 1, 2013 with retroactive application. The effect in 2012 of the amended IAS19 is an increased cost of SEK 3.4 M in other comprehensive income.
- 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 Group. 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 change is suggested to come into effect in January 1, 2015, but early adoption is permitted provided that the EU has approved the standard. On December 31, 2012, the Group had treasury bills and other eligible bills, and bonds and other interest-bearing securities valued at a carrying amount of SEK 37,907.0 M, of which an expense of SEK 657.6 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 via other comprehensive income. The Group's financial liabilities are recognised at amortised cost, which is why changes in the regulations will not have any effect on the reporting.
- IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation – Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements.* With this change a new principle is established for the assessment of the existance of a controlling influence of all investments of the company. It also establishes principles for the presentation and preparation of consolidated financial statements. This change will not affect the accounting figures. IFRS 10 is to be applied to the fiscal year starting January 1, 2014 or later.
- IFRS 12 *Disclosure of Interests in Other Entities* includes disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The aim of this IFRS is to give the reader a description of what type of company the investment refers to and what type of risk that belong to this kind of investment. Disclosures are also required about the effect of the investment on the consolidated financial statements. This change will not affect the accounting figures of the Group, except possible additional disclosures. IFRS 12 is to be applied to the fiscal year starting January 1, 2014 or later.
- 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 Group already applies the suggested hierarchy (see note 43 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 Group has CSA agreements with all derivative counterparties, meaning that the credit risk is small. IFRS 13 is to be applied to the fiscal year starting January 1, 2014 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

Consolidated financial statements

The consolidated financial statements include the Parent Company and all companies in which Länsförsäkringar Bank directly or indirectly holds a controlling influence. A controlling influence means the direct or indirect right to formulate a Group's financial and operational strategies in order to receive financial benefits. This usually involves a requirement of more than 50% of the number of votes per participation, although a company also exercises a controlling influence when it has the right to appoint the majority of Board members.

The subsidiaries are consolidated according to the purchase method, entailing that acquisition of a subsidiary is considered to be a transaction whereby the Group indirectly acquires the subsidiary's assets and assumes its liabilities and contingent liabilities. The consolidated cost is determined on the basis of an acquisition analysis performed when the acquisition takes place. Intra-Group receivables and liabilities, income and expenses, and unrealised gains or losses arising from intra-Group transactions between Group companies are eliminated in their entirety when the consolidated financial statements are prepared.

Shareholders' contributions

Shareholders' contributions are recognised in the consolidated balance sheet as Other capital contributed.

Group contributions

Group contributions that have been paid or received with the purpose of minimising the total tax effect of the Group are recognised directly against retained earnings after decuctions for their actual tax effect since Group contributions are accounted for according to the policies of dividends and shareholders' contributions.

Untaxed reserves

Untaxed reserves in the consolidated balance sheet have been divided into deferred tax liabilities and equity. Changes in deferred tax liabilities due to changes in untaxed reserves are recognised as deferred tax in the consolidated income statement.

Related parties

Legal entities closely related to the Länsförsäkringar Bank Group include companies within 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 AB (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 Group's division of operating segments corresponds to the internal reports that the Group's chief operating decision maker uses to monitor the operations and allocate resources between business segments. The Group identified executive management as the Group's chief operating decision maker. Accordingly, for the Länsförsäkringar Bank Group, the reports on the earnings of the various segments of the operations received by executive management form the basis of segment reporting. The legal Group structure represents the internal reporting to the President of the Bank Group, meaning that each legal entity comprise a segment.

The Bank Group comprises the Parent Company Länsförsäkringar Bank AB, and the wholly owned subsidiaries Länsförsäkringar Hypotek AB, Wasa Kredit AB and Länsförsäkringar Fondförvaltning AB.

The Banking Operations segment is Länsförsäkringar Bank AB's business activities, comprising deposits, some funding, payment mediation and lending that is not first-lien mortgages on residential properties.

The Mortgage Institution segment is the Länsförsäkringar Hypotek AB's business activities, comprising retail mortgage lending of up to 75% of market value at the borrowing date and funding by issuing covered bonds.

The Finance Company segment is Wasa Kredit AB, which conducts the Bank Group's leasing operations. The Group also offers hire purchase financing and unsecured loans.

The Investment Funds segment is Länsförsäkringar Fondförvaltning AB, which manages some 30 mutual funds with different investment orientations.

Pricing between the Group's segments is based on market conditions. Segment information is provided only for the Group in accordance with IFRS 8.

The Bank Group has no single customer that, by itself, meets the 10% or more of the Group's income and thus meets the information requirements stipulated in item 34 of IFRS 8.

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 Group,
- 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, interest expense and dividends

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 available-for-sale financial assets. Interest income from financial assets measured at fair value in profit and loss according to 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. Dividends from shares and participations are recognised in the item Dividends received once the right to receive payment has been established.

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 and financial guarantees, are recognised as income in the period in which the service was provided. Fees charged for significant activities, for example securities commission and card commission, 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. Capital gain/loss from disposal of financial assets and liabilities including interest compensation received when customers pay loans prematurely is recognised here. This item also includes realised and unrealised changes in the value of derivative instruments which are financial hedging instruments, but for which hedge accounting is not applied, and unrealised changes in the fair value of derivatives to which fair value hedge accounting is applied, and unrealised changes in fair value of hedged items with regard to hedged risk in the fair value hedge. The ineffective portion of the hedging instrument and exchange-rate changes are also recognised as Net gains from financial items. Net profit/losses on transactions measured at fair value in profit and 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 Group. 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 Group's income. The criteria for income recognition are applied individually to each 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. The Group recognises the anticipated cost of bonus payments and other variable remuneration when there is a 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 Group utilises defined-contribution and defined-benefit pension plans. These plans are usually financed through payments from the respective Group company. The Group is generally covered by the FTP plan, which does not depend on any payments from employees. Pension commitments are recognised and measured in accordance with IAS 19 Employee Benefits.

Defined-benefit pension plans

There is only one defined-benefit pension plan in the Bank Group. This is a pension agreement from 2006 for the insurance industry, by which persons born in 1955 or earlier can voluntarily retire from age 62. The terms and conditions of this plan are designed such that the pension comprises approximately 65% of the pensionable salary at age 62. The Group's net commitments for defined-benefit plans are calculated by making an estimate of the future remuneration that the employees will have earned over their employment in both current and earlier periods. This remuneration is discounted at a present value. The discount rate is the interest rate on the balance-sheet date of a high-quality commercial paper with a term corresponding to that of the Group's pension commitments. When there is no functioning market for such commercial papers, the market interest rate on government bonds with a corresponding term will be used instead. The calculation is performed by a qualified actuary by applying the Projected Unit Credit Method. Actuarial gains and losses may arise in conjunction with the determination of the present value of the commitments. These gains and losses arise either because the actual outcome deviates from the earlier assumption or because the assumptions are changed. The corridor rule is applied to actuarial gains and losses arising in conjunction with the calculation of the Group's commitments for various plans after January 1, 2006. The corridor rule entails that the portion of the accumulated actuarial gains and losses that exceeds 10% of the greater of the commitments' present value is recognised in earnings over the expected average remaining period of service for the employees encompassed by the plan. In all other cases, no actuarial gains and losses are taken into account. The carrying amount of pensions and similar commitments recognised in the balance sheet corresponds to the present value of the commitments at year-end, less the fair value of plan assets, unrecognised actuarial gains or losses and unrecognised expenses for service during earlier periods. When the calculation results in an asset for the Group, the carrying amount of the asset is limited to the net of the unrecognised actuarial losses and unrecognised expenses for service during earlier periods and the present value of future repayments from the plan or reduced future deposits to the plan.

When the remuneration amount of a plan is improved, the portion of the increase in remuneration attributable to the employees' service during earlier periods is recognised as a staff cost in profit and loss straight-line over the average period until the remuneration is earned in its entirety. An expense is recognised directly in profit and loss if the remuneration has been fully earned. When there is a difference between how the pension cost is determined in the legal entity and in the Group, a provision or receivable pertaining to a special employer's contribution based on this difference is recognised. The present value of the provision and the receivable is not calculated.

Defined-contribution pension plans

These pension plans are plans according to which the Group pays fixed contributions to a separate legal entity and does not have a legal or informal obligation to pay additional contributions. The Group'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 to, as a rule, recognise its proportional share of the defined-benefit pension commitment and the plan assets and expenses associated with the pension commitment. Disclosure 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 Group 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 Group's assets are assessed on every balance-sheet date to determine whether there are any indications of impairment. IAS 36 is applied to impairment assessments for assets that are not tested according to any other standard. 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. The Group continuously assesses assets that are not tested for impairment according to other standards if there are any indications that the assets have declined in value. If there is an indication of an impairment requirement, the recoverable amount of the asset is calculated in accordance with IAS 36. An impairment loss is recognised when an estimated recoverable amount falls below the carrying amount of the asset.

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 Bank Group's share of confirmed loan losses is recognised. The regional insurance companies' share of confirmed loan losses is 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 recognition of assets and liabilities that are not acquisitions of operations and, at the time of the transaction, do not affect recognised or taxable earnings.

- Temporary differences attributable to participations in subsidiaries that are not expected to be reversed in the foreseeable future.

The valuation of deferred tax is based on how the carrying amounts of assets or 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, derivatives with positive market value, accounts receivable and shares and participations. Financial liabilities include debt securities in issue, derivatives with negative market value, deposits and accounts payable. The policies of the Group 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 has not been utilised during 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. Deposits and 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 42.

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 financial reporting. Financial 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 that 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 Group 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 Group'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 techniques 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.

Holdings of unlisted equities are recognised at acquisition value for cases in which it is not possible to determine a fair value reliably. The reason that it may not be possible to measure the fair value of these holdings reliably is that Group management believes that uncertainty surrounding future cash flows and the risk adjustment required to the discount rate is too great. The Group does not intent to divest its unlisted equities in the near future. The carrying amount of unlisted equities whose fair values could not be reliably measured totals SEK 11.0 M (10.4).

Classification

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

Financial assets measured at fair value in profit and loss

This category comprises two sub-groups: Financial assets held for trading and other financial assets that the Group 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 immediately. Financial assets held for trading are derivatives that are financial hedging instruments, but for which hedge accounting is not applied. This category is not used for any other purposes.

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 separate section Loans and credit quality on page 10.

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 Group's liquidity surplus and holdings of shares and participations that are not recognised as subsidiaries.

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 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 as well as 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 in profit and loss

This category includes financial liabilities held for trading and other financial liabilities that the Group has initially decided to place in this category according to the fair value option. The Group'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 bank'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, see the section Hedge accounting below.

Hedge accounting

The bank's derivative instruments, which comprise interest-rate and cross-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 of operations. All derivatives are measured at fair value in the balance sheet. To avoid undesirable earnings effects due to financial hedging, the bank has chosen to apply hedge accounting.

The hedge-accounting strategy defined and applied by the bank is portfolio hedging of fair value in the lending and funding 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 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 items. 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.

Financial hedges comprise currency risk associated with finding and hedging of interest-rate risk in bonds that carry fixed interest rates. The Group also includes hedges with interest-rate caps for interest-rate risk associated with funding at floating interest rates. The loans are recognised at amortised cost and the interest-rate cap is recognised at fair value in profit and loss.

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 official 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 receivable 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 the collateral, less any selling expenses discounted by the original effective interest rate. An impairment loss is recognised if the present value of expected future cash flows is lower than the carrying amount.

An individual impairment loss is recognised according to either an individual assessment or the risk-based 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 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. For leasing and hire purchase, an individual assessment is made of the future cash flow of all customer contracts terminated due to lack of solvency and of non-performing receivables for which an impairment requirement exists.

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 Group's statistical model and historical data on loan loss levels is used to support assessments of expected future cash flows and individual and collective impairment requirements.

For loan receivables in leasing and hire purchase whereby the counterparty has a payment that is more than 20 days past due but where the counterparty is deemed to be able to fulfil the conditions of the contract, the collective impairment requirement is assessed based on historic experience about loan losses from other borrowers with similar credit characteristics.

Takeover of collateral

The banking and mortgage operations have not taken over any collateral. The collateral is directly sold in the event of insolvency. For the leasing and hire purchase operations, collateral that can be sold is taken over. Collateral is valued by an external party and is recognised under reductions in impairment of loan losses.

Confirmed losses

Confirmed loan losses are those losses whose amount is regarded as finally established through acceptance of a composition proposal, through other claim remissions where the assessment is that the possibility of receiving additional payments is very small, through bankruptcy or after all of the collateral has been realised. The receivable is derecognised from the balance sheet and is recognised as a confirmed loss in profit and loss.

Leasing

Lease agreements are classified in the consolidated financial statements either as financial or operational leasing. Financial leasing exists if the financial risks and benefits associated with ownership have essentially been transferred to the lessee. If this is not the case, then this is a matter of operational leasing. The Bank Group's assets that are leased under financial lease agreements are not recognised as property and equipment since the risks associated with ownership are transferred to the lessee. Instead, the lease agreements are recognised as loans to the lessee regarding future leasing fees. Initially, an amount corresponding to the present value of all minimum lease payments to be paid by the lessee is recognised and any guaranteed residual value accrues to the lessor. Payments received from these agreements are recognised in part as repayment of lease receivables, and in part as interest income.

Both the Parent Company and the Group are lessees in the form of internal and external lease contracts classified as operational leasing, where expenses are recognised as rents. In addition, both the Group and Parent Company are, to a limited extent, lessees of company cars and office equipment. These expenses are recognised in their entirety as rental charges. These rental changes are recognised straight line over the leasing period.

The carrying amount of leased assets is tested for impairment in accordance with IAS 36 Impairment of Assets at the end of each fiscal year. The fair value less selling expenses is calculated and assessed if there is an indication of a write-down requirement. If it is not possible to calculate this value or if fair value is less than the carrying amount an assessment of the asset's value in use is also performed. If both these values are less than the carrying amount an impairment is done to the highest of fair value and the value in use.

Intangible assets

Intangible assets primarily comprise proprietary and acquired intangible assets with determinable useful lives that are expected to be of significant value to the operation in future years. These assets are recognised at cost less accumulated amortisation and impairment.

Amortisation is commenced when the asset is put into operation. The Group's proprietary intangible assets are recognised only if all of the following conditions are fulfilled:

- There is an identifiable asset.

- It is probable that the developed asset will generate future financial benefits.
- The cost of the asset can be calculated in a reliable manner.
- It is technically and commercially usable, and sufficient resources exist to complete the development and thereafter use or sell the intangible assets.

The carrying amount of proprietary intangible assets includes all directly attributable expenses, such as directly attributable expenses for salaries and materials. The periods of amortisation are determined based on a useful life that varies between three and fifteen years and amortisation takes place straight-line. The periods of amortisation are not category specific and are determined individually for each asset. Useful lives are retested at the end of every fiscal year. Impairment requirements are tested in accordance with IAS 36 Impairment of Assets. Additional expenses for capitalised intangible assets are recognised as an asset in the balance sheet only when these expenses increase the future financial benefits of the specific asset to which they pertain. All other additional expenses are recognised as an expense when they arise. Certain product investments are considered to be long term and have a period of amortisation of 15 years. Impairment testing and the period of amortisation are reviewed annually.

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:

Office equipment	5 years
Improvements to leased premises	5–7 years
Vehicles	5 years
Computer equipment	3–5 years

Provisions

A provision is recognised in the balance sheet when the Group 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 since there is uncertainty regarding the date of payment and 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 commitments

A loan commitment can be:

- A one-sided commitment from the Group to issue a loan with terms and conditions determined in advance in which the borrower can decide whether he/she wants to accept the loan or not, or
- A loan agreement in which both the Group 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 are recognised as a 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.

Financial guarantees

Guarantee agreements issued by the Group, which comprise leasing guarantees and credit guarantees, entail that the Group has a commitment to compensate the holder when the holder incurs a loss due to a specific debtor not making due payments to the holder in accordance with original or change contractual conditions.

Financial guarantee agreements are initially recognised at fair value, which normally means the amount that the Group received as compensation for the guarantee issued. When the agreement is subsequently valued, the liability for the financial guarantee is recognised at the higher of the amounts to be recognised under IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount that was originally recognised less deductions for accumulated allocations, recognised in accordance with IAS 18 Revenue.

NOTE 3 RISKS

The Group 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-to-day business decisions.

Risk categories

The types of risk to which the Group 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 Bank Group 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 Bank Group, 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.

Organisation of responsibilities for Risk Control

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 sub-categories 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. 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. All of the Bank Group's products and portfolios are subject to earnings risk.

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 Group's risk tolerance and risk appetite is well-defined. The Board approves all significant elements of the internal models utilised by the bank. Through the Bank Group'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 President is the Chairman of the Asset Liability Committee (ALCO), which follows up on capital and financial matters arising in the Bank Group.

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 banking operations. The individual responsible for Risk Control is the Chief Risk Officer (CRO) who is directly subordinate to the President and reports directly to the President and Board. Risk Control's areas of responsibility are defined and documented in an instruction prepared by the President.

The Group'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 Group'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 reviews 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 Group 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 Group'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 bank is also to introduce methods and procedures required for managing the risks pertaining to the Group's business activities.

The Group'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 Bank 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 and the Board. The instruction for operational risks also contains the criteria for dividing the operations and income indicators among the relevant business areas.

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 Group and the risk that the counterparty's pledged collateral will not cover the company's receivable. The Group calculates credit risks in accordance with the Internal Ratings-based Approach (IRB) for 98% (95) of its loan portfolio. The advanced IRB Approach is applied to retail exposures. The Foundation IRB Approach is applied to the exposure class of corporates. The Standardised Approach is used for other exposure classes. The lending portfolio is entirely comprised of loans in Sweden. For more information regarding credit risks and credit quality, see Loans and credit quality on page 10.

Concentration risk

The loan portfolio largely comprises mortgages, mainly with single-family homes as collateral. The high number of exposures are relatively small, meaning that the bank does not have any concentration risk pertaining to large exposures. Significant product concentration is found in mortgages. However, this product concentration is in line with the Group's stated risk tolerance and is continuously taken into account in scenarios by separate stress testing of the market values of the properties. The bank has a highly diversified geographic distribution since business activities are conducted in all parts of Sweden.

The bank is to be well-equipped to avoid concentration risks also in the future. For this, the bank has a robust loan-origination process with decisions largely based on internal credit-risk models. A comprehensive process is also applied when introducing new products and sub-markets.

Credit process

The banking operations have a balanced and consistent loan origination, with a strong system support. Loan origination is to achieve favourable and homogenous credit quality. Origination is primarily targeted toward retail mortgages for private individuals and small-scale family-owned agricultural operations with a low risk level. The maximum lending level for various types of loans and limits for the regional insurance companies' loan origination are stipulated in the Board's guidelines. Decision-making authorities are dependent on the size of the loans. The banking operations impose strict requirements in terms of customer selection, customers' repayment capacity and the quality of collateral.

Credit scoring takes place almost exclusively with the support of central research systems that are highly automated and in which quality examinations, decision-making stages and risk assessments under the IRB Approach form integrated components. Loan origination is primarily managed by the regional insurance companies. The credit rules are established by the bank's Board of Directors and apply to all 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. Support for automated risk classification under the IRB Approach, combined with the knowledge and credit responsibility of the regional insurance companies, creates 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. The probability of default (PD) is the probability that a counterparty will default within 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 bank.

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 divided into a PD scale. This PD scale comprises 11 risk classes for non-defaulted counterparties and one risk category for defaulted counterparties. The information 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 by using methods 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). For exposures for which the bank applies the IRB Approach, internal estimates of conversion factors are calculated. These estimates are calculated on the basis of internal information about 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	15,385	2,088
2	0.10	21,665	7,746
3	0.20	37,826	29,919
4	0.40	31,167	52,847
5	0.80	22,357	16,638
6	1.60	8,052	8,175
7	3.20	3,884	3,292
8	6.40	2,323	1,730
9	12.80	1,482	982
10	25.60	755	568
11	51.20	615	578
Default	100.00	753	518
Total IRB Approach		**146,264**	**125,081**
Non IRB classified		**4,003**	**9,214**
Loans to the public, gross		**150,267**	**134,295**

Credit quality

The loan portfolio exclusively comprises loans in Sweden, with lending for private housing in the form of single-family homes and tenant-owned apartments accounting for 71% (72) of the lending. First-lien mortgages with loan-to-value ratios amounting up to 75% of the market value at the time of origination account for the largest percentage of retail mortgages. Low loan-to-value ratios, combined with a well-diversified geographic distribution and local presence, are the core pillars in ensuring that the loan portfolio maintains a high level of credit quality. The rules regarding loan origination for mortgages have also been tightened with a maximum loan-to-value ratio of 85%. The average exposure of retail mortgages per counterparty is SEK 1.0 M and only 8% amounts to more than SEK 3 M.

Loans to the agricultural segment increased stably in 2012 and accounted for 13% (12) of the loan portfolio. The lending segment is a complement to the bank's mortgages since a large share pertains to loans to family-owned farming businesses. Together with mortgages, this segment accounts for approximately 84% (84) of the total loan portfolio.

The subsidiary Wasa Kredit has receivables pertaining to loans to Swedish households and companies. Collateral has been secured for the majority, 86% (86), of lending and comprises ownership reservations and collateral in leased assets. Loans without collateral, comprising unsecured loans and credit card loans, correspond to 14% (14) of lending.

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	109	67
Treasury bills and other eligible bills, etc.	5,222	8,342
Loans to credit institutions	3,609	1,706
Loans to the public	149,942	134,011
Bonds and other interest-bearing securities	32,985	20,628
Derivatives	1,875	1,567
Other assets	559	251
Accrued income	2,558	2,254
Credit risk exposure for memorandum items		
Guarantees	54	35
Loan commitments and other credit commitments	9,496	8,146
Total	**206,409**	**177,007**

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 bank has not utilised guarantees or any other credit enhancements during the year.

Loan portfolio

Lending segment	Dec. 31, 2012 SEK M	%	Dec. 31, 2011 SEK M	%
Retail mortgages	106,667	71	96,318	72
Agricultural loans	19,257	13	16,665	12
Unsecured loans	6,313	4	5,676	4
Leasing	6,256	4	5,764	4
Hire purchase	5,277	4	4,589	4
Multi-family housing	4,382	3	2,173	2
Industrial properties	491	0	302	0
Other	1,624	1	2,808	2
Loans to the public, gross	150,267	100	134,295	100
Provisions	–325		–284	
Loans to the public, net	**149,942**		**134,011**	

Distribution of companies in loan portfolio, gross, SEK M	Retail mortgages	Agriculture	Unsecured loans	Leasing	Hire purchase	Multi-family housing	Industrial properties	Other	Total
Länsförsäkringar Hypotek (first-lien mortgages)	96,589	0	0	0	0	4,383	491	12	101,474
Länsförsäkringar Bank	10,078	19,257	4,374	0	0	0	0	1,612	35,320
Wasa Kredit	0	0	1,939	6,256	5,277	0	0	0	13,473
Total	**106,667**	**19,257**	**6,313**	**6,256**	**5,277**	**4,383**	**491**	**1,624**	**150,267**

Essentially all lending that occurs in Länsförsäkringar Hypotek qualifies for inclusion in the covered-bond operations, which are regulated by the Swedish Covered Bonds (Issuance) Act (2003:1223).

Exposure intervals for mortgages

	Dec. 31, 2012			Dec. 31, 2011		
	SEK M	%	Average commitment, SEK M	SEK M	%	Average commitment, SEK M
– SEK 0.5 M	10,291	10	0.3	9,641	10	0.3
SEK 0.5 M–SEK 1 M	23,587	22	0.7	21,632	22	0.7
SEK 1 M–SEK 2 M	44,168	41	1.4	39,521	41	1.4
SEK 2 M–SEK 3 M	19,785	19	2.4	17,879	19	2.4
> SEK 3 M	8,836	8	3.8	7,645	8	3.7
Total	**106,667**	**100**	**1.0**	**96,318**	**100**	**0.9**

Retail mortgages by collateral

Collateral	Dec. 31, 2012 SEK M	%	Dec. 31, 2011 SEK M	%
Single-family and vacation homes	84,803	80	77,345	80
Tenant-owned apartments	21,864	20	18,973	20
Total	**106,667**	**100**	**96,318**	**100**

Mortgages by county, Group

County	Dec. 31, 2012 SEK M	%	Dec. 31, 2011 SEK M	%
Blekinge	1,926	2	1,778	2
Dalarna	5,835	5	5,201	6
Gotland	2,285	2	2,078	2
Gävleborg	3,800	4	3,525	4
Halland	5,733	5	5,506	6
Jämtland	2,340	2	2,159	2
Jönköping	3,754	4	3,393	4
Kalmar	2,388	2	2,068	2
Kronoberg	1,675	2	1,556	2
Norrbotten	1,262	1	1,107	1
Skåne	12,200	11	11,250	12
Stockholm	16,361	15	14,756	15
Södermanland	3,395	3	3,053	3
Uppsala	5,834	6	5,304	6
Värmland	1,453	1	1,299	1
Västerbotten	3,490	3	3,093	3
Västernorrland	1,676	2	1,512	2
Västmanland	3,821	4	3,338	3
Västra Götaland	17,357	16	15,618	16
Örebro	3,399	3	2,882	3
Östergötland	6,683	6	5,842	6
Total	**106,667**	**100**	**96,318**	**100**

Exposure intervals for agricultural loans	Dec. 31, 2012			Dec. 31, 2011		
	SEK M	%	Average commitment, SEK M	SEK M	%	Average commitment, SEK M
– SEK 1 M	1,873	10	0.3	1,718	10	0.3
SEK 1 M – SEK 3 M	4,959	26	1.8	4,305	26	1.8
SEK 3 M – SEK 8 M	5,174	27	4.7	4,666	28	4.7
SEK 8 M – SEK 15 M	3,286	17	10.8	3,087	19	10.9
SEK 15 M –	3,965	20	24.5	2,889	17	25.9
	19,257	**100**	**1.7**	**16,665**	**100**	**1.5**

Agricultural loans by product	Dec. 31, 2012			Dec. 31, 2011		
Product	SEK M	%	Average commitment, SEK M	SEK M	%	Average commitment, SEK M
First-lien mortgages	16,660	86	2.3	13,678	82	2.2
Second-lien mortgages	1,914	10	0.6	2,310	14	0.7
Operating credits	683	4	0.1	677	4	0.1
Total	**19,257**	**100**	**1.7**	**16,665**	**100**	**1.5**

Agricultural loans by corporate form	Dec. 31, 2012			Dec. 31, 2011		
Corporate form	SEK M	%	Average commitment, SEK M	SEK M	%	Average commitment, SEK M
Sole proprietorship	18,233	95	1.8	15,620	94	1.5
Limited liability company	865	4	1.5	896	5	1.4
Partnerships and limited partnerships	112	1	0.7	99	1	0.7
Other corporate forms	47	0	0.8	50	0	0.6
Total	**19,257**	**100**	**1.7**	**16,665**	**100**	**1.5**

Impaired loans

Impaired loans amounted to SEK 298 M (233) and the percentage of impaired loans to 0.19% (0.17). Loan losses remained very low at SEK 91 M (48), net, corresponding to loan losses of 0.06% (0.04). Impaired loans and loan losses continued to account for a minor percentage of total loans.

	Group		Parent Company	
Impaired loans by product, SEK M	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011
Retail mortgages	5.4	2.7	2.3	1.9
Agricultural loans	4.1	0.3	4.1	0.3
Unsecured loans	112.5	114.7	39.1	41.3
Leasing	115.7	69.3	–	–
Hire purchase	46.5	37.6	–	–
Multi-family housing	–	–	–	–
Industrial properties	–	–	–	–
Other	13.7	8.7	13.6	8.7
Total	**297.9**	**233.3**	**59.1**	**52.2**

	Group		Parent Company	
Non-performing loan receivables not included in impaired loans, SEK M	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011
Receivables 10-19 days past due [1]	0.8	0.0	0.4	0.0
Receivables 20–39 days past due	472.7	292.7	87.6	29.0
Receivables 40–60 days past due	30.3	5.9	0.1	0.0
Total	**503.8**	**298.6**	**88.1**	**29.0**

[1] Excluding Wasa Kredit.

Non-performing loan receivables not included in impaired loans, SEK M, specified by company, Dec. 31, 2011	Länsförsäkringar Bank	Länsförsäkringar Hypotek	Wasa Kredit	Group
Receivables 10-19 days past due [1]	0.4	0.3	0.0	0.8
Receivables 20–39 days past due	87.6	66.2	319.0	472.7
Receivables 40–60 days past due	0.1	12.2	18.0	30.3
Total	**88.1**	**78.7**	**337.0**	**503.8**

[1] Excluding Wasa Kredit.

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. A non-performing loan receivable has a non-performing payment that is more than nine days and up to 60 days past due. This analysis pertains exclusively to loans to the public.

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

Agreements concerning payment plans are made to a limited extent within the leasing and hire purchase operations if it is deemed beneficial for the customer and lessor.

Financial credit risk (counterparty risk)

Financial credit risk is defined as the risk that the Group 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 counterpart. 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.

Risk in loans to credit institutions is managed by assigning each counterparty a maximum exposure amount primarily based on rating and term.

	Positive values	
Derivatives, fair values, SEK M	Group Dec. 31, 2012	Group Dec. 31, 2011
AA-/Aa3	–	269.1
A+/A2	518.3	346.9
A/Aa2	188.5	–
A+/Aa3	–	–
A/Aa3	–	268.2
Total	**706.8**	**884.2**

Positive and negative values are recognised at net amount per counterparty. Only positive netted values are included in the table.

	Group		Parent Company	
Bonds and other interest-bearing securities, SEK M	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011
AAA/Aaa	31,111.7	20,628.2	12,893.0	6,123.7
Total	**31,111.7**	**20,628.2**	**12,893.0**	**6,123.7**

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 through interest-rate derivatives. In principle, this means that no time differences should exist. In practice, this is impossible, so the Board has established interest-rate risk limits. However, these limits are so conservative that the basic principle for matching still applies. The Financial Policy defines interest-rate risk as the effect of a parallel shift in the yield curve of 1 percentage point. 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 70 M (33).

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. The currency risk pertains to the change in the exchange rate, negative to the Group.

The Group is exposed to this risk in funding in EUR, CHF and NOK. In line with the risk policy, all funding is swapped to SEK which means that the effect on the income statement is 0 (0) and there are no effects on equity. In cases where exposure is hedged in accordance with IFRS, fair value hedging is used. For further information, see the note 40 entitled Assets and liabilities in foreign currency.

The Bank Group applies a number of supplementary risk measures to market risk, including Value-At-Risk, sensitivity measures and stress tests.

Liquidity risk

Liquidity risk and financing strategy

The Board of Directors decides on a Financial Policy every year which provides a framework for the financial operations of the Group. 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 good 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.

For liquidity risk, the Group applies a series of risk measures and key performance indicators to ensure a comprehensive analysis adjusted to the bank's specific risk profile. The analysis is prospective and based on measuring methods accepted in the market, including analysis of future cash flows, scenario analyses and key figures stipulated by authorities.

The Group has highly diversified funding and a liquidity reserve comprising securities with high liquidity and creditworthiness, which means that the reserve can be rapidly converted into cash. In addition to these, there are unutilised funding programmes which, combined, provide good opportunities for managing the risk in the difference between the contractual cash flows of assets and liabilities. For more information about the funding programme, see page 13.

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

Liquidity risks are minimised as far as possible. Future liquidity requirements and access to funds are secured by preparing accurate forecasts for the coming 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 Group. This collateral is pledged in the form of cash funds that are transferred to the counterparties, thus entailing a liquidity risk for the Group. For derivatives with positive values for the Group, 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 bank's 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 the Treasury unit. Liquidity risk is quantified using liquidity forecasts that contain all financial cash flows and expected cash flows, including the net lending increases adopted. The Treasury unit is also responsible for the liquidity portfolio. The size and structure of the liquidity portfolio is monitored daily. 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 Group, due to insufficient cash, being unable to fulfil its commitments or only being able to fulfil its commitments by raising cash 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 into cash 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 government securities, covered bonds and mortgage certificates that are pledgeable at the Riksbank and, where applicable, the ECB.

The liquidity reserve is invested in securities with very high credit quality and totalled a nominal amount of SEK 37.5 billion (30.5) at December 31, 2012. A total of 77% (64) of the reserve comprised Swedish covered bonds with the highest rating, 18% (36) securities with the Swedish government as the counterparty, 4% (–) other Swedish bonds with the credit rating of AAA/Aaa, and 1% (–) German government securities. The liquidity of the investments is very 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 the refinancing strategy

The general objective of funding is to ensure that the Group has the requisite refinancing for both the short and long terms and for the desired term periods. In addition, funding activities 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 activities.

Strategy for ensuring short and long-term refinancing

The Group regularly meets with both current and potential investors to ensure that these investors have a sound overview of the operations and the satisfactory risk management of the operations that facilitates the existence of limits and a long-term interest and a will to invest in the Group's securities.

The Group's refinancing activities are also based on diversification in terms of investors and markets. To ensure the success of diversification, the different types of securities sought after by the investors in each market need to be issued. 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 Group strives to ensure that as favourable liquidity as possible is maintained in its investments and secured refinancing options.

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

Group 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									
Cash and balances with central banks	109.4								109.4
Treasury bills and other eligible bills		471.8			3,817.2	933.3			5,222.3
Loans to credit institutions	2,497.5	170.6						184.8	2,852.9
Loans to the public	72,897.1	25,463.7	5,332.5	11,136.0	29,435.4	4,884.1	821.3	–28.2	149,941.9
Bonds and other interest-bearing securities			3,142.0	3,226.0	21,163.5	5,153.2			32,684.7
Other assets	15.0							6,333.0	6,348.0
Total assets	**75,519.0**	**26,106.1**	**8,474.5**	**14,362.0**	**54,416.1**	**10,970.6**	**821.3**	**6,489.6**	**197,159.2**
Liabilities									
Due to credit institutions	1,062.9								1,062.9
Deposits and funding from the public	39,544.5	13,773.9	2,152.8	6,003.4	543.0	378.7			62,396.3
Debt securities in issue	1,997.0	3,921.4	4,100.1	11,630.2	54,058.2	33,496.6	4,983.9	75.9	114,263.3
Other liabilities								10,775.1	10,775.1
Subordinated liabilities		735.0					754.7		1,489.7
Equity								7,171.9	7,171.9
Total liabilities and equity	**42,604.4**	**18,430.3**	**6,252.9**	**17,633.6**	**54,601.2**	**33,875.3**	**5,738.6**	**18,022.9**	**197,159.2**
Difference assets and liabilities	**32,914.6**	**7,675.8**	**2,221.6**	**–3,271.6**	**–185.1**	**–22,904.7**	**–4,917.3**	**–11,533.3**	
Interest-rate derivatives, nominal values, net	–1,195.2	–3,955.5	–6,897.0	–2,530.0	–32,799.0	23,965.0	3,283.0		
Net exposure	**31,719.4**	**3,720.3**	**–4,675.4**	**–5,801.6**	**–32,984.1**	**1,060.3**	**–1,634.3**	**–11,533.3**	

Group 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									
Cash and balances with central banks	66.9								66.9
Treasury bills and other eligible bills					2,226.5	6,115.0			8,341.5
Loans to credit institutions	1,513.0	38.7						154.4	1,706.1
Loans to the public	64,208.1	24,380.3	7,163.8	7,868.1	23,904.7	5,109.5	1,494.6	–117.8	134,011.3
Bonds and other interest-bearing securities		100.8	4,874.8	778.5	11,560.9	3,313.2			20,628.2
Other assets								5,302.4	5,302.4
Total assets	**65,788.0**	**24,519.8**	**12,038.6**	**8,646.6**	**37,692.1**	**14,537.7**	**1,494.6**	**5,339.0**	**170,056.4**
Liabilities									
Due to credit institutions	2,183.6		8.4						2,192.0
Deposits and funding from the public	33,555.3	10,781.1	361.9	3,198.5	1,134.9	295.5		283.0	49,610.2
Debt securities in issue	2,550.8	27,226.2	618.6	2,052.2	39,631.5	28,665.4	457.6	77.2	101,279.5
Other liabilities								9,152.6	9,152.6
Subordinated liabilities		470.0	265.0				755.0	–0.3	1,489.7
Equity								6,332.4	6,332.4
Total liabilities and equity	**38,289.7**	**38,477.3**	**1,253.9**	**2,520.7**	**40,766.4**	**28,960.9**	**1,212.6**	**15,845.0**	**170,056.4**
Difference assets and liabilities	**27,489.3**	**–13,957.5**	**10,784.7**	**3,395.9**	**–3,074.4**	**–14,423.1**	**282.0**	**–10,505.9**	
Interest-rate derivatives, nominal values, net	2,039.8	–8,791.8	–8,659.1	–4,335.0	3,982.5	16,169.6	–1,083.2		
Net exposure	**29,538.1**	**–22,749.3**	**2,125.6**	**–939.1**	**908.1**	**–1,746.5**	**–801.2**	**–10,505.9**	

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

Parent Company 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									
Cash and balances with central banks	109.4								109.4
Treasury bills and other eligible bills		471.8			2,722.5	483.1			3,677.4
Loans to credit institutions	37,309.9	190.0	426.0	150.0				184.8	38,260.7
Loans to the public	19,170.2	8,683.9	752.8	1,654.6	4,161.5	589.1	200.8		35,212.9
Bonds and other interest-bearing securities			3,142.0	310.1	8,555.6	2,458.3			14,466.0
Other assets								7,776.6	7,776.6
Total assets	**56,589.5**	**9,345.7**	**4,320.8**	**2,114.7**	**15,439.6**	**3,530.5**	**200.8**	**7,961.4**	**99,503.0**
Liabilities									
Due to credit institutions	2,750.4								2,750.4
Deposits and funding from the public	39,683.2	13,773.9	2,152.8	6,003.4	543.0	378.7			62,535.0
Debt securities in issue	1,997.0	1,441.8	2,709.0	5,251.7	10,669.8	1,155.7		75.9	23,300.9
Other liabilities								2,365.1	2,365.1
Subordinated liabilities		735.0					754.7		1,489.7
Equity								7,061.9	7,061.9
Total liabilities and equity	**44,430.6**	**15,950.7**	**4,861.8**	**11,255.1**	**11,212.8**	**1,534.4**	**754.7**	**9,502.9**	**99,503.0**
Difference assets and liabilities	**12,158.9**	**–6,605.0**	**–541.0**	**–9,140.4**	**4,226.8**	**1,996.1**	**–553.9**	**–1,541.5**	
Interest-rate derivatives, nominal values, net	–1,770.0	14,618.0	–1,302.0	3,870.0	–13,484.0	–1,770.0	–162.0		
Net exposure	**10,388.9**	**8,013.0**	**–1,843.0**	**–5,270.4**	**–9,257.2**	**226.1**	**–715.9**	**–1,541.5**	

Parent Company 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									
Cash and balances with central banks	66.9								66.9
Treasury bills and other eligible bills									
Loans to credit institutions	30,258.6	616.0						154.5	31,029.1
Loans to the public	19,271.4	8,465.3	915.8	982.6	3,089.8	560.9	212.0	–97.9	33,399.9
Bonds and other interest-bearing securities			252.3	778.5	5,092.9				6,123.7
Other assets								6,212.7	6,212.7
Total assets	**49,596.9**	**9,081.3**	**1,168.1**	**1,761.1**	**8,182.7**	**560.9**	**212.0**	**6,269.3**	**76,832.3**
Liabilities									
Due to credit institutions	2,163.3		8.4						2,171.7
Deposits and funding from the public	33,711.1	10,781.1	361.9	3,198.5	1,134.9	295.5		283.0	49,766.0
Debt securities in issue	2,100.7	10,055.5	398.7	2,052.2	799.6	399.4		77.2	15,883.3
Other liabilities								1,169.6	1,169.6
Subordinated liabilities		735.0					755.0	–0.3	1,489.7
Equity								6,352.0	6,352.0
Total liabilities and equity	**37,975.1**	**21,571.6**	**769.0**	**5,250.7**	**1,934.5**	**694.9**	**755.0**	**7,881.5**	**76,832.3**
Difference assets and liabilities	**11,621.8**	**–12,490.3**	**399.1**	**–3,489.6**	**6,248.2**	**–134.0**	**–543.0**	**–1,612.2**	
Interest-rate derivatives, nominal values, net	–245.0	2,790.0	–20.0	2,530.0	–5,785.0	950.0	–220.0		
Net exposure	**11,376.8**	**–9,700.3**	**379.1**	**–959.6**	**463.2**	**816.0**	**–763.0**	**–1,612.2**	

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

Group 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									
Cash and balances with central banks	109.4						109.4	109.4	
Treasury bills and other eligible bills		471.7		4,350.0			4,821.7	5,222.3	4,350.0
Loans to credit institutions	113.4	2,646.6					2,760.0	2,852.9	
Loans to the public		1,605.1	5,051.0	10,693.0	134,082.0		151,431.1	149,941.9	131,362.6
Bonds and other interest-bearing securities			6,250.0	24,700.0			30,950.0	32,684.7	24,700.0
Other assets						6,283.7	6,283.7	6,348.0	
Total assets	**222.8**	**4,723.4**	**11,301.0**	**39,743.0**	**134,082.0**	**6,283.7**	**196,355.9**	**197,159.2**	**160,412.6**
Liabilities									
Due to credit institutions	881.4	79.6	222.2	52.2	29.5		1,264.9	1,062.9	
Deposits and funding from the public		55,406.6	8,156.2	921.6			64,484.4	62,396.3	54,124.4
Debt securities in issue		5,765.5	15,222.6	86,482.0	5,399.1		112,869.2	114,263.3	78,302.4
Other liabilities						10,885.1	10,885.1	10,775.1	
Subordinated liabilities					1,490.0	–0.3	1,489.7	1,489.7	1,490.0
Total liabilities	**881.4**	**61,251.7**	**23,601.0**	**87,455.8**	**6,918.6**	**10,884.8**	**190,993.3**	**189,987.3**	**133,916.8**
Difference assets and liabilities	**–658.6**	**–56,528.3**	**–12,300.0**	**–47,712.8**	**127,163.4**	**–4,601.1**	**5,362.6**	**7,171.9**	
Loans approved but not disbursed		6,437.2					6,437.2		
Total difference, excluding derivatives	**–658.6**	**–62,965.5**	**–12.300.0**	**–47,712.8**	**127,163.4**	**–4,601.1**	**–1,074.6**		

Group 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									
Cash and balances with central banks	66.9						66.9	66.9	
Treasury bills and other eligible bills				7,458.0			7,458.0	8,341.5	2,820.7
Loans to credit institutions	250.0	1,595.1				–0.3	1,844.8	1,706.1	1,532.0
Loans to the public		2,921.1	3,599.6	9,212.3	118,529.4	–152.2	134,110.2	134,011.3	122,254.4
Bonds and other interest-bearing securities		100.0	5,575.0	13,950.0			19,625.0	20,628.2	13,950.0
Other assets						5,261.2	5,261.2	5,302.4	5,350.2
Total assets	**316.9**	**4,616.2**	**9,174.6**	**30,620.3**	**118,529.4**	**5,108.7**	**168,366.1**	**170,056.4**	**145,907.3**
Liabilities									
Due to credit institutions		1,938.0	84.7				2,022.7	2,192.0	
Deposits and funding from the public	30,808.0	15,677.3	3,560.4	1,430.4			51,476.1	49,610.2	83,677.7
Debt securities in issue		12,844.0	7,387.9	79,860.7	466.6		100,559.2	101,279.5	74,054.6
Other liabilities		109.0				9,101.9	9,210.9	9,152.6	
Subordinated liabilities					1,490.0	–0.3	1,489.7	1,489.7	1,490.0
Total liabilities	**30,808.0**	**30,568.3**	**11,033.0**	**81,291.1**	**1,956.6**	**9,101.6**	**164,758.6**	**163,724.0**	**159,222.3**
Difference assets and liabilities	**–30,491.1**	**–25,952.1**	**–1,858.4**	**–50,670.8**	**116,572.8**	**–3,992.9**	**3,607.5**		
Loans approved but not disbursed		5,044.9					5,044.9		
Total difference, excluding derivatives	**–30,491.1**	**–30,997.0**	**–1,858.4**	**–50,670.8**	**116,572.8**	**–3,992.9**	**–1,437.3**		

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

Parent Company 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									
Cash and balances with central banks	109.4						109.4	109.4	
Treasury bills and other eligible bills		471.7		2,950.0			3,421.7	3,677.4	2,950.0
Loans to credit institutions	0.7	2,646.6	34,564.5	150.0	616.0		37,977.8	38,260.7	766.0
Loans to the public		376.5	1,680.4	1,949.0	30,663.9		34,669.8	35,212.9	30,906.7
Bonds and other interest-bearing securities			3,400.0	10,350.0			13,750.0	14,466.0	10,350.0
Other assets						7,776.6	7,776.6	7,776.6	
Total assets	**110.1**	**3,494.8**	**39,644.9**	**15,399.0**	**31,279.9**	**7,776.6**	**97,705.3**	**99,503.0**	**44,972.7**
Liabilities									
Due to credit institutions	2,631.1						2,631.1	2,750.4	
Deposits and funding from the public		55,406.6	8,156.2	921.6			64,484.4	62,535.0	54,124.4
Debt securities in issue		3,440.5	7,984.3	11,820.0			23,244.8	23,300.9	8,865.4
Other liabilities						2,365.1	2,365.1	2,365.1	
Subordinated liabilities					1,490.0		1,490.0	1,489.7	1,490.0
Total liabilities	**2,631.1**	**58,847.1**	**16,140.5**	**12,741.6**	**1,490.0**	**2,365.1**	**94,215.4**	**92,441.1**	**64,479.8**
Difference assets and liabilities	**–2,521.0**	**–55,352.3**	**23,504.4**	**2,657.4**	**29,789.9**	**5,411.5**	**3,489.9**	**7,061.9**	
Loans approved but not disbursed		1,101.5					1,101.5		
Total difference, excluding derivatives	**–2,521.0**	**–56,453.8**	**23,504.4**	**2,657.4**	**29,789.9**	**5,411.5**	**2,388.4**		

Parent Company 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									
Cash and balances with central banks	66.9						66.9	66.9	
Treasury bills and other eligible bills							0.0	0.0	
Loans to credit institutions		1,493.4	28,508.0		766.0		30,767.4	31,029.1	766.0
Loans to the public		1,979.7	947.7	2,085.8	28,466.0		33,479.2	33,399.9	29,605.4
Bonds and other interest-bearing securities			1,000.0	4,900.0			5,900.0	6,123.7	5,889.7
Other assets						6,212.7	6,212.7	6,212.7	5,688.3
Total assets	**66.9**	**3,473.1**	**30,455.7**	**6,985.8**	**29,232.0**	**6,212.7**	**76,426.2**	**76,832.3**	**41,949.4**
Liabilities									
Due to credit institutions	2,171.7						2,171.7	2,171.7	
Deposits and funding from the public	30,808.0	15,677.2	3,560.4	1,430.4			51,476.0	49,766.0	41,838.8
Debt securities in issue		2,477.0	6,340.0	7,045.0			15,862.0	15,883.3	5,249.9
Other liabilities		109.0				1,060.6	1,169.6	1,169.6	
Subordinated liabilities					1,490.0		1,490.0	1,489.7	1,250.0
Total liabilities	**32,979.7**	**18,263.2**	**9,900.4**	**8,475.4**	**1,490.0**	**1,060.6**	**72,169.3**	**70,480.3**	**48,338.7**
Difference assets and liabilities	**–32,912.8**	**–14,790.1**	**20,555.3**	**–1,489.7**	**27,742.0**	**5,152.1**	**4,256.9**		
Loans approved but not disbursed		1,151.2					1,151.2		
Total difference, excluding derivatives	**–32,912.8**	**–15,941.3**	**20,555.3**	**–1,489.7**	**27,742.0**	**5,152.1**	**5,408.1**		

Liquidity exposure, derivatives

Group 2012	< 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	–5.1				–5.1
– Interest	–14.2	–52.6	166.8	0.0	100.0
Derivatives in hedge accounting					
– Currency	132.1	325.6	–931.9	52.3	–421.9
– Interest	156.1	–455.7	871.2	25.3	596.9
Total difference, excluding derivatives	**268.9**	**–182.7**	**106.1**	**77.6**	**269.9**

Group 2011	< 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	229.8	239.4	339.5	–77.0	731.7
Other derivatives					
– Currency					
– Interest					
Total difference, excluding derivatives	**387.9**	**328.3**	**515.9**	**26.7**	**1 258.8**

Parent Company 2012	< 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	–5.1	–0.8	0.0	0.0	–5.9
– Interest	0.0				0.0
Derivatives in hedge accounting					
– Currency	5.1				5.1
– Interest	22.0	–247.2	–344.4	–9.9	–579.5
Total difference, excluding derivatives	**22.0**	**–248.0**	**–344.4**	**–9.9**	**–580.3**

Parent Company 2011	< 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Total nominal cash flows
Derivatives in hedge accounting					
– Currency					
– Interest	17.3	–182.9	–214.7	–14.1	–394.4
Other derivatives					
– Currency					
– Interest					
Total difference, excluding derivatives	**17.3**	**–182.9**	**–214.7**	**–14.1**	**–394.4**

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, for example, competition or volume reductions. Earnings risk is associated with all of the Group's products and portfolios. A considerable portion of the banking operations involves retail mortgages. The retail mortgages operations have a low level of volatility and thus a low earnings risk. Business risk is managed in the internal capital adequacy assessment process (ICAAP).

Operational risks

Operational risk is defined as the risk of losses arising due to inappropriate or unsuccessful internal processes, human error, incorrect systems or external events. This definition also includes legal risks. Based on this definition, operational risk encompasses the entire banking 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 banking operations perform an analysis of the operational risk associated with the process. These risk analyses are part of the Group's overall risk assessment in accordance with the rules governing capital adequacy. Since the operations, their external environment and threat profile are constantly changing, the processes must be subjected to regular quality assurance. This is carried out to ensure that the risks remain within the Group'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 Group has an IT system for reporting operational risk events or 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 Bank Group's 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 Bank Group is responsible for performing the risk analyses, meaning identifying and assessing operational risk, within 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.

Capital management and Internal Capital Adequacy Assessment Process (ICAAP)

The Group's internal capital adequacy assessment process (ICAAP) is 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 based on principles and are comprehensive in nature. To a large extent, this means that Länsförsäkringar Bank has the option and an obligation to independently design its process and, in the long run, both its scope and level of sophistication. The Group's procedures, implementation and results are to be reported to the Swedish Financial Supervisory Authority annually. The CRO of Länsförsäkringar Bank is responsible for conducting the process work that leads to an internal capital adequacy assessment for the 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 Group.

For more detailed information about Basel II, see the Pillar III report Risk and capital management in the Länsförsäkringar Bank Group on the website www.lansforsakringar.se/financialbank.

Capital-adequacy analysis, Group

SEK M	Dec 31 2012	Dec 31 2011
Capital base		
Tier 1 capital, gross	7,336.0	6,454.0
Less intangible assets	–445.8	–438.6
Less deferred tax assets	–12.3	–6.0
Less/plus IRB deficit/surplus	–265.9	–261.9
Tier 1 capital, net	**6,612.0**	**5,747.4**
Of which subordinated debt, perpetual	*–290.0*	*–290.0*
Total Core Tier 1 capital	*6,322.0*	*5,457.4*
Tier 2 capital	1,200.0	1,200.0
Deductions for Tier 2 capital	–265.9	–261.9
Total capital base	**7,546.1**	**6,685.5**
Risk-weighted assets according to Basel II	**48,359.4**	**47,617.4**
Risk-weighted assets according to transition rules	**83,233.6**	**71,572.8**
Capital requirement		
Capital requirement for credit risk according to Standardised Approach	678.4	679.3
Total capital requirement for credit risk according to IRB Approach	3,034.2	2,984.2
Capital requirement for operational risk	156.2	145.9
Capital requirement according to Basel II	**3,868.8**	**3,809.4**
Adjustment according to transition rules	2,789.9	1,916.4
Total capital requirement	**6,658.7**	**5,725.8**
Capital adequacy		
Tier 1 ratio according to Basel II, %	13.7	12.1
Core Tier 1 ratio according to Basel II, %	13.1	11.5
Capital adequacy ratio according to Basel II, %	15.6	14.0
Capital ratio according to Basel II [1)]	1.95	1.75
Tier 1 ratio according to transition rules, %	7.9	8.0
Core Tier 1 ratio according to transition rules, %	7.6	7.6
Capital adequacy ratio according to transition rules, %	9.1	9.3
Capital ratio according to transition rules [1)]	1.13	1.17
Special disclosures		
IRB Provisions surplus (+)/deficit (–)	–531.8	–523.9
– IRB Total provisions (+)	291.1	237.8
IRB Anticipated loss (–)	–822.9	–761.7

SEK M	Dec 31 2012	Dec 31 2011
Capital requirement		
Credit risk according to Standardised Approach		
Exposures to institutions	104.4	77.8
Exposures to corporates	167.9	195.2
Retail exposures	108.6	93.1
Exposures secured on residential property	0.0	126.3
Past due items	0.0	0.4
Covered bonds	259.4	169.2
Other items	38.2	17.2
Total capital requirement for credit risk according to Standardised Approach	**678.4**	**679.3**
Credit risk according to IRB Approach		
Retail exposures		
Exposures secured by real estate collateral	1,537.0	1,420.3
Other retail exposures	709.3	670.5
Total retail exposures	2,246.3	2,090.7
Exposures to corporates	787.1	892.7
Non credit-obligation assets	0.7	0.8
Total capital requirement for credit risk according to IRB Approach	**3,034.2**	**2,984.2**
Operational risks		
Standardised Approach	156.2	145.9
Total capital requirement for operational risk	**156.2**	**145.9**

1) 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).

Capital-adequacy analysis, Parent Company

SEK M	Dec 31, 2012	Dec 31, 2011
Capital base		
Tier 1 capital, gross	7,307.7	6,618.9
Less intangible assets	–367.6	–353.2
Less deferred tax assets	–5.4	–2.7
Less/plus IRB deficit/surplus	–113.8	–111.0
Tier 1 capital, net	**6,820.9**	**6,151.9**
Of which subordinated debt, perpetual	*–290.0*	*–290.0*
Total Core Tier 1 capital	*6,530.9*	*5,861.9*
Tier 2 capital	1,200.0	1,200.0
Deductions for Tier 2 capital	–113.8	–111.0
Total capital base	**7,907.1**	**7,240.9**
Risk-weighted assets according to Basel II	**18,163.4**	**18,693.0**
Risk-weighted assets according to transition rules	**23,875.1**	**20,369.0**
Capital requirement		
Capital requirement for credit risk according to Standardised Approach	175.2	151.0
Total capital requirement for credit risk according to IRB Approach	1,205.9	1,276.2
Capital requirement for operational risk	72.0	68.3
Capital requirement according to Basel II	**1,453.1**	**1,495.4**
Adjustment according to transition rules	456.9	134.1
Total capital requirement	**1,910.0**	**1,629.5**
Capital adequacy		
Tier 1 ratio according to Basel II, %	37.6	32.9
Core Tier 1 ratio according to Basel II, %	36.0	31.4
Capital adequacy ratio according to Basel II, %	43.5	38.7
Capital ratio according to Basel II [1)]	5.44	4.84
Tier 1 ratio according to transition rules, %	28.6	30.2
Core Tier 1 ratio according to transition rules, %	27.4	28.8
Capital adequacy ratio according to transition rules, %	33.1	35.5
Capital ratio according to transition rules [1)]	4.14	4.44
Special disclosures		
IRB Provisions surplus (+)/deficit (–)	**–227.5**	**–222.0**
– IRB Total provisions (+)	107.3	83.3
IRB Anticipated loss (–)	–334.8	–305.3

SEK M	Dec 31, 2012	Dec 31, 2011
Capital requirement		
Credit risk according to Standardised Approach		
Exposures to institutions	21.6	6.2
Exposures to corporates	4.8	69.4
Retail exposures	9.6	8.0
Exposures secured on residential property	0.0	8.7
Past due items	0.0	0.3
Covered bonds	109.7	50.0
Other items	29.5	8.6
Total capital requirement for credit risk according to Standardised Approach	**175.2**	**151.0**
Credit risk according to IRB Approach		
Retail exposures		
Exposures secured by real estate collateral	414.1	269.9
Other retail exposures	261.3	193.1
Total retail exposures	**675.4**	**463.0**
Exposures to corporates	530.3	812.7
Non credit-obligation assets	0.2	0.4
Total capital requirement for credit risk according to IRB Approach	**1,205.9**	**1,276.2**
Operational risks		
Standardised Approach	72.0	68.3
Total capital requirement for operational risk	**72.0**	**68.3**

1) Capital ratio = total capital base/total capital requirement.

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

NOTE 4 SEGMENT REPORTING

Group, SEK M	Banking operations	Mortgage institution	Finance company	Mutual funds	Eliminations/ Adjustments	Total
Income statement 2012						
Net interest income	742.7	795.6	530.6	2.2	–	2,071.1
Net commission income/expense	–316.5	–385.2	42.7	273.0	1.1	–384.9
Net gains from financial items	2.7	2.4	0.3	–	–	5.4
Intra-Group income	104.1	0.0	6.6	0.5	–111.2	0.0
Other income	115.6	0.1	74.1	0.5	0.0	190.3
Total operating income	**648.6**	**412.9**	**654.3**	**276.2**	**–110.1**	**1,881.9**
Intra-Group expenses	–5.9	–67.1	–13.1	–24.0	110.1	0.0
Other administration expenses	–580.8	–24.0	–368.7	–165.3	5.5	–1,133.3
Depreciation/amortisation and impairment	–73.4	–0.1	–28.0	–0.1	–	–101.6
Total operating expenses	**–660.1**	**–91.2**	**–409.8**	**–189.4**	**115.6**	**–1,234.9**
Profit/loss before loan losses	**–11.5**	**321.7**	**244.5**	**86.8**	**5.5**	**647.0**
Loan losses, net	–22.2	–2.3	–66.8	0.0	–	–91.3
Operating profit/loss	**–33.7**	**319.4**	**177.7**	**86.8**	**5.5**	**555.7**
Balance sheet, Dec. 31, 2012						
Total assets	**99,503.0**	**127,318.6**	**13,703.6**	**235.0**	**–43,601.0**	**197,159.2**
Liabilities	92,441.1	122,427.6	12,686.5	165.7	–37,733.6	189,987.3
Equity	7,061.9	4,891.0	1,017.1	69.3	–5,867.4	7,171.9
Total liabilities and equity	**99,503.0**	**127,318.6**	**13,703.6**	**235.0**	**–43,601.0**	**197,159.2**
Other information per segment						
Investments	84.5	0.3	23.1	0.5	–	108.4
Income statement 2011						
Net interest income	726.0	506.4	492.9	3.0	–	1,728.3
Net commission income/expense	–470.6	–248.6	37.8	261.7	3.5	–416.2
Net gains from financial items	6.2	4.5	–0.8	–	–	9.9
Intra-Group income	91.4	–	4.3	0.2	–95.9	0.0
Other income	188.0	0.4	62.0	0.1	–52.9	197.6
Total operating income	**541.0**	**262.7**	**596.2**	**265.0**	**–145.3**	**1,519.6**
Intra-Group expenses	–3.5	–53.0	–13.0	–26.4	–95.9	0.0
Other administration expenses	–493.4	–25.1	–342.2	–140.5	–1.9	–1,003.1
Depreciation/amortisation and impairment	–61.0	*0.0*	–21.9	–	–	–82.9
Total operating expenses	**–557.9**	**–78.1**	**–377.1**	**–166.9**	**94.0**	**–1,086.0**
Profit/loss before loan losses	**–16.9**	**184.6**	**219.1**	**98.1**	**–51.3**	**433.6**
Loan losses, net	1.1	4.0	–53.3	–	–	–48.2
Operating profit/loss	**–15.9**	**188.7**	**165.7**	**98.1**	**–51.3**	**385.4**
Balance sheet, Dec. 31, 2011						
Total assets	**76,832.3**	**117,411.8**	**12,378.4**	**247.4**	**–36,813.5**	**170,056.4**
Liabilities	70,480.3	113,070.2	11,506.0	174.6	–31,507.1	163,724.0
Equity	6,352.0	4,341.6	872.4	72.8	–5,306.4	6,332.4
Total liabilities and equity	**76,832.3**	**117,411.8**	**12,378.4**	**247.4**	**–36,813.5**	**170,056.4**
Other information per segment						
Investments	127.1	0.3	17.7	0.4	–	145.5

Income and fixed assets are attributable to Sweden in its entirety.
The segment distribution per legal entity reflects the internal reporting to the chief operating decision-maker.
The legal structure within Länsförsäkringar Bank Group is in line with the product offering to external customers.
The portion of assets and liabilities that is not distributed per segment comprise Group-wide eliminations within the Bank Group.

NOTE 5 INTEREST INCOME

SEK M	2012	2011
Loans to credit institutions	39.9	30.0
Loans to the public	6,021.2	5,222.5
Interest-bearing securities	917.0	826.5
Derivatives		
Hedge accounting	3,450.9	3,319.3
Non-hedge accounting	–	131.5
Other interest income	0.0	0.0
Total interest income	**10,429.0**	**9,529.8**
of which interest income on impaired loans	2.9	3.8
of which interest income from financial items not measured at fair value	6,061.1	5,252.4
Average interest rate on loans to the public including net leasing during the year, %	4.3	4.1

NOTE 6 INTEREST EXPENSE

SEK M	2012	2011
Due to credit institutions	–18.6	–37.1
Deposits and funding from the public	–1,140.3	–845.2
Interest-bearing securities	–3,481.5	–3,145.4
Subordinated liabilities	–75.9	–68.2
Derivatives		
Hedge accounting	–3,520.6	–3,484.8
Non-hedge accounting	–26.3	–137.5
Other interest expense	–94.7	–83.3
Total interest expense	**–8,357.9**	**–7,801.5**
of which interest expense from financial items not measured at fair value	–4,811.0	–4,179.2
Average interest rate on deposits from the public during the year, %	2.0	1.9

NOTE 7 DIVIDENDS RECEIVED

SEK M	2012	2011
Dividends received on shares	0.0	0.0
Total dividends received	**0.0**	**0.0**

NOTE 8 COMMISSION INCOME

SEK M	2012	2011
Payment mediation	62.9	63.6
Loans	85.0	78.3
Deposits	9.0	7.1
Financial guarantees	0.6	0.3
Securities	696.8	688.1
Bank cards	125.5	106.7
Other commission	4.4	3.6
Total commission income	**984.2**	**947.7**

NOTE 9 COMMISSION EXPENSE

SEK M	2012	2011
Payment mediation	–93.9	–95.7
Securities	–371.8	–375.8
Bank cards	–87.8	–82.2
Remuneration to regional insurance companies	–799.0	–793.7
Other commission	–16.6	–16.5
Total commission expense	**–1,369.1**	**–1,363.9**

NOTE 10 NET GAINS FROM FINANCIAL ITEMS

SEK M	2012	2011
Change in fair value		
Interest-related instruments	244.4	455.6
Currency-related instruments	–786.5	18.0
Change in fair value of hedged items	515.6	–498.7
Capital gains/losses		
Interest-related instruments	–27.2	6.4
Other financial assets	–	–
Interest compensation	59.1	28.6
Total net gains from financial items	**5.4**	**9.9**

SEK M	2012	2011
Profit/loss by valuation category		
Available-for-sale financial assets, realised	395.8	51.2
Derivative assets intended for risk management, non-hedge accounting	0.4	–0.8
Other financial assets measured at fair value in profit and loss	–	–
Derivative liabilities intended for risk management, non-hedge accounting	–	–
Derivatives in non-hedge accounting, realised	0.0	–5.9
Derivatives in hedge accounting, realised	–107.5	–26.6
Loans and receivables	56.8	27.0
Financial liabilities at amortised cost	–316.9	–8.3
Change in fair value of derivatives that are hedging instruments in a fair value hedge	–538.8	472.0
Change in fair value of hedged items with regard to the hedged risk in fair value hedges	515.6	–498.7
Total	**5.4**	**9.9**

NOTE 11 OTHER OPERATING INCOME

SEK M	2012	2011
Compensation from the regional insurance companies	103.2	104.6
Other income	87.1	93.0
Total other operating income	**190.3**	**197.6**

NOTE 12 EMPLOYEES, STAFF COSTS AND REMUNERATION OF SENIOR EXECUTIVES

Average number of employees	2012	2011
Sweden		
Men	182	163
Women	181	164
Total	**363**	**327**

Salaries, other remuneration and social security expenses, other employees	2012	2011
Salaries and remuneration	207.8	190.9
of which variable remuneration	6.6	5.8
Social security expenses	130.4	105.8
of which pension costs	52.1	38.8
Total	**338.2**	**296.7**

Board of Directors and senior executives, number 20 (19)	2012	2011
Salaries and remuneration	23.2	22.3
of which variable remuneration	0.0	0.0
Social security expenses	18.9	17.6
of which pension costs	9.3	8.5
Total	**42.1**	**39.9**

NOTE 12 EMPLOYEES, STAFF COSTS AND REMUNERATION OF SENIOR EXECUTIVES, cont.

Total salaries, other remuneration and social security expenses	2012	2011
Salaries and remuneration	231.0	213.3
of which variable remuneration	6.6	5.8
Social security expenses	149.3	123.4
of which pension costs	61.5	47.4
Total	**380.3**	**336.7**

Länsförsäkringar Bank has about 850 individuals who are also employed at Länsförsäkringar Bank and the regional insurance companies. They receive their entire remuneration from their respective regional insurance company.

Variable remuneration

Variable remuneration can be paid to a small number of specialists at a maximum of four to six monthly salaries. All deviations exceeding two monthly salaries are discussed by Länsförsäkringar AB's Remuneration Committee and a proposal submitted to and decided on by Länsförsäkringar AB's Board. A basic prerequisite for paying variable remuneration to employees is that the Länsförsäkringar AB Group reports positive results before appropriations and tax. One third of the remuneration is based on the achievement of the joint goals in Länsförsäkringar AB's business plan and two thirds are based on the degree to which the individual goals in the goal contract were achieved. 40% of remuneration is paid in the subsequent year and 60% three years later. The Board may, under the conditions stipulated in the remuneration policy, decide to reduce the deferred portion of variable remuneration. The variable remuneration above pertains to costs recognised for the year. The amount includes calculated variable remuneration for 2012 and deviations pertaining to the calculated cost for 2011.

Commission-based remuneration may be paid to certain employees at Wasa Kredit. The terms and conditions of this remuneration are regulated in collective agreements.

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.

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. A mutual period of notice of six months applies for other senior executives. If termination of employment is issued by the company, severance pay corresponding to 18 months' salary will also be paid, in addition to the period of notice. Otherwise, the period of notice for other senior executives follows the terms and conditions of the collective agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (FTF) and the Swedish Confederation of Professional Associations (SACO).

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. In addition to this an endowment insurance is subscribed by the company with a premium of SEK 500,000 each year during five years, starting in 2011. The retirement age for the Executive Vice President is 65. The pension is a defined-contribution plan and the pension premium is to amount to 35% of the pensionable salary. The pensionable income is the fixed income. The retirement age for an Executive Vice President and senior management is between 62 and 65. The pension between the ages 62–65 is defined-contribution based. Pension amounting to about 70% of the pensionable salary will be paid. Pension from the age of 65 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).

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 Committee

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, and be 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.

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

Remuneration to the President is determined by the Remuneration Committee and thereafter confirmed by the Board. Remuneration to other senior executives is determined by the President in accordance with the policies for salaries and conditions for senior executives.

Number of women among senior executives, %	Dec. 31, 2012	Dec. 31, 2011
Board members	17	17
Other senior executives	37	28

Loans to senior executives

	Bank Group		Parent Company Group	
	2012	2011	2012	2011
Board members	**22.5**	**23.1**	**50.1**	**54.2**
of which loans from Bank	4.4	4.5	11.6	11.1
of which loans from Hypotek	18.1	18.6	38.5	43.1
of which loans from Wasa Kredit	–	–	–	–
President and Executive Vice Presidents	**0.6**	**0.4**	**17.8**	**18.4**
of which loans from Bank	0.3	0.4	3.8	3.4
of which loans from Hypotek	–	–	13.7	15.0
of which loans from Wasa Kredit	0.3	–	0.3	–
Senior executives	**8.1**	**8.3**	**36,4**	**30.8**
of which loans from Bank	1.7	1.2	6.6	6.2
of which loans from Hypotek	6.4	7.1	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. Personnel loans are restricted to SEK 500,000. 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, 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 13 OTHER ADMINISTRATION EXPENSES

SEK M	2012	2011
Costs for premises	–37.2	–32.1
IT costs	–274.9	–224.1
Consultant costs	–64.7	–68.9
Marketing	–21.5	–23.5
Management costs	–103.4	–105.5
Other administration expenses	–235.0	–198.0
Total administration expenses	**–736.7**	**–652.1**

NOTE 14 REMUNERATION TO AUDITORS

SEK M	2012	2011
Audit fees		
KPMG		
– Audit assignments	–2.9	–3.1
– Audit activities other than audit assignment	–0.4	–0.8
– Tax consulting	–0.4	–0.3
– Other services	–1.2	–0.6
Deloitte		
– Audit activities other than audit assignment	–	–0.6
– Other services	–0.4	–0.4

Audit assignment pertains to a review of 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 15 OPERATIONAL LEASING

These agreements pertain to internal and external lease contracts where the Group is the lessee.

SEK M	2012	2011
Lease expenses paid		
Rent for premises	–31.5	–27.3
of which, variable fees	–0.7	–2.4
Leasing fees, company cars	–7.5	–7.1
Future basic rents for irrevocable leasing contracts		
Within 1 year	–15.5	–16.9
Between 1 and 5 years	–1.8	–1.4
Total	**–17.3**	**–18.3**

NOTE 16 DEPRECIATION/AMORTISATION AND IMPAIRMENT OF PROPERTY AND EQUIPMENT/INTANGIBLE ASSETS

SEK M	2012	2011
Depreciation of property and equipment	–6.1	–6.8
Amortisation of intangible assets	–95.5	–76.1
Total depreciation/amortisation	**–101.6**	**–82.9**
Impairment of intangible assets	–	–
Total depreciation/amortisation and impairment of assets	**–101.6**	**–82.9**

NOTE 17 LOAN LOSSES, NET

SEK M	2012	2011
Specific reserve for individually assessed loan receivables		
Write-off of confirmed loan losses during the year	–136.2	–92.7
Reversed earlier impairment of loan losses recognised as confirmed losses	102.8	92.5
Impairment of loan losses during the year	–147.7	–200.7
Payment received for prior confirmed loan losses	85.4	41.5
Reversed impairment of loan losses no longer required	22.4	62.2
Covering of losses from related companies	–	–
Net expense for the year for individually assessed loan receivables	**–73.3**	**–97.2**
Collective reserves for individually assessed receivables	**–**	**–**
Collective assessment of homogenous groups of loan receivables with limited value and similar credit risk		
Provision/reversal of reserve for loan losses	–19.1	48.7
Net expense for the year for collectively assessed receivables	**–19.1**	**48.7**
Net expense for the year for fulfilment of guarantees	1.1	0.3
Net expense of loan losses for the year	**–91.3**	**–48.2**

All information pertains to receivables from the public.

NOTE 18 TAXES

SEK M	2012	2011
Current tax		
Tax expenses for the year	–104.6	–88.3
Adjustment of tax expense pertaining to prior years	–	–0.3
Total current tax	**–104.6**	**–88.6**
Deferred tax		
Change in deferred tax expense on temporary differences	–18.1	1.0
Total deferred tax	**–18.1**	**1.0**
Total recognised tax expense	**–122.7**	**–87.6**
Reconciliation of effective tax rate		
Profit/loss before tax	555.7	385.4
Tax in accordance with applicable tax rate for Parent Company	–146.1	–101.3
Tax on non-deductible costs	–5.9	–2.7
Tax on non-taxable income	0.3	0.3
Tax attributable to changed tax rate	13.8	0.0
Other	15.2	16.1
Total tax on net profit for the year	**–122.7**	**–87.6**
Applicable tax rate	26.3%	26.3%
Effective tax rate	22.0%	22.7%
Tax items recognised in other comprehensive income		
Tax on available-for-sale financial assets	14.9	–43.9
Total tax attributable to other comprehensive income	**14.9**	**–43.9**

	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	–57.6	14.9	–42.7	167.1	–43.9	123.2

NOTE 19 TREASURY BILLS AND OTHER ELIGIBLE BILLS

SEK M	Dec. 31, 2012	Dec. 31, 2011
Carrying amount		
Swedish government	4.750.5	8,341.5
German government	471.8	
Total treasury bills and other eligible bills	**5,222.3**	**8,341.5**
Fair value	5,222.3	8,341.5
Amortised cost	5,181.1	7,943.1
Nominal value	4,405.0	7,458.0
Remaining term of not more than 1 year	471.8	–
Remaining term of more than 1 year	4,750.5	8,341.5

NOTE 20 LOANS TO CREDIT INSTITUTIONS

SEK M	Dec. 31, 2012	Dec. 31, 2011
Deposit, Swedish banks	–	–
Other loans to credit institutions	2,852.9	1,706.1
Total loans to credit institutions	**2,852.9**	**1,706.1**
Payable on demand	635.0	101.6
Remaining term of not more than 3 months	2,217.9	1,596.1
Remaining term of more than 3 months but not more than 1 year	–	8.4
Total loans to credit institutions	**2,852.9**	**1,706.1**

NOTE 21 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		
Public sector	982.0	2,246.1
Corporate sector	12,754.8	9,658.6
Retail sector	136,530.5	122,390.4
Other	0.0	0.0
Total loan receivables, gross	**150,267.3**	**134,295.1**
Impairment of individually reserved loan receivables		
Corporate sector	–69.1	–61.3
Retail sector	–135.3	–120.6
Total individual reserves	**–204.4**	**–181.9**
Impairment of collectively reserved loan receivables		
Corporate sector	–32.4	–24.0
Retail sector	–88.6	–77.9
Other	0.0	0.0
Total collective reserves	**–121.0**	**–101.9**
Total impairment	**–325.4**	**–283.8**

SEK M	Dec 31, 2012	Dec 31, 2011
Loan receivables, net		
Public sector	982.0	2,246.1
Corporate sector	12,653.3	9,573.3
Retail sector	136,306.6	122,191.9
Other	0.0	0.0
Total loans to the public	**149,941.9**	**134,011.3**
Remaining term of not more than 3 months	98,332.6	88,754.3
Remaining term of more than 3 months but not more than 1 year	16,468.5	15,032.0
Remaining term of more than 1 year but not more than 5 years	34,319.5	29,014.2
Remaining term of more than 5 years	821.3	1,494.6
	149,941.9	**134,295.1**
Impaired loans		
Corporate sector	132.9	87.8
Retail sector	165.0	145.5
Total impaired loans	**297.9**	**233.3**

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 for any other reason cannot meet its undertaking. The loan receivable is considered impaired to the extent that its whole amount is not covered by collateral.

Reconciliation of impairment of loan losses	Dec 31, 2012			Dec 31, 2011		
SEK M	Individual impairments	Collective impairments	Total	Individual impairments	Collective impairments	Total
Opening balance	**–181.9**	**–101.9**	**–283.8**	**–135.8**	**–150.7**	**–286.5**
Reversed earlier impairment of loan losses recognised in the annual accounts as confirmed losses	102.8	–4.3	98.5	92.5	0.0	92.5
Reversed impairment of loan losses no longer required	22.3	–14.8	7.5	62.1	48.8	110.9
Impairment of loan losses during the year	–147.6	0.0	–147.6	–200.7	0.0	–200.7
Closing balance	**–204.4**	**–121.0**	**–325.4**	**–181.9**	**–101.9**	**–283.8**

NOTE 22 FINANCIAL LEASING

Financial lease agreements specified by maturity structure where the Group is the lessor.

Dec 31, 2012, SEK M	Up to 1 year	1–5 years	More than 5 years	Total
Present value of future minimum lease fees	2,258.6	3,528.8	394.1	6,181.5
Unearned financial income [1)]	363.6	399.4	18.0	781.0
Gross investment	**2,622.2**	**3,928.2**	**412.1**	**6,962.5**

Dec 31, 2011, SEK M	Up to 1 year	1–5 years	More than 5 years	Total
Present value of future minimum lease fees	2,020.3	3,105.7	580.1	5,706.1
Unearned financial income [1)]	392.0	424.8	41.5	858.3
Gross investment	**2,412.3**	**3,530.5**	**621.6**	**6,564.4**

[1)] attributable to present value calculation

	2012	2011
Provision for impaired receivables pertaining to minimum lease fees	73.0	55.7
Variable portion of leasing fees included in net profit for the year	–2.3	19.4

Financial leasing is included in loans to the public.

NOTE 23 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 (guaranteed by Swedish government)	–	–
Swedish mortgage institutions (not guaranteed)	31,111.7	20,628.2
Other Swedish issuers	1,573.0	–
Total bonds and other interest-bearing securities	**32,684.7**	**20,628.2**
Fair value	32,684.7	20,628.2
Amortised cost	32,068.4	20,232.3
Nominal value	30,950.0	19,625.0
Market status		
Securities listed	32,684.7	20,628.2
Remaining term of not more than 1 year	6,368.0	5,754.1
Remaining term of more than 1 year	26,316.7	14,874.1

NOTE 24 SHARES AND PARTICIPATIONS

SEK M	Dec 31, 2012	Dec 31, 2011
Other shares and participations	11.0	10.4
Total shares and participations	**11.0**	**10.4**

All shares are unlisted.

NOTE 25 SHARES AND PARTICIPATIONS IN ASSOCIATED COMPANIES

SEK M	Dec 31, 2012	Dec 31, 2011
Carrying amount at beginning of year	–	–
Acquisition of shares in Getswish AB	0,0	–
Carrying amount at year-end	**0,0**	–

NOTE 26 DERIVATIVES

SEK M	Dec 31, 2012 Nominal value	Dec 31, 2012 Fair value	Dec 31, 2011 Nominal value	Dec 31, 2011 Fair value
Derivates with positive values				
Derivatives in hedge accounting				
Interest	73,625.0	1,624.4	63,925.0	1,378.0
Currency	8,651.5	421.2	10,576.6	454.2
Collateral received, CSA	–	192.9	–	–265.7
Other derivatives				
Interest	2,735.0	17.5	210.0	0.2
Currency	–	4.6	0.0	0.0
Total derivatives with positive values	**85,011.5**	**1,874.8**	**74,711.6**	**1,566.7**
Remaining term of not more than 1 year	15,886.0	193.2	13,641.8	74.9
Remaining term of more than 1 year	69,125.5	1,874.5	61,069.8	1,757.5
Derivatives with negative values				
Derivatives in hedge accounting				
Interest	88,930.0	1,403.2	75,199.0	1,571.0
Currency	26,065.6	1,619.2	11,852.1	887.2
Other derivatives				
Interest	3,215.0	73.0	–	–
Currency	–	8.6	–	–
Total derivates with negative values	**118,210.6**	**3,104.0**	**87,051.1**	**2,458.2**
Remaining term of not more than 1 year	32,575.0	218.9	22,590.0	109.6
Remaining term of more than 1 year	85,635.6	2,885.1	64,461.1	2,348.6

NOTE 27 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	709.9	140.6
Changes during the year pertaining to lending	168.2	569.3
Carrying amount at year-end	**878.1**	**709.9**
Liabilities		
Carrying amount at beginning of year	1,836.6	–392.4
Changes during the year pertaining to deposits	24.9	3.6
Changes during the year pertaining to funding	315.1	2,225.4
Carrying amount at year-end	**2,176.6**	**1,836.6**

NOTE 28 INTANGIBLE ASSETS

	Internally developed IT systems		Acquired IT systems		Total	
SEK M	Dec 31, 2012	Dec 31, 2011	Dec 31, 2012	Dec 31, 2011	Dec 31, 2012	Dec 31, 2011
Cost						
Opening cost	895.4	753.4	27.9	27.9	923.3	781.3
Acquisitions during the year	102.7	142.0	–	–	102.7	142.0
Divestments during the year	–	–	–	–	–	–
Closing cost	**998.1**	**895.4**	**27.9**	**27.9**	**1,026.0**	**923.3**
Amortisation						
Opening accumulated amortisation	–451.5	–378.9	–24.7	–21.2	–476.2	–400.1
Amortisation for the year	–93.5	–72.6	–2.0	–3.5	–95.5	–76.1
Divestments during the year	–	–	–	–	–	–
Closing accumulated amortisation	**–545.0**	**–451.5**	**–26.7**	**–24.7**	**–571.7**	**–476.2**
Impairment						
Opening accumulated impairment	–8.5	–8.5	–	–	–8.5	–8.5
Impairment for the year [1]	–	–	–	–	–	–
Closing accumulated impairment	**–8.5**	**–8.5**	**–**	**–**	**–8.5**	**–8.5**
Total intangible assets	**444.6**	**435.4**	**1.2**	**3.2**	**445.8**	**438.6**

[1] The impairment pertains to two internally developed systems. Impairment losses were recognised for commercial and technical reasons.

NOTE 29 PROPERTY AND EQUIPMENT

SEK M	Dec 31, 2012	Dec 31, 2011
Equipment		
Opening cost	73.4	76.3
Purchases	5.7	3.5
Sales/scrapping	–27.9	–6.4
Closing cost	**51.2**	**73.4**
Opening depreciation	–63.7	–63.2
Sales/scrapping	25.7	6.3
Depreciation for the year	–4.0	–6.8
Closing accumulated depreciation	**–42.0**	**–63.7**
Total property and equipment	**9.2**	**9.7**

NOTE 30 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
Other financial investment assets	–	–	–	–	–	–
Liabilities, provisions	–12.3	–6.0	0.5	–0.8	–11.8	–6.8
Untaxed reserves	–	–	82.6	59.5	82.6	59.5
Deferred tax assets (–)/deferred tax liabilities (+)	**–12.3**	**–6.0**	**83.1**	**58.7**	**70.8**	**52.7**
Offset	–	–	–	–	–	–
Net deferred tax asset (–) /deferred tax liability (+)	**–12.3**	**–6.0**	**83.1**	**58.7**	**70.8**	**52.7**

The Group has no temporary differences with tax effects in Group companies.

Change in deferred tax in temporary differences

2012, SEK M	Amount at Jan. 1	Recognised in profit and loss	Recognised in other comprehensive income	Amount at Dec 31
Other financial investment assets	–	–	–	–
Liabilities	–6.8	–5.0	–	–11.8
Untaxed reserves	59.5	23.1	–	82.6
Deferred tax asset (–)/ tax liability (+)	**52.6**	**18.1**	**–**	**70.8**

2011, SEK M	Amount at Jan. 1	Recognised in profit and loss	Recognised in other comprehensive income	Amount at Dec 31
Other financial investment assets	16.2	–	–16.2	–
Liabilities	–5.9	–0.9	–	–6.8
Untaxed reserves	59.5	–	–	59.5
Deferred tax asset (–)/ tax liability (+)	**69.8**	**–0.9**	**–16.2**	**52.7**

NOTE 31 OTHER ASSETS

SEK M	Dec 31, 2012	Dec 31, 2011
Accounts receivable	229.9	233.7
Other assets	328.7	17.5
Total other assets	**558.6**	**251.2**

NOTE 32 PREPAID EXPENSES AND ACCRUED INCOME

SEK M	Dec 31, 2012	Dec 31, 2011
Accrued interest income	2,486.3	2,170.2
Other accrued income	11.7	83.7
Prepaid expenses	60.2	56.0
Total prepaid expenses and accrued income	**2,558.2**	**2,309.9**

NOTE 33 DUE TO CREDIT INSTITUTIONS

SEK M	Dec 31, 2012	Dec 31, 2011
Swedish banks	11.3	1,938.0
Other Swedish credit institutions	1,051.6	254.0
Total due to credit institutions	**1,062.9**	**2,192.0**
Payable on demand	102.4	34.0
Remaining term of not more than 3 months	960.5	2,149.6
Remaining term of more than 3 months but not more than 1 year	–	8.4

Genuine repurchase transactions amount to SEK 576.3 M (1,938).

NOTE 34 DEPOSITS FROM THE PUBLIC

SEK M	Dec 31, 2012	Dec 31, 2011
Deposits from insurance companies	3,710.3	2,348.4
Deposits from households	53,220.7	43,247.0
Deposits from other Swedish public	5,465.3	4,014.8
Total deposits from the public	**62,396.3**	**49,610.2**
Payable on demand	62,396.3	49,610.2

Fixed-term deposits amount to SEK 30,587.1 M (20,827.1). Interest compensation is paid on premature redemption.

NOTE 35 DEBT SECURITIES IN ISSUE

SEK M	Dec 31, 2012	Dec 31, 2011
Commercial papers	5,004.5	4,622.3
Bond loans[1)]	109,182.9	96,580.0
Cashier's cheques issued	75.9	77.2
Total debt securities in issue	**114,263.3**	**101,279.5**
Remaining term of not more than 1 year	20,778.9	20,289.1
Remaining term of more than 1 year	93,484.4	80,990.4

1) Covered bonds in the Group amount to SEK 90,962 M (85,396).

NOTE 36 OTHER LIABILITIES

SEK M	Dec 31, 2012	Dec 31, 2011
Accounts payable	75.0	76.0
Withheld preliminary tax, customers	102.3	109.0
Unpaid Group contributions	397.4	563.8
Other liabilities	707.7	242.4
Total other liabilities	**1,282.4**	**991.2**

NOTE 37 ACCRUED EXPENSES AND DEFERRED INCOME

SEK M	Dec 31, 2012	Dec 31, 2011
Accrued holiday pay	19.3	16.3
Accrued social security expenses	11.1	9.8
Accrued interest expense	3,321.1	3,127.9
Other accrued expenses	500.8	399.7
Prepaid rent	259.9	237.9
Total accrued expenses and deferred income	**4,112.2**	**3,791.6**

NOTE 38 PROVISIONS

SEK M	Dec 31, 2012	Dec 31, 2011
Provision for pensions being paid	0.6	0.3
Provision for early retirement in accordance with the pension agreement	12.6	13.5
Provision for contractual obligations	0.9	1.8
Other provisions	2.7	0.7
Total provisions	**16.8**	**16.3**
Provision for contractual obligations		
Carrying amount at beginning of year	1.8	1.8
Unutilised amount reversed during the year	–0.9	0.0
Carrying amount at end of year	**0.9**	**1.8**

Guarantees
Guarantees include leasing guarantees and credit guarantees.

Defined-benefit pension plans
The Group has a defined-benefit pension plan. This is a pension agreement from 2006 for the insurance industry, by which persons born in 1955 or earlier can voluntarily retire at 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 the age of 62.

Pensions and senior executive benefits

Defined-benefit pension plans	2012	2011
Present value of unfunded commitments	11.1	8.8
Unrecognised accumulated actuarial gains	–0.9	2.1
Net amount pertaining to defined-benefit plans (see below)	**10.2**	**10.9**
The net amount is recognised in the following items in the balance sheet:		
Provisions	10.2	10.9
Change in pension liability recognised in the balance sheet:		
Opening liability, January 1	10.9	12.0
Pension costs for the year according to specification below	2.2	1.4
Settlement	–2.9	–2.5
Adjustment	–	–
Closing liability, December 31	**10.2**	**10.9**
Change in present value for the year:		
Commitments for defined-benefit plans, January 1	8.8	8.1
Costs for service during current year	0.3	0.3
Interest expense	0.1	0.2
Remuneration paid	–0.7	–0.7
Actuarial gains	2.7	0.8
Commitments for defined-benefit plans, December 31	**11.1**	**8.8**
Costs recognised in profit and loss:		
Costs for service during current year	0.3	0.3
Interest expense on commitments	0.1	0.2
Effects of reductions and settlements	1.9	0.9
Total net expenses in profit and loss	**2.3**	**1.4**
Costs are recognised in the following lines in the income statement:		
Staff costs	2.3	1.4
Assumptions pertaining to defined-benefit commitments:		
Discount rate	2.3%	1.1%
Expected rate of salary increase	2.5%	3.0%
Future increase of pensions	30.0%	20.0%

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 Group'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	47.4	38.9

Historic information

	2012	2011	2010	2009	2008
Present value of defined-benefit commitments	11.1	8.8	8.1	9.0	11.5
Experience-based adjustment pertaining to defined-benefit commitments	0.4	2.8	1.2	2.8	–2.0

NOTE 39 SUBORDINATED LIABILITIES

SEK M	Dec 31, 2012	Dec 31, 2011
Subordinated debt, LFAB	290.0	290.0
External subordinated debt, listed	1,199.7	1,199.7
Total subordinated liabilities	**1,489.7**	**1,489.7**

Specification of subordinated loans from Länsförsäkringar AB

	Carrying amount	Coupon rate of interest
Subordinated debt perpetual LFAB	290.0	Variable 3 months
Subordinated debt external	445.0	Variable 3 months
Subordinated debt external	754.7	Fixed
Total	**1,489.7**	

NOTE 40 ASSETS AND LIABILITIES, FOREIGN CURRENCY

	Dec 31, 2012		Dec 31, 2011	
	Foreign currency	SEK	Foreign currency	SEK
Assets				
Treasury bills (EUR)	55.0	471.8	–	–
Total assets		**471.8**	**–**	**–**
Liabilities				
Debt securities in issue				
EUR	538.5	3,929.1	394.2	2,889.8
CHF	2,221.6	20,653.3	1,993.5	17,740.6
NOK	1,000.0	1,177.3	–	–
Total liabilities		**25,759.7**		**20,630.4**

All amounts are hedged with currency swaps or currency forward contracts. For further information also see Currency risk in the part Risk and capital management of the Board of Directors' Report.

NOTE 41 EQUITY ACCORDING TO SWEDISH ANNUAL ACCOUNTS ACT FOR CREDIT INSTITUTIONS AND SECURITIES COMPANIES (ÅRKL)

SEK M	Dec 31, 2012	Dec 31, 2011
Restricted equity		
Share capital (9,548,708 shares, quotient value SEK 100 per share)	954.9	954.9
Statutory reserve	18.5	18.5
Total restricted equity	**973.4**	**973.4**
Non-restricted equity		
Reserves	125.8	168.5
Retained earnings	5,639.7	4,892.7
Net profit for the year	433.0	297.8
Total non-restricted equity	**6,198.5**	**5,359.0**
Total equity	**7,171.9**	**6,332.4**

Specification of balance-sheet item Reserves

Fair value reserve	2012	2011
Opening reserve	168.5	45.3
Change in fair value of available-for-sale financial assets	–19.2	193.6
Reclassification adjustments on realised securities	–38.4	–26.5
Tax on available-for-sale financial assets	14.9	–43.9
Closing reserve	**125.8**	**168.5**

Other changes in equity for the period and division according to IFRS are contained in the Statement of changes in shareholders' equity.

Conditional shareholders' contribution received totalled:

During 2007	325.0
During 2008	500.0
During 2009	400.0
During 2010	850.0
During 2011	798.0
During 2012	742.0
Total	**3,615.0**

NOTE 42 PLEDGED ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS

SEK M	Dec 31, 2012	Dec 31, 2011
For own liabilities, pledged assets		
Pledged securities in the Riksbank	1,900.0	1,900.0
Pledged securities in Euroclear	850.0	850.0
Collateral provided for derivatives	10.0	10.0
Loan receivables, covered bonds	95,529.8	84,428.1
Commitments due to repurchase agreement	576.3	1,938.0
Other collateral for securities	5.0	5.0
Total pledged assets for own liabilities	**98,871.1**	**89,131.1**
Other pledged assets	None	None
Contingent liabilities		
Guarantees	55.1	35.2
Conditional shareholders' contribution	3,615.0	2,873.0
Early retirement at age 62 in accordance with pension agreement, 80%	29.6	54.0
Total contingent liabilities	**3,699.7**	**2,962.2**
Commitments		
Loans approved but not disbursed	6,437.2	5,115.4
Unutilised portion of overdraft facilities	2,098.0	2,097.4
Unutilised portion of credit card facilities	961.0	933.0
Total other commitments	**9,496.2**	**8,145.8**

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

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

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

NOTE 43 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	Held-to-maturity investments	Total	Fair value
Assets								
Cash and bank balances at central banks	109.4						109.4	109.4
Treasury bills and other eligible bills					5,222.3		5,222.3	5,222.3
Loans to credit institutions	2,852.9						2,852.9	2,852.9
Loans to the public	149,941.9						149,941.9	144,170.2
Bonds and other interest-bearing securities					32,684.7		32,684.7	32,684.7
Shares and participations					11.0		11.0	11.0
Derivatives			22.0	1,852.8			1,874.8	1,874.8
Accounts receivable	229.9						229.9	
Total assets	**153,134.1**		**22.0**	**1,852.8**	**37,918.0**		**192,926.9**	

Dec 31, 2012 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				1,062.9	1,062.9	1,062.9
Deposits and funding from the public				62,396.3	62,396.3	62,731.8
Debt securities in issue				114,263.3	114,263.3	120,592.2
Derivatives		81.6	3,022.4		3,104.0	3,104.0
Accounts payable				75.0	75.0	
Subordinated liabilities				1,489.7	1,489.7	
Total liabilities		**81.6**	**3,022.4**	**179,287.2**	**182,391.2**	

NOTE 43 **FINANCIAL ASSETS AND LIABILITIES BY CATEGORY, cont.**

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	Held-to-maturity investments	Total	Fair value
Assets								
Cash and bank balances at central banks	66.9						66.9	66.9
Treasury bills and other eligible bills					8,341.5		8,341.5	8,341.5
Loans to credit institutions	1,706.1						1,706.1	1,706.1
Loans to the public	134,011.3						134,011.3	125,352.1
Bonds and other interest-bearing securities					20,628.2		20,628.2	20,628.2
Shares and participations					10.4		10.4	10.4
Derivatives			0.2	1,566.5			1,566.7	1,566.7
Accounts receivable	233.7						233.7	
Total assets	**136,018.0**		**0.2**	**1,566.5**	**28,980.1**		**166,564.8**	

Dec 31, 2011 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				2,192.0	2,192.0	2,192.0
Deposits and funding from the public				49,610.2	49,610.2	49.636.6
Debt securities in issue				101,279.5	101,279.5	103,250.5
Derivatives			2,458.2		2,458.2	2,458.2
Accounts payable				76.0	76.0	
Subordinated liabilities				1,489.7	1,489.7	
Total liabilities			**2,458.2**	**154,647.4**	**157,105.6**	

When calculating the fair value of fixed-rate deposits and lending, anticipated future cash flows have been discounted using a discount interest rate set at the current deposit and lending rates applied (including discounts). For listed securities, medium prices at year-end or on the most recent trading date are used.

For lending and deposits with variable interest rates, fair value corresponds to the carrying amount.

NOTE 44 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	5,222.3			5,222.3
Bonds and other interest-bearing securities	32,684.7			32,684.7
Shares and participations[1)]			11.0	11.0
Derivatives		1,874.8		1,874.8
Liabilities				
Derivatives		3,104.0		3,104.0

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	20,628.2			20,628.2
Shares and participations[1)]			10.4	10.4
Derivatives		1,566.7		1,566.7
Liabilities				
Derivatives		2,458.2		2,458.2

SEK M	Shares and participations
Opening balance, January 1, 2012	**10.4**
Total profits and losses recognised:	–
– recognised in profit/loss for the year	–
Investment of shares	0.6
Closing balance, December 31, 2012	**11.0**
Profits and losses recognised in net profit for the year pertaining to assets included in the closing balance at December 31, 2012.	
Opening balance, January 1, 2011	**10.4**
Total profits and losses recognised:	–
– recognised in profit/loss for the year	–
Acquisition of shares	–
Closing balance, December 31, 2011	**10.4**
Profits and losses recognised in net profit for the year pertaining to assets included in the closing balance at December 31, 2011.	–

[1)] Unlisted shares and participations held for business purposes are presented in level 3. These items are initially measured at cost and impaired of objective evidence exists to recognise an impairement loss. The assessment is based on the most recent annual report and forcasted earnings.

NOTE 45 DISCLOSURES ON RELATED PARTIES, PRICING AND AGREEMENTS

Related parties

Related legal entities include the Länsförsäkringar AB Group's (LFAB) 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 the Bank Group 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 Bank Group are primarily assignment agreements with the 23 regional insurance companies and assignment agreements with Länsförsäkringar AB regarding development, service, finance and IT.

Transactions

	Receivables		Liabilities		Income		Expenses	
SEK M	**Dec 31, 2012**	**Dec 31, 2011**	**Dec 31, 2012**	**Dec 31, 2011**	**2012**	**2011**	**2012**	**2011**
Länsförsäkringar AB (Parent Company)	24.9	4.1	427.3	1,176.3	2.3	1.1	268.1	289.9
Other companies in the Länsförsäkringar AB Group	0.7	–	819.4	18.4	–12.8	–2.2	230.9	36.0
Regional insurance companies	27.2	26.2	1,852.7	1,552.4	126.3	143.1	825.0	822.4
Länsförsäkringar Liv, Group	–	0.0	281.0	97.1	0.1	0.1	74.7	267.8
Other related parties	–	–	20.3	22.6	0.6	2.0	0.3	5.6

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

NOTE 46 EVENTS AFTER BALANCE-SHEET DATE

To further strengthen the capital base the Parent Company, Länsförsäkringar AB, will provide a shareholders' contribution of SEK 335 M not later than March 31, 2013. The contribution would, proforma as of December 31, 2012, have increased the Bank Group's Core Tier 1 ratio by 0.7 percentage points. The current assessment of the Board of Directors of Länsförsäkringar Bank is that the Bank Group's Core Tier 1 ratio should be at approximately 13% and the total capital ratio at approximately 16%. With this new assessment, the current capital target, a Tier 1 ratio target of 12% with a tolerance level of ±0.5 percentage points, has been withdrawn. The Board intends to announce a new capital target once the final structure of the new capital adequacy regulations has been determined.

Five-year review for the Parent Company

SEK M	2012	2011	2010	2009	2008
INCOME STATEMENT					
Interest income	3,539.8	2,642.2	1,409.3	1,573.0	2,885.2
Interest expense	–2,797.1	–1,916.2	–904.5	–1,152.5	–2,401.7
Net interest income	**742.7**	**726.0**	**504.8**	**420.5**	**483.5**
Net commission expense	–316.5	–470.6	–279.3	–204.0	–219.3
Dividends received	0.0	0.0	0.2	0.0	0.1
Group contribution received	0.0	52.8	37.7	–	–
Net gains from financial items	2.7	6.2	1.9	23.5	–4.4
Other operating income	219.7	226.5	208.4	228.0	205.4
Total operating income	**648.6**	**540.9**	**473.7**	**468.0**	**465.3**
General administrative expenses	–586.7	–496.9	–416.5	–460.3	–443.1
Depreciation / amortisation	–73.4	–61.0	–56.9	–51.5	–41.9
Total expenses before loan losses	**–660.1**	**–557.9**	**–473.4**	**–511.8**	**–485.0**
Profit/loss before loan losses	**–11.5**	**–17.0**	**0.3**	**–43.8**	**–19.7**
Loan losses, net	–22.2	1.1	1.9	7.2	–4.2
Operating profit/loss	**–33.7**	**–15.9**	**2.2**	**–36.6**	**–23.9**
Tax	–3.2	9.4	–0.3	3.2	5.4
Net profit/loss for the year	**–36.9**	**–6.5**	**1.9**	**–33.4**	**–18.5**
BALANCE SHEET					
Cash and balances with central banks	109.4	66.9	84.8	80.5	81.3
Treasury bills and other eligible bills	3,677.4	–	1,349.3	1,999.8	–
Loans to credit institutions	38,260.7	31,029.1	28,344.4	31,721.9	36,254.1
Loans to the public	35,212.9	33,399.9	27,532.5	22,963.3	16,389.8
Bonds and other interest-bearing securities	14,466.0	6,123.7	8,720.0	20,644.4	10,946.4
Shares and participations	5,880.0	5,314.4	4,604.4	3,709.4	3,172.2
Derivatives	413.3	96.2	45.5	242.1	1,060.6
Fair value changes of interest-rate-risk hedged items in portfolio hedge	97.0	69.5	14.2	61.3	87.9
Intangible assets	367.6	353.5	283.8	221.2	213.3
Property and equipment	2.1	5.2	8.8	12.5	16.1
Deferred tax assets	5.4	2.7	–	–	11.7
Other assets	316.8	55.1	63.9	89.6	93.6
Prepaid expenses and accrued income	694.4	316.1	304.7	389.9	284.3
Total assets	**99,503.0**	**76,832.3**	**71,356.3**	**82,135.9**	**68,611.3**
Due to credit institutions	2,750.4	2,171.7	12,363.2	29,955.5	18,730.0
Deposits and funding from the public	62,535.0	49,766.0	41,722.5	37,481.2	35,197.9
Debt securities in issue	23,300.9	15,883.3	9,552.6	7,336.6	7,201.3
Derivatives	564.5	220.5	228.8	779.9	1,039.9
Fair value changes of interest-rate-risk hedged items in portfolio hedge	108.9	80.9	–13.5	8.1	32.8
Other liabilities	697.5	241.0	216.0	199.1	321.5
Accrued expenses and deferred income	986.2	622.0	478.5	421.3	523.8
Provisions	8.0	5.2	4.8	4.8	31.8
Subordinated liabilities	1,489.7	1,489.7	1,250.0	1,250.0	1,250.0
Equity	7,061.9	6,352.0	5,553.4	4,699.4	4,282.3
Total liabilities and equity	**99,503.0**	**76,832.3**	**71,356.3**	**82,135.9**	**68,611.3**
KEY FIGURES					
Core Tier 1 according to Basel II, %	36.0	31.4	29.3	28.1	34.9
Core Tier 1 according to transition rules, %	27.4	28.8	28.0	25.4	30.5
Capital adequacy according to transition rules, %	33.1	35.5	34.4	32.4	39.9
Tier 1 ratio according to transition rules, %	28.6	30.2	29.6	27.0	32.7
Capital adequacy according to Basel II, %	43.5	38.7	35.9	35.9	45.6
Tier 1 ratio according to Basel II, %	37.6	32.9	30.9	29.9	37.4

FINANCIAL STATEMENTS, PARENT COMPANY

Income statement – Parent Company

SEK M	Note	2012	2011
Interest income	5	3,539.8	2,642.2
Interest expense	6	–2,797.1	–1,916.2
Net interest income		**742.7**	**726.0**
Dividends received	7	0.0	52.8
Commission income	8	237.6	210.5
Commission expense	9	–554.1	–681.1
Net gains from financial items	10	2.7	6.2
Other operating income	11	219.7	226.5
Total operating income		**648.6**	**540.9**
Staff costs	12	–137.0	–108.6
Other administration expenses	13, 14, 15	–449.7	–388.3
Total administration expenses		**–586.7**	**–496.9**
Depreciation/amortisation and impairment of property and equipment/intangible assets	16	–73.4	–61.0
Total operating expenses		**–660.1**	**–557.9**
Loss before loan losses		**–11.5**	**–17.0**
Loan losses, net	17	–22.2	1.1
Operating loss		**–33.7**	**–15.9**
Tax	18	–3.2	9.4
Net loss for the year		**–36.9**	**–6.5**

Statement of comprehensive income – Parent Company

SEK M	2012	2011
Net loss for the year	**–36.9**	**–6.5**
Other comprehensive income		
Available-for-sale financial assets		
Change in fair value	28.9	32.6
Reclassification adjustments on realised securities	–	–22.8
Tax	–7.6	–2.6
Total other comprehensive income for the year, net after tax	**21.3**	**7.2**
Total comprehensive loss/income for the year	**–15.6**	**0,7**

Balance sheet – Parent Company

SEK M	Note	Dec 31, 2012	Dec 31, 2011
ASSETS			
Cash and balances with central banks		109.4	66.9
Treasury bills and other eligible bills	19	3,677.4	–
Loans to credit institutions	20	38,260.7	31,029.1
Loans to the public	21	35,212.9	33,399.9
Bonds and other interest-bearing securities	22	14,466.0	6,123.7
Shares and participations	23	11.0	10.4
Shares and participations in associated companies	24	0.0	–
Shares and participations in Group companies	25	5,869.0	5,304.0
Derivatives	26	413.3	96.2
Fair value changes of interest-rate-risk hedged items in the portfolio hedge	27	97.0	69.5
Intangible assets	28	367.6	353.5
Property and equipment	29	2.1	5.2
Deferred tax assets	30	5.4	2.7
Other assets	31	316.8	55.1
Prepaid expenses and accrued income	32	694.4	316.1
TOTAL ASSETS		**99,503.0**	**76,832,3**
LIABILITIES, PROVISIONS AND EQUITY			
Due to credit institutions	33	2,750.4	2,171.7
Deposits and funding from the public	34	62,535.0	49,766.0
Debt securities in issue	35	23,300.9	15,883.3
Derivatives	26	564.5	220.5
Fair value changes of interest-rate-risk hedged items in the portfolio hedge	27	108.9	80.9
Deferred tax liabilities	30	0.0	0.0
Other liabilities	36	697.5	241.0
Accrued expenses and deferred income	37	986.2	622.0
Provisions	38	8.0	5.2
Subordinated liabilities	39	1,489.7	1,489.7
Total liabilities and provisions		**92,441.1**	**70,480.3**
Equity according to Swedish Annual Accounts Act For Credit Institutions and Securities Companies (ÅRKL)	41		
Share capital		954.9	954.9
Statutory reserve		18.4	18.4
Fair value reserve		44.1	22.8
Retained earnings		6,081.4	5,362.4
Net loss for the year		–36.9	–6.5
Total equity		**7,061.9**	**6,352.0**
TOTAL LIABILITIES, PROVISIONS AND EQUITY		**99,503.0**	**76,832.3**
Pledged assets, contingent liabilities and commitments	42		
For own liabilities, pledged assets		3,330.0	2,765.0
Other pledged assets		None	None
Contingent liabilities		3,682.2	2,920.7
Other commitments		7,533.7	7,855.0
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Cash-flow statement (indirect method) – Parent Company

SEK M	2012	2011
Cash and cash equivalents, January 1	**1,363.9**	**1,159.8**
Operating activities		
Operating loss	–33.7	–15.9
Adjustment of non-cash items	–12.5	45.3
Change in assets of operating activities		
Change in treasury bills and other eligible bills	–3,684.1	1,349.1
Changes in loans to subsidiaries	–6,584.3	–2,454.0
Change in loans to the public	–1,822.5	–5,837.6
Change in bonds and other interest-bearing securities	–8,217.4	2,677.8
Change in derivatives	10.4	–10.4
Change in other assets	–272.5	8.8
Change in liabilities of operating activities		
Change in due to credit institutions	414.6	–10,028.6
Change in deposits and funding from the public	12,769.0	7,887.0
Change in debt securities in issue	7,426.4	6,287.8
Change in other liabilities	438.0	29.0
Change in derivatives	–20.0	27.3
Cash flow from operating activities	**411.4**	**–34.2**
Investing activities		
Acquisition of intangible assets	–83.7	–127.1
Divestment of intangible assets	–0.7	–
Change in shares in subsidiaries	–565.0	–710.0
Divestment of other financial assets	–0.5	–
Cash flow from investing activities	**–649.9**	**–837.1**
Financing activities		
Shareholders' contribution received	742.0	798.0
Group contributions received	52.8	37.7
Subordinated loans, received	–	1,199.7
Subordinated loans, amortisation	–	–960.0
Cash flow from financing activities	**794.8**	**1,075.4**
NET CASH FLOW FOR THE YEAR	**556.3**	**204.1**
Cash and cash equivalents, December 31	**1,920.2**	**1,363.9**

SEK M	2012	2011
Non-cash items		
Depreciation/amortisation	73.4	61.0
Unrealised portion of net losses from financial items	–61.5	–65.6
Loan losses, excluding recoveries	9.4	–29.8
Change in accrued expense/income	–14.2	132.2
Provisions	2.8	0.3
Group contribution booked as dividend	–22.4	–52.8
Total non-cash items	**–12.5**	**45.3**
Cash and cash equivalents comprise:		
Cash and balances with central banks	109.4	66.9
Loans to credit institutions[1)]	2,194.8	1,517.0
Due to credit institutions[1)]	–384.0	–220.0
Total cash and cash equivalents	**1,920.2**	**1,363.9**
Interest received	3,174.4	2,642.1
Interest paid	2,451.3	1,802.9
Gross investments	84.5	127.1
Tax paid	0.0	0.0

1) Excluding loans/liabilities to subsidiaries

Cash and cash equivalents is defined as cash and balance at central banks, loans and due to credit institutions payable on demand, as well as day-to-day loans and investments with the Riksbank that mature on the following banking day.

Statement of changes in shareholders' equity – Parent Company

SEK M	Share capital	Statutory reserve	Fair value reserve	Retained earnings	Net loss for the year	Total
Opening balance, January 1, 2011	**954.9**	**18.4**	**15.7**	**4,562.5**	**1.9**	**5,553.4**
Net loss for the year					–6.5	–6.5
Other comprehensive income for the year			7.2			7.2
Comprehensive loss for the year			*7.2*		–6.5	*0.7*
Resolution by Annual General Meeting				1.9	–1.9	–
Conditional shareholders' contribution received				798.0		798.0
Closing balance, December 31, 2011	**954.9**	**18.4**	**22.8**	**5,362.4**	**–6.5**	**6,352.0**
Opening balance, January 1, 2012	**954.9**	**18.4**	**22.8**	**5,362.4**	**–6.5**	**6,352.0**
Net loss for the year					–36.9	–36.9
Other comprehensive income for the year			21.3			21.3
Comprehensive loss for the year			*21.3*		*–36.9*	*–15.6*
Resolution by Annual General Meeting				–6.5	6.5	–
Group contribution paid				–22.4		–22.4
Tax on Group contribution paid				5.9		5.9
Conditional shareholders' contribution received				742.0		742.0
Closing balance, December 31, 2012	**954.9**	**18.4**	**44.1**	**6,081.4**	**–36.9**	**7,061.9**

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.

Retained earnings, including net profit for the year
Retained earnings, including net profit for the year includes profit in the Parent Company. Group contributions received and paid after tax and shareholders' contributions received and paid are also included.

NOTE 1 COMPANY INFORMATION

The annual accounts for Länsförsäkringar Bank AB (publ) (Corp. Reg. No. 516401-9878) were presented on December 31, 2011. Länsförsäkringar Bank AB is a bank 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 AB (publ) (Corp. Reg. No. 556549-7020) with its registered office in Stockholm. The Parent Company in the largest and smallest Group in which Länsförsäkringar Bank AB (publ) is the subsidiary and in which the consolidated accounts are prepared is Länsförsäkringar AB (publ), Stockholm. The Annual Report for Länsförsäkringar Bank (publ) was approved by the Board and President for publication on February 19, 2013. Final approval of the Annual Report will be made by the Parent Company's Annual General Meeting on May 13, 2013.

NOTE 2 PARENT COMPANY'S ACCOUNTING POLICIES

The accounting policies stated below for the Parent Company have been applied consistently to all periods presented in the Parent Company's financial statements. The Parent Company 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 on annual reports in 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 rules in RFR 2 imply that the Parent Company is to apply all IFRS and interpretive statements adopted by the EU when preparing the annual accounts to the extent that it is possible within the framework of the Annual Accounts Act, the Pension Obligation Vesting Act and taking into consideration the connection between accounting and taxation. The recommendation stipulates the exceptions and supplements to IFRS that should be done.

Differences between the Group's and the Parent Company's accounting policies

The deviations arising between the Parent Company's and the Group's accounting policies are due to the limitations on the possibility of applying IFRS in the Parent Company, as a result of the Swedish Annual Accounts Act for Credit Institutions and Securities Companies and the Pension Obligations Vesting Act and in certain cases for tax reasons. The main deviations compared with the Group's policies are described below.

Remuneration to employees

Defined-benefit pension plans

The Parent Company applies different policies for the taxation of defined-benefit plans to those stipulated in IAS 19. The Parent Company complies with the provisions of the Pension Obligations Vesting Act and the regulations of the Swedish Financial Supervisory Authority, which is a requirement for rights to tax deductions. The most significant differences compared with the IAS 19 regulations are the determination of the discount rate, that the defined-benefit commitment is calculated based on current salary levels without any assumptions concerning future salary increases, and that all actuarial gains and losses are recognised in profit and loss when they arise.

Subsidiaries

Shares and participations in subsidiaries are recognised at cost. Transaction costs are included in the carrying amount of holdings in subsidiaries.

Shareholders' contributions

Shareholders' contributions are recognised directly against the equity of the recipient and are capitalised in shares and participations of the donor.

Group contributions

Group contributions that have been received from a subsidiary are recognised under "Dividends received" in profit and loss according to the accounting policies of dividends. Group contributions that are paid to a subsidiary are recognised as an investment in shares and participations in Group companies. Group contributions paid to other companies in the Länsförsäkringar AB Group are recognised directly against retained earnings less the relevant effect.

NOTE 3 RISKS

See note 3 Risks in the notes to the consolidated financial statements on page 42.

NOTE 4 SEGMENT REPORTING

Segment reporting is only submitted for the Group.

NOTE 5 INTEREST INCOME

SEK M	2012	2011
Loans to credit institutions	923.9	755.8
Loans to the public	1,472.9	1,264.7
Interest-bearing securities	340.5	257.9
Derivatives		
Hedge accounting	646.8	363.8
Non-hedge accounting	155.7	–
Other interest income	0.0	0.0
Total interest income	**3,539.8**	**2,642.2**
of which interest income on impaired loans	3.6	4.3
of which interest income from financial items not measured at fair value	2,396.8	2,020.5
Average interest rate on loans to the public during the year, %	4.4	4.4

NOTE 6 INTEREST EXPENSE

SEK M	2012	2011
Due to credit institutions	–44.8	–112.7
Deposits and funding from the public	–1,142.0	–847.3
Interest-bearing securities	–648.2	–415.5
Subordinated liabilities	–75.7	–68.2
Derivatives		
Hedge accounting	–687.3	–412.7
Non-hedge accounting	–141.4	–12.4
Other interest expense, including government deposit insurance	–57.7	–47.4
Total interest expense	**–2,797.1**	**–1,916.2**
of which interest expense from financial items not measured at fair value	–1,968.4	–1,491.2
Average interest rate on deposits from the public during the year, %	2.0	1.9

NOTE 7 DIVIDENDS RECEIVED

SEK M	2012	2011
Dividends received on shares	0.0	0.0
Group contributions received from subsidiaries	–	52.8
Total dividends received	**0.0**	**52.8**

NOTE 8 COMMISSION INCOME

SEK M	2012	2011
Payment mediation	60.5	61.5
Lending	10.5	10.7
Deposit	9.0	7.1
Financial guarantees	0.6	0.3
Securities	27.2	20.6
Bank cards	125.4	106.7
Other commission	4.4	3.6
Total commission income	**237.6**	**210.5**

NOTE 9 COMMISSION EXPENSE

SEK M	2012	2011
Payment mediation	–62.1	–66.0
Securities	–9.0	–7.1
Bank cards	–87.8	–82.2
Remuneration to regional insurance companies	–378.9	–507.4
Other commission	–16.3	–18.4
Total commission expense	**–554.1**	**–681.1**

NOTE 10 NET GAINS FROM FINANCIAL ITEMS

SEK M	2012	2011
Change in fair value		
Interest-related instruments	–37.8	–12.7
Currency-related instruments	–2.6	2.4
Change in fair value of hedged items	37.5	12.1
Capital gains/losses		
Interest-related instruments	–3.8	0.7
Other financial assets	–	–
Interest compensation	9.4	3.7
Total net gains from financial items	**2.7**	**6.2**

SEK M	2012	2011
Profit/loss by valuation category		
Available-for-sale financial assets, realised	18.8	30.1
Derivative assets intended for risk management, non-hedge accounting	–	–
Derivatives in non-hedge accounting, realised	0.0	–5.8
Derivatives in hedge accounting, realised	–16.6	–26.4
Other financial assets measured at fair value through profit or loss	–	–
Derivative liabilities intended for risk management, non-hedge accounting	–	–
Loans and receivables	7.1	2.1
Financial liabilities at amortised cost	–7.4	6.8
Change in fair value of derivatives that are hedging instruments in a fair value hedge	–36.7	–12.7
Change in fair value of hedged items with regard to the hedged risk in fair value hedges	37.5	12.1
Total	**2.7**	**6.2**

NOTE 11 OTHER OPERATING INCOME

SEK M	2012	2011
Compensation from the regional insurance companies	103.2	104.6
Other income	116.5	121.9
Total other operating income	**219.7**	**226.5**

NOTE 12 EMPLOYEES, STAFF COSTS AND REMUNERATION TO SENIOR EXECUTIVES

Average number of employees, Sweden	2012	2011
Men	48	40
Women	62	57
Total number of employees	**110**	**97**

Salaries, other remuneration and social security expenses, other employees	2012	2011
Salaries and remuneration	63.9	53.8
of which variable remuneration	0.0	0.5
Social security expenses	44.2	34.0
of which pension costs	18.5	14.0
Total	**108.1**	**87.8**

NOTE 12 **EMPLOYEES, STAFF COSTS AND REMUNERATION TO SENIOR EXECUTIVES, cont.**

Board of Directors and other senior executives, 12 (12)	2012	2011
Salaries and remuneration	11.4	10.4
of which, fixed salary to the President and Executive Vice President	4.0	5.5
of which, variable remuneration to the President and Executive Vice President	0.0	0.0
of which fixed salary to other senior executives	6.1	3.9
of which variable salary to other senior executives	0.0	0.0
Social security expenses	9.1	8.8
of which pension costs	4.4	4.4
Total	**20.5**	**19.2**

Total salaries, other remuneration and social security expenses	2012	2011
Salaries and remuneration	75.3	64.3
of which variable remuneration	0.0	0.5
Social security expenses	53.3	42.8
of which pension costs	22.9	18.5
Total	**128.6**	**107.1**

Länsförsäkringar Bank has about 850 individuals who are also employed at Länsförsäkringar Bank and the regional insurance companies. They receive their entire remuneration from their respective regional insurance company.

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.

Remuneration and other benefits for senior executives

2012, SEK M	Basic salary	Variable remuneration	Other remuneration	Pension costs	Total	Pension costs as a percentage of pensionable salary, % Defined contribution
Rikard Josefson, President	4.0		0.0	1.9	5.9	35
Anders Borgcrantz, Executive Vice President	2.5			0.9	3.4	35
Ingemar Larsson, Executive Vice Chairman	0.3				0.3	
Örian Söderberg, Board member	0.2				0.2	
Christer Villard, Board member	0.2				0.2	
Bengt Erik Lindgren, Board member	0.2				0.2	
Per-Åke Holgersson, Board member	0.2				0.2	
Christian Bille, Board member	0.2				0.2	
Leif Johansson, former Board member	0.1				0.1	
Other senior executives (5)						
Parent Company (5)	6.1		0.1	2.5	8.7	38
Subsidiaries (3)	5.2		0.1	2.5	7.8	45
Total 2012	**19.2**		**0.2**	**7.8**	**27.1**	
Total remuneration from Parent Company	11.4		0.1	4.4	15.8	
Total remuneration from subsidiaries	7.8		0.1	3.4	11.3	

2011, SEK M	Basic salary	Variable remuneration	Other remuneration	Pension costs	Total	Pension costs as a percentage of pensionable salary, % Defined contribution
Rikard Josefson, President	2.1		0.0	1.1	3.2	35
Mats Ericsson, former President	0.4		1.5	1.3	3.2	45
Anders Borgcrantz, Executive Vice President	2.7			0.8	3.5	35
Bengt Jerning, Executive Vice President	1.3		0.0	0.6	1.9	38
Ingemar Larsson, Executive Vice Chairman	0.2				0.2	
Örian Söderberg, Board member	0.2				0.2	
Christer Villard, Board member	0.2				0.2	
Leif Johansson, Board member	0.2				0.2	
Per-Åke Holgersson, Board member	0.2				0.2	
Christian Bille, Board member	0.2				0.2	
Other senior executives (5)						
Parent Company (3)	3.9		0.0	1.5	5.4	37
Subsidiaries (2)	1.9		0.0	0.9	2.8	38
Total 2011	**13.5**		**1.5**	**6.2**	**21.2**	
Total remuneration from Parent Company	8.9		1.5	4.5	14.9	
Total remuneration from subsidiaries	4.6		0.0	1.7	6.3	

NOTE 12 EMPLOYEES, STAFF COSTS AND REMUNERATION TO SENIOR EXECUTIVES, cont.

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. In addition to this an endowment insurance is subscribed by the company with a premium of SEK 500,000 each year during five years, starting 2011. The retirement age for the Executive Vice 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 other senior executives is 65. 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). Furthermore, an additional pension premium corresponding to one price base amount is paid every year.

Severance pay

A mutual period of notice of six months applies to the President and the Executive Vice 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. For other senior executives, the period of notice follows applicable agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (FTF) and the Swedish Confederation of Professional Associations (SACO).

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 Committee

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	11	11
Other senior executives	54	36

Loans to the Board, Presidents/Executive Vice Presidents and other senior executives

	Bank Group		Parent Company		Parent Company Group	
	2012	2011	2012	2011	2012	2011
Board members	**22.5**	**23.1**	**18.5**	**18.4**	**50.1**	**54.2**
of which loans from Bank	4.4	4.5	4.4	4.5	11.6	11.1
of which loans from Hypotek	18.1	18.6	14.1	13.9	38.5	43.1
of which loans from Wasa Kredit	–	–	–	–	–	–
President and Executive Vice Presidents	**0.6**	**0.4**	**–**	**–**	**17.8**	**18.4**
of which loans from Bank	0.3	0.4	–	–	3.8	3.4
of which loans from Hypotek	–	–	–	–	13.7	15.0
of which loans from Wasa Kredit	0.3	–	–	–	0.3	–
Senior executives	**8.1**	**8.3**	**1.7**	**0.3**	**36.4**	**30.8**
of which loans from Bank	1.7	1.2	0.5	0.3	6.6	6.2
of which loans from Hypotek	6.4	7.1	1.2	–	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. Personnel loans are restricted to SEK 500,000. 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, 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 13 OTHER ADMINISTRATION EXPENSES

SEK M	2012	2011
Costs for premises	–14.0	–13.0
IT costs	–214.1	–168.2
Consultant costs	–45.4	–50.3
Marketing	–13.2	–6.6
Management costs	–5.3	–29.7
Other administration expenses	–157.7	–120.5
Total administration expenses	**–449.7**	**–388.3**

NOTE 14 REMUNERATION TO AUDITORS

SEK M	2012	2011
Audit fees		
KPMG		
– Audit assignments	–1.7	–1.6
– Audit activities other than audit assignment	–0.3	–0.3
– Tax consulting	–	–
– Other services	–0.8	–0.4

Audit assignment pertains to a review of 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 abovementioned items, for example, legal consultations alongside audit activities and that are not attributable to tax consultancy services.

NOTE 15 OPERATIONAL LEASING

These agreements pertain to internal and external lease contracts where the Parent Company is the lessee.

SEK M	2012	2011
Lease expenses paid		
Rent for premises	–13.9	–13.0
Leasing fees, company cars	–0.5	–0.7
Future basic rents for irrevocable leasing contracts		
Within 1 year	–13.9	–13.0

NOTE 16 DEPRECIATION/AMORTISATION AND IMPAIRMENT OF PROPERTY AND EQUIPMENT / INTANGIBLE ASSETS

SEK M	2012	2011
Depreciation of property and equipment	–3.8	–3.6
Amortisation of intangible assets	–69.6	–57.4
Total depreciation/amortisation and impairment of assets	**–73.4**	**–61.0**

NOTE 17 LOAN LOSSES, NET

SEK M	2012	2011
Specific reserve for individually assessed loan receivables		
Write-off of confirmed loan losses during the year	–60.9	–31.9
Reversed earlier impairment of loan losses recognised in the annual accounts as confirmed losses	33.7	47.3
Impairment of loan losses during the year	–54.4	–85.4
Payment received for prior confirmed loan losses	47.0	2.9
Reversed impairment of loan losses no longer required	16.9	20.6
Net expense for the year for individually assessed receivables	**–17.7**	**–46.5**
Collective reserves for individually assessed receivables	–	–
Collective assessment of homogenous groups of loan receivables with limited value and similar credit risk		
Write-off of confirmed loan losses during the year	–	–
Payment received for prior confirmed loan losses	–	–
Provision/reversal of impairment for loan losses	–5.6	47.3
Net expense for the year for collectively assessed receivables	**–5.6**	**47.3**
Net expense for the year for fulfilment of guarantees	**1.2**	**0.3**
Net expense of loan losses for the year	**–22.2**	**1.1**

All information pertains to receivables from the public.

NOTE 18 TAX ON NET PROFIT FOR THE YEAR

SEK M	2012	2011
Current tax		
Tax expense/tax income for the year	–5.9	8.1
Total current tax	**–5.9**	**8.1**
Deferred tax		
Change in deferred tax expense on temporary differences	2.7	1.3
Total deferred tax	**2.7**	**1.3**
Total recognised tax expense	**–3.2**	**9.4**
Reconciliation of effective tax rate		
Loss before tax	–33.7	–15.9
Tax in accordance with applicable tax rate for Parent Company	8.9	4.2
Tax on non-deductible costs	–3.7	–1.0
Tax on non-recognised income	0.3	0.3
Tax attributable to changed tax rates	–1.1	–
Tax attributable to earlier years	0.0	0.3
Other	–7.6	5.6
Total tax on net profit for the year	**–3.2**	**9.4**
Applicable tax rate	26.3%	26.3%
Effective tax rate	–9.5%	58.8%
Tax items reported in other comprehensive income		
Tax on available-for-sale financial assets	–7.6	–2.6

Tax attributable to other comprehensive income

	2012			2011		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Available-for-sale financial assets	28.9	–7.6	21.3	9.8	2.6	7.2

NOTE 19 TREASURY BILLS AND OTHER ELIGIBLE BILLS

SEK M	Dec 31, 2012	Dec 31, 2011
Swedish government	3,205.6	–
German government	471.8	–
Total treasury bills and other eligible bills	**3,677.4**	**–**
Fair value	3,677.4	–
Amortised cost	3,684.1	–
Nominal value	3,005.0	–
Remaining term of not more than 1 year	471.8	–
Remaining term of more than 1 year	3,205.6	–

NOTE 20 LOANS TO CREDIT INSTITUTIONS

SEK M	Dec 31, 2012	Dec 31, 2011
Loans to subsidiaries	35,506.5	29,418.3
Deposits, Swedish banks	–	–
Other loans to credit institutions	2,754.2	1,610.8
Total loans to credit institutions	**38,260.7**	**31,029.1**
Payable on demand	536.3	23.6
Remaining term of not more than 3 months	2,222.9	1,596.1
Remaining term of more than 3 months but not more than 1 year	34,660.9	28,643.4
Remaining term of more than 1 year but not more than 5 years	224.6	–
Remaining term of more than 5 years	616.0	766.0
Total loans to credit institutions	**38,260.7**	**31,029.1**

True repurchase transactions amounts to SEK 1,749.5 M (1,493.4), of which SEK 0.0 M (0.0) with Group companies.

NOTE 21 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		
Public sector	682.0	1,952.6
Corporate sector	1,710.6	1,601.4
Retail sector	32,927.6	29,943.8
Other	–	–
Total loan receivables, gross	**35,320.2**	**33,497.8**
Impairment of individually reserved loan receivables		
Corporate sector	–3.5	–10.8
Retail sector	–69.0	–57.8
Total individual reserves	**–72.5**	**–68.6**
Impairment of collectively reserved loan receivables		
Corporate sector	–4.2	–3.4
Retail sector	–30.6	–25.9
Other	–	–
Total collective reserves	**–34.8**	**–29.3**
Total reserves	**–107.3**	**–97.9**
Loan receivables, net		
Public sector	682.0	1,952.5
Corporate sector	1,703.0	1,587.3
Retail sector	32,827.9	29,860.0
Other	–	–
Total loan receivables, net	**35,212.9**	**33,399.9**
Remaining term of not more than 3 months	27,854.1	27,736.7
Remaining term of more than 3 months but not more than 1 year	2,407.3	1,898.4
Remaining term of more than 1 year but not more than 5 years	4,750.6	3,650.7
Remaining term of more than 5 years	200.9	212.0
	35,212.9	**33,497.8**
Impaired loans		
Corporate sector	11.0	4.2
Retail sector	48.1	48.0
Total impaired loans	**59.1**	**52.2**

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 21 **LOANS TO THE PUBLIC, cont.**

Reconciliation of impairment of loan losses	Dec 31, 2012			Dec 31, 2011		
SEK M	Individual impairments	Collective impairments	Total	Individual impairments	Collective impairments	Total
Opening balance	–68.6	–29.3	–97.9	–51.2	–76.5	–127.7
Reversed earlier impairment of loan losses recognised in the annual accounts as confirmed losses	33.7	–	33.7	47.3	0.0	47.3
Reversed impairment of loan losses no longer required	16.9	–5.6	11.3	20.6	47.2	67.8
Impairment of loan losses during the year	–54.4	–	–54.4	–85.3	0,0	–85.3
Closing balance	**–72.5**	**–34.8**	**–107.3**	**–68.6**	**–29.3**	**–97.9**

NOTE 22 **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 (guaranteed by Swedish government)	–	–
Swedish mortgage institutions (not guaranteed)	12,893.0	6,123.7
Other Swedish issuers (not guaranteed by Swedish government)	1,573.0	–
	14,466.0	**6,123.7**
Fair value	14,466.0	6,123.7
Amortised cost	14,243.7	6,026.3
Nominal value	13,750.0	5,900.0
Market status		
Securities listed	14,466.0	6,123.7
Remaining term of not more than 1 year	3,452.1	1,030.8
Remaining term of more than 1 year	11,013.9	5,092.9

NOTE 23 **SHARES AND PARTICIPATIONS**

SEK M	Dec 31, 2012	Dec 31, 2011
Opening amount at beginning of the year	10.4	10.4
Acquisition of shares	0.6	–
Carrying amount at year-end	**11.0**	**10.4**

All shares are unlisted.

NOTE 24 **SHARES AND PARTICIPATIONS IN ASSOCIATED COMPANIES**

SEK M	Dec 31, 2012	Dec 31, 2011
Carrying amount at beginning of year	–	–
Acquisition of shares in Getswish AB	0.0	–
Carrying amount at year-end	**0.0**	**–**

NOTE 25 **SHARES AND PARTICIPATIONS IN GROUP COMPANIES**

The bank has a total of three wholly-owned subsidiaries with registered offices in Stockholm.

	Dec 31, 2012			Dec 31, 2011		
SEK M	Number of shares	Nominal value	Carrying amount	Number of shares	Nominal value	Carrying amount
Wasa Kredit AB (556311-9204)	875,000	87.5	814.8	875,000	87.5	787.8
Länsförsäkringar Hypotek AB (556244-1781)	70,335	70.3	4,889.2	70,335	70.3	4,351.2
Länsförsäkringar Fondförvaltning AB (556364-2783)	15,000	1.5	165.0	15,000	1.5	165.0
Total shares and participations in Group companies			**5,869.0**			**5,304.0**

	2012				2011			
SEK M	Wasa Kredit AB	Länsförsäkringar Hypotek AB	Länsförsäkringar Fondförvaltning AB	Total	Wasa Kredit AB	Länsförsäkringar Hypotek AB	Länsförsäkringar Fondförvaltning AB	Total
Carrying amount at beginning of year	787.8	4,351.2	165.0	5,304.0	787.8	3,641.2	165.0	4,594.0
Conditional shareholders' contribution	27.0	538.0		565.0		710.0		710.0
Carrying amount at year-end	**814.8**	**4,889.2**	**165.0**	**5,869.0**	**787.8**	**4,351.2**	**165.0**	**5,304.0**

	2012		2011	
Equity and profit after tax in subsidiaries, SEK M	Equity	Net profit for the year	Equity	Net profit for the year
Wasa Kredit AB (including 73.7% of untaxed reserves)	1,017.1	19.0	705.6	120.6
Länsförsäkringar Hypotek AB	4,891.0	257.3	4,341.6	149.5
Länsförsäkringar Fondförvaltning AB	69.3	63.5	72.8	72.1
Total	**5,977.4**	**339.8**	**5,120.0**	**342.2**

NOTE 26 DERIVATIVES

SEK M	Dec 31, 2012 Nominal value	Dec 31, 2012 Fair value	Dec 31, 2011 Nominal value	Dec 31, 2011 Fair value
Derivatives with positive values				
Derivatives in hedge accounting				
Interest	13,192.0	123.3	4,530.0	85.8
Currency	–	4.1	–	–
Collateral received, CSA	–	–	–	10.4
Other				
Interest	7,240.0	94.1	–	–
Currency	4,004.9	191.8	–	–
Total derivatives with positive values	**24,439.9**	**413.3**	**4,530.0**	**96.2**
Remaining term of not more than 1 year	10,293.0	39.3	2,300.0	1.3
Remaining term of more than 1 year	14,143.9	374.0	2,230.0	84.5
Derivatives with negative values				
Derivatives in hedge accounting				
Interest	26,237.0	274.6	14,030.0	220.5
Currency	4,005.0	187.2	–	–
Other				
Interest	7,240.0	94.1	–	–
Currency	–	8.6	–	–
Total derivatives with negative values	**37,482.0**	**564.5**	**14,030.0**	**220.5**
Remaining term of not more than 1 year	11,550.0	79.5	4,045.0	30.1
Remaining term of more than 1 year	25,932.0	485.0	9,985.0	190.3

NOTE 27 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	69.5	14.2
Changes during the year pertaining to lending	27.5	55.3
Carrying amount at year-end	**97.0**	**69.5**
Liabilities		
Carrying amount at beginning of year	80.9	–13.5
Changes during the year pertaining to deposits	24.8	3.7
Changes during the year pertaining to funding	3.2	90.7
Carrying amount at year-end	**108.9**	**80.9**

NOTE 28 INTANGIBLE ASSETS

SEK M	Internally developed IT systems Dec 31, 2012	Internally developed IT systems Dec 31, 2011	Acquired IT systems Dec 31, 2012	Acquired IT systems Dec 31, 2011	Total Dec 31, 2012	Total Dec 31, 2011
Cost						
Opening cost	724.2	597.1	27.9	27.9	752.1	625.0
Acquisitions during the year	83.7	127.1	–	–	83.7	127.1
Divestments during the year	–	–	–	–	–	–
Closing cost	807.9	724.2	27.9	27.9	835.8	752.1
Amortisation						
Opening accumulated amortisation	–373.9	–320.0	–24.7	–21.2	–398.6	–341.2
Amortisation for the year	–67.6	–53.9	–2.0	–3.5	–69.6	–57.4
Reversed amortisation, divestments	–	–	–	–	–	–
Closing accumulated amortisation	**–441.5**	**–373.9**	**–26.7**	**–24.7**	**–468.2**	**–398.6**
Total intangible assets	**366.4**	**350.3**	**1.2**	**3.2**	**367.6**	**353.5**

NOTE 29 PROPERTY AND EQUIPMENT

SEK M	Dec 31, 2012	Dec 31, 2011
Equipment		
Opening cost	24.3	24.3
Purchases for the year	0.9	–
Closing cost	**25.2**	**24.3**
Opening depreciation	–19.1	–15.5
Reversed depreciation, sales/scrapping	–	–
Depreciation for the year	–3.8	–3.6
Closing accumulated depreciation	**–23.1**	**–19.1**
Total property and equipment	**2.1**	**5.2**

NOTE 30 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**
Other financial investment assets	–	–	–	–	–	–
Liabilities	–5.4	–2.7	–	–	–5.4	–2.7
Deferred tax assets (–)/deferred tax liabilities (+)	**–5.4**	**–2.7**	**–**	**–**	**–5.4**	**–2.7**
Offset	–	–	–	–	–	–
Net deferred tax asset (–) /deferred tax liability (+)	**–5.4**	**–2.7**	**–**	**–**	**–5.4**	**–2.7**

The Parent Company has no temporary differences with tax effects in Group companies.

Change in deferred tax in temporary differences

SEK M	Amount at Jan. 1	Recognised in profit and loss	Reported in other comprehensive income	Amount at Dec 31
2012				
Other financial investment assets	–	–	–	–
Liabilities	–2.7	–2.7	–	–5.4
Deferred tax assets (–)/deferred tax liabilities (+)	**–2.7**	**–2.7**	**–**	**–5.4**
2011				
Other financial investment assets	5.6	–	–5.6	–
Liabilities	–1.5	–1.2	–	–2.7
Utilisation of loss carryforwards	–	–	–	–
Deferred tax assets (–)/deferred tax liabilities (+)	**4.1**	**–1.2**	**–5.6**	**–2.7**

NOTE 31 OTHER ASSETS

SEK M	Dec 31, 2012	Dec 31, 2011
Accounts receivable	12.8	9.6
Other assets	304.0	45.5
Total other assets	**316.8**	**55.1**

NOTE 32 PREPAID EXPENSES AND ACCRUED INCOME

SEK M	Dec 31, 2012	Dec 31, 2011
Accrued interest income	613.0	247.6
Other accrued income	48.4	40.3
Prepaid expenses	33.0	28.2
Total prepaid expenses and accrued income	**694.4**	**316.1**

NOTE 33 DUE TO CREDIT INSTITUTIONS

SEK M	Dec 31, 2012	Dec 31, 2011
Swedish banks	–	–
Other Swedish credit institutions	2,750.4	2,171.7
Total liabilities due to credit institutions	**2,750.4**	**2,171.7**
Payable on demand	1,801.2	1,951.7
Remaining term of not more than 3 months	949.2	220.0
Remaining term of more than 3 months but not more than 1 year	–	–
Total	**2,750.4**	**2,171.7**

True repurchase transactions amounts to SEK 565.0 (–), of which SEK – (–) with Group companies.

NOTE 34 DEPOSITS FROM THE PUBLIC

SEK M	Dec 31, 2012	Dec 31, 2011
Deposits from insurance companies	3,710.3	2,348.4
Deposits from households	53,220.7	43,247.0
Deposits from other Swedish public	5,604.0	4,170.6
Total deposits from the public	**62,535.0**	**49,766.0**
Payable on demand	**62,535.0**	**49,766.0**

Fixed-term deposits amount to SEK 20,827.1 (11,374.9). Interest compensation is paid on premature redemption.

NOTE 35 DEBT SECURITIES IN ISSUE

SEK M	Dec 31, 2012	Dec 31, 2011
Commercial papers	5,004.5	4,622.3
Bond loans	18,220.5	11,183.8
Cashier's cheques issued	75.9	77.2
Total debt securities in issue	**23,300.9**	**15,883.3**
Remaining term of not more than 1 year	11,475.4	8,839.4
Remaining term of more than 1 year	11,825.5	7,043.9

NOTE 36 OTHER LIABILITIES

SEK M	Dec 31, 2012	Dec 31, 2011
Accounts payable	35.9	34.7
Withheld preliminary tax, customers	102.3	109.0
Other liabilities	559.3	97.3
Total other liabilities	**697.5**	**241.0**

NOTE 37 ACCRUED EXPENSES AND DEFERRED INCOME

SEK M	Dec 31, 2012	Dec 31, 2011
Accrued holiday pay	6.6	5.1
Accrued social security expenses	8.7	8.5
Accrued interest expense	759.9	414.1
Other accrued expenses	211.0	194.3
Total accrued expenses and deferred income	**986.2**	**622.0**

NOTE 38 PROVISIONS

SEK M	Dec 31, 2012	Dec 31, 2011
Provisions for guarantees	0.9	1.8
Provisions for early retirement in accordance with the pension agreement	5.2	3.1
Pension provisions	1.9	0.3
Total provisions	**8.0**	**5.2**
Provision for guarantees		
Carrying amount at beginning of year	1.8	1.8
Unutilised amount reversed during the year	–0.9	–
Carrying amount at end of year	**0.9**	**1.8**

Guarantees
Guarantees include leasing guarantees and credit guarantees.

Defined-benefit pension plans
The company has one defined-benefit pension plan. The plan is a pension agreement from 2006 for the insurance sector whereby persons born in 1955 or earlier are entitled to voluntarily retire from the age of 62. The conditions for this plan are such that approximately 65% of the pensionable salary at the age of 62 is received as a pension.

SEK M	2012	2011
Pension commitments		
Provisions for early retirement in accordance with pension agreement	5.2	3.1
Total pension commitments	**5.2**	**3.1**
The year's change in capital value of own obligations for which there are no separated assets:		
Opening capital value on January 1, in accordance with Swedish principles for calculation of pension commitments	3.1	2.7
Cost excluding interest expense charged to earnings	2.1	0.3
Interest expense	0.0	0.1
Capital value at December 31	**5.2**	**3.1**
Net pension commitments	**5.2**	**3.1**
Assumptions pertaining to defined-benefit commitments:		
Discount rate	0.4%	2.3%
Expected increase in salaries	0.0%	3,0%
Percentage expected to retire voluntarily at age 62	30.0%	20.0%
Memorandum items	**12.1**	**12.5**

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	17.4	13.9

NOTE 39 SUBORDINATED LIABILITIES

SEK M	Dec 31, 2012	Dec 31, 2011
Subordinated debt, LFAB	290.0	290.0
External subordinated debt, listed	1,199.7	1,199.7
Total subordinated liabilities	**1,489.7**	**1,489.7**

Specification of subordinated loans from Länsförsäkringar AB

SEK M	Carrying amount	Coupon rate of interest
Subordinated debt perpetual LFAB	290.0	Variable 3 months
Subordinated debt external	445.0	Variable 3 months
Subordinated debt external	754.7	Fixed
Total	**1,489.7**	

NOTE 40 ASSETS AND LIABILITIES, FOREIGN CURRENCY

	Dec 31, 2012		Dec 31, 2011	
	Foreign currency	SEK	Foreign currency	SEK
Assets				
Treasury bills (EUR)	55.0	471.8	–	–
Total assets		**471.8**		**–**
Liabilities				
Debt securities in issue				
EUR	225.0	1,925.2	–	–
Total liabilities		**1,925.2**		**–**

All amounts are hedged with currency forward contracts.

NOTE 41 EQUITY

SEK M	Dec 31, 2012	Dec 31, 2011
Restricted equity		
Share capital (9,548,708 shares, quotient value SEK 100 per share)	954.9	954.9
Statutory reserve	18.4	18.4
Total restricted equity	**973.3**	**973.3**
Non-restricted equity		
Fair value reserve	44.1	22.8
Retained earnings	6,081.4	5,362.4
Net loss for the year	–36.9	–6.5
Total non-restricted equity	**6,088.6**	**5,378.7**
Total equity	**7,061.9**	**6,352.0**

Specification of balance-sheet item fair value reserve

SEK M	2012	2011
Opening reserve	22.8	15.7
Change in fair value of available-for-sale financial assets	28.9	32.6
Reclassification adjustments on realised securities	–	–22.8
Tax on available-for-sale financial assets	–7.6	–2.6
Closing reserve	**44.1**	**22.8**

The other changes in equity for the year and division according to IFRS are contained in Statement of changes in shareholders' equity.

Conditional shareholders' contribution received totalled:

During 2007	325.0
During 2008	500.0
During 2009	400.0
During 2010	850.0
During 2011	798.0
During 2012	742.0
Total	**3,615.0**

NOTE 42 PLEDGED ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS

SEK M	Dec 31, 2012	Dec 31, 2011
For own liabilities, pledged assets		
Pledged securities in the Riksbank	1,900.0	1,900.0
Pledged securities in Euroclear	850.0	850.0
Collateral provided for derivatives	10.0	10.0
Collateral provided for securities	5.0	5.0
Collateral provided due to repurchase agreement	565.0	–
Total pledged assets for own liabilities	**3,330.0**	**2,765.0**
Other pledged assets	None	None
Contingent liabilities		
Guarantees	55.1	35.2
Conditional shareholders' contribution	3,615.0	2,873.0
Early retirement at age 62 in accordance with pension agreement, 80%	12.1	12.5
Total contingent liabilities	**3,682.2**	**2,920.7**
Other commitments		
Loans approved but not disbursed	1,101.5	906.8
Unutilised portion of overdraft facilities	5,471.2	6,015.3
Unutilised portion of credit card facilities	961.0	932.9
Total other commitments	**7,533.7**	**7,855.0**

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

NOTE 43 FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

		Financial assets at fair value through profit or loss						
Dec 31, 2012 SEK M	Loans and receivables	Financial assets according to fair value option	Held for trading	Derivatives used in hedge accounting	Available-for-sale financial assets	Held-to-maturity investments	Total	Fair value
Assets								
Cash and bank balances at central banks	109.4						109.4	109.4
Treasury bills and other eligible bills					3,677.4		3,677.4	3,677.4
Loans to credit institutions	38,260.7						38,260.7	38,260.7
Loans to the public	35,212.9						35,212.9	34,664.8
Bonds and other interest-bearing securities					14,466.0		14,466.0	14,466.0
Shares and participations					11.0		11.0	11.0
Derivatives			285.8	127.5			413.3	413.3
Accounts receivable	12.8						12.8	
Total assets	**73,595.8**		**285.8**	**127.5**	**18,154.4**		**92,163.5**	

	Financial liabilities at fair value through profit or loss					
Dec 31, 2012 SEK M	Financial liabilities according to fair value option	Held for trading	Derivatives used in hedge accounting	Other financial liabilities	Total	Fair value
Liabilities						
Due to credit institutions				2,750.4	2,750.4	2,750.4
Deposits and funding from the public				62,535.0	62,535.0	62,870.5
Debt securities in issue				23,300.9	23,300.9	24,497.5
Derivatives		102.7	461.8		564.5	564.5
Accounts payable				68.2	68.2	
Subordinated liabilities				1,489.7	1,489.7	
Total liabilities		**102.7**	**461.8**	**90,144.2**	**90,708.7**	

NOTE 43 FINANCIAL ASSETS AND LIABILITIES BY CATEGORY, cont.

		Financial assets at fair value through profit or loss						
Dec 31, 2011 SEK M	**Loans and receivables**	**Financial assets according to fair value option**	**Held for trading**	**Derivatives used in hedge accounting**	**Available-for-sale financial assets**	**Held-to-maturity investments**	**Total**	**Fair value**
Assets								
Cash and bank balances at central banks	66.9						66.9	66.9
Loans to credit institutions	31,029.1						31,029.1	31,029.1
Loans to the public	33,399.9						33,399.9	33,468.5
Bonds and other interest-bearing securities					6,123.7		6,123.7	6,123.7
Shares and participations					10.4		10.4	10.4
Derivatives				96.2			96.2	96.2
Accounts receivable	9.6						9.6	
Total assets	**64,505.5**			**96.2**	**6,134.1**		**70,735.8**	

	Financial liabilities at fair value through profit or loss					
Dec 31, 2011 SEK M	**Financial liabilities according to fair value option**	**Held for trading**	**Derivatives used in hedge accounting**	**Other financial liabilities**	**Total**	**Fair value**
Liabilities						
Due to credit institutions				2,171.7	2,171.7	2,171.7
Deposits and funding from the public				49,766.0	49.766.0	49,636.6
Debt securities in issue				15,883.3	15,883.3	15,772,8
Derivatives			220.5		220.5	220.5
Accounts payable				34.7	34.7	
Subordinated liabilities				1,489.7	1,489.7	
Total liabilities			**220.5**	**69,345.4**	**69,565.9**	

For listed securities, medium prices at year-end or most recent trading date are used. Deposits and loans are valued at actual lending rates at year-end including discounts.

NOTE 44 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	3,677.4			3,677.4
Bonds and other interest-bearing securities	14,466.0			14,466.0
Shares and participations[1)]			11.0	11.0
Derivatives		413.3		413.3
Liabilities				
Derivatives		564.5		564.5

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				
Bonds and other interest-bearing securities	6,123.7			6,123.7
Shares and participations[1)]			10.4	10.4
Derivatives		96.2		96.2
Liabilities				
Derivatives		220.5		220.5

[1)] Unlisted shares and participations held for business purpose are initially measured at cost and impaired if objective evidence exists to recognise an impairment loss. The assesment is based on the most recent annual report and forecasted earnings.

SEK M	Shares and participations
Opening balance, January 1, 2012	**10.4**
Total profits and losses recognised:	–
– recognised in profit for the year	–
Investment of shares	0.6
Closing balance, December 31, 2012	**11.0**
Profits and losses recognised in net profit for the year pertaining to assets included in the closing balance at December 31, 2012.	–

SEK M	Shares and participations
Opening balance, January 1, 2011	**10.4**
Total profits and losses recognised:	–
– recognised in profit for the year	–
Closing balance, December 31, 2011	**10.4**
Profits and losses recognised in net profit for the year pertaining to assets included in the closing balance at December 31, 2011.	–

NOTE 45 DISCLOSURES ON RELATED PARTIES, PRICING AND AGREEMENTS

Related parties

Related legal entities include the Länsförsäkringar AB Group's (LFAB) 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 the Länsförsäkringar 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.

Agreements

Significant agreements for the Parent Company are primarily assignment agreements with the 23 regional insurance companies and assignment agreements regarding development, service, finance and IT. The Parent Company has agreements with its subsidiaries for Group-wide services.

Transactions between related parties 2012

SEK M	Companies in the Bank Group	Other companies in the Länsförsäkringar AB Group	Länsförsäkringar Liv, Group	Regional insurance companies	Other related parties	Total
Income	1,126.8	0.7		115.4		1,242.9
Expenses	179.4	213.3	1.8	399.5	0.3	794.3
Receivables	35,817.7	25.3		27.2		35,870.2
Liabilities	1,913.9	847.6	275.5	1,731.6	20.3	4,788.9
Åtaganden	3,373.2					3,373.2

Transactions between related parties 2011

SEK M	Companies in the Bank Group	Other companies in the Länsförsäkringar AB Group	Länsförsäkringar Liv, Group	Regional insurance companies	Other related parties	Total
Income	818.6	1.0		130.7		950.3
Expenses	92.0	242.7	2.3	533.7	0.3	871.0
Receivables	29,435.3	4.1		26.2		29,465.6
Liabilities	2,073.8	603.5	91.4	1,489.4	22.6	4,280.7
Åtaganden	3,917.9					3,917.9

For information regarding remuneration to related key persons such as members of the Board and senior executives, refer to note 12 covering staff costs. In all other respects, no transactions took place between these individuals and their close family members apart from normal customer transactions.

NOTE 46 EVENTS AFTER BALANCE-SHEET DATE

To further strengthen the capital base the Parent Company, Länsförsäkringar AB, will provide a shareholders' contribution of SEK 335 M not later than March 31, 2013. The contribution would, proforma as of December 31, 2012, have increased the Bank Group's Core Tier 1 ratio by 0.7 percentage points. The current assessment of the Board of Directors of Länsförsäkringar Bank is that the Bank Group's Core Tier 1 ratio should be at approximately 13% and the total capital ratio at approximately 16%. With this new assessment, the current capital target, a Tier 1 ratio target of 12% with a tolerance level of ±0.5 percentage points, has been withdrawn. The Board intends to announce a new capital target once the final structure of the new capital adequacy regulations has been determined.

Statement from the Board

The Board and President affirm that this Annual Report was prepared in accordance with generally accepted accounting policies in Sweden and that the consolidated financial statements were prepared 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. The Annual Report and consolidated financial statements provide a true and fair view of the Parent Company's and the Group's financial position and earnings. The Board of Directors' Report provides a true and fair overview of the Group's and the Parent Company's operations, financial position and earnings, and describes the significant risks and uncertainties to which the Parent Company and the companies included in the Group are exposed.

Stockholm, February 19, 2013

Sten Dunér
Chairman

Ingemar Larsson
Deputy Chairman

Christian Bille
Board Member

Per-Åke Holgersson
Board Member

Bengt-Erik Lindgren
Board Member

Örian Söderberg
Board Member

Christer Villard
Board Member

Rikard Josefson
President

Ingrid Ericson
Employee Representative

Max Rooth
Employee Representative

My audit report was submitted on Stockholm, February 19, 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 Shareholders of Länsförsäkringar Bank AB (publ) Corporate Registration Number 516401-9878

Report on the annual accounts and the consolidated accounts

I have audited the annual accounts and the consolidated accounts of Länsförsäkringar Bank AB (publ) for the year 2012. The annual accounts and the consolidated accounts of the company are included in the printed version of this document on pages 18–88.

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

The Board of Directors and the President are responsible for the preparation and fair presentation of the annual accounts in accordance with the Annual Accounts Act of Credit Institutions and Security Companies and for the fair presentation of the consolidated accounts in accordance with the International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act of Credit Institutions and Securities Companies, and for such internal control as the Board of Directors and the President determine is necessary to enable the preparation of annual accounts and the consolidated 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 and consolidated 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 and the consolidated accounts are free from significant misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and the consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of significant misstatement of the annual accounts and the consolidated 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 and the consolidated 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 and the consolidated accounts.

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

Opinions

In my opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act of Credit Institutions and Securities Companies, and present fairly, in all material respects, the financial position of the Parent Company as of December 31, 2012 and of its financial performance and cash flows for the year then ended in accordance with the Annual Accounts Act of Credit Institutions and Securities Companies, the consolidated accounts have been prepared in accordance with the Annual Accounts Act of Credit Institutions and Securities Companies, and present fairly, in all material respects, the financial position of the Group as of December 31, 2012 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act of Credit Institutions and Securities Companies. A Corporate Governance Report has been prepared. The Board of Director's report and the Corporate Governance Report are consistent with the other parts of the annual accounts and the consolidated accounts.

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

Report on other legal and regulatory requirements

In addition to my audit of the annual accounts and the consolidated 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 Bank 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 our audit. I conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for my opinion on the Board of Directors' proposed appropriations of the company's profit or loss, I examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for my opinion concerning discharge from liability, in addition to my audit of the annual accounts and the consolidated 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, the Banking and Financing Business Act, the Annual Accounts Act of Credit Institutions and Securities 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 opinions.

Opinions

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

Stockholm, February 19, 2013

Stefan Holmström
Authorised Public Accountant

Board of Directors and auditor

BOARD OF DIRECTORS

Sten Dunér
Born 1951. Chairman since 2009. President and CEO Länsförsäkringar AB. Other Board appointments: Chairman of Länsförsäkringar Sak, Länsförsäkringar Fondliv, Insurance Sweden and the Swedish Insurance Employer's Association (FAO). Board member of Länsförsäkringar Liv Försäkrings AB, Fastighets AB Balder and the Confederation of Swedish Enterprise. Education: Master of Science in Business and Economics. Background: Group Controller Länsförsäkringar AB.

Ingemar Larsson
Born 1949. Deputy Chairman since 2008. President Länsförsäkringar Göteborg and Bohuslän. Other Board appointments: Board member of Platzer Fastigheter Holding AB. Education: Master of Science in Engineering. Background: Fire Engineer Länsförsäkringar AB and President Länsförsäkringar Företagsservice AB.

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

Per-Åke Holgersson
Born 1953. Board member since 2010. Chairman of Länsförsäkring Kronoberg. Other Board appointments: Board member of the SPMA Foundation, Älmeboda LRF and Korrö Gård AB. Education: Master of Science in Chemical Engineering. Background: Board member LF forskning och framtid and Board member of the Swedish Poultry Meat Association.

Bengt-Erik Lindgren
Born 1950. Board member since 2012. Chairman of Länsförsäkringar Bergslagen. Other Board appointments: Chairman of Arver Lastbilar AB, Board member of Nordanå Trä AB and Inlandsinnovation AB. Education: Bachelor of Economics. Background: Executive Vice President of Swedbank.

Örian Söderberg
Born 1952. Board member since 2009. President Länsförsäkringar Jönköping. Other Board appointments: Chairman of Destination Jönköping and Board member of Wasa Kredit AB. Education: Master of Laws. Background: Executive Vice President Länsförsäkringar Stockholm and President Länsförsäkringar Fonder.

Christer Villard
Born 1949. Board member since 2006. Chairman of Länsförsäkringar Stockholm. Other Board appointments: Wallenstam AB, Aptic AB, Stockholms köpmanklubb and Segulah III and IV. Board member of AB Segulah. Education: Bachelor of Legal Science. Background: numerous positions as President in the banking and finance sector.

EMPLOYEE REPRESENTATIVES

Ingrid Ericson
Born 1958. Employee representative SACO (Confederation of Professional Associations) since 2004. Board member SACO. Other Board appointments: Board member of Länsförsäkringar AB's local SACO Board. Education: Master of Science in Business and Economics. Background: Product specialist, process developer, Credit Administrator of Länsförsäkringar Bank.

Deputy Board member:
Maria Eriksson

Max Rooth
Born 1977. Employee representative FTF (Union of Insurance Employees) since 2011. Other Board appointments: Board member of Länsförsäkringar AB's and Länsförsäkringar Fondförvaltning AB's local FTF Board. Education: Bachelor of Arts. Background: Segment Manager and Administration Manager of Länsförsäkringar Bank. Project manager Wasa Kredit.

Deputy Board member:
Torleif Carlsson

SECRETARY OF THE BOARD

Anna Rygaard
Born 1966.
Company Lawyer at Länsförsäkringar AB.

AUDITOR

Stefan Holmström
Authorised Public Accountant, KPMG AB.

Executive management

Rikard Josefson
Born 1965.
President.
Employed since June 2011.
Education: Bachelor of Arts.
Previous experience: 25 years of various senior positions at SEB.

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

Susanne Bergh
Born 1969.
Head of Internet.
Employed since 2009.
Education: Diploma in marketing.
Previous experience: 20 years at the Länsförsäkringar Alliance, primarily at Agria and Länsförsäkringar AB, most recently in Internet-related positions.

Susanne Calner
Born 1969.
Head of Credit.
Employed since March 2012.
Education: Master of Science in Business and Economics.
Previous experience: Office Manager at SEB, auditor and management consultant at Andersen.

Bengt Clemedtson
Born 1964.
Head of Business.
Employed since 2006.
Education: Master of Science in Business and Economics.
Previous experience: President Skandiabanken Bolån AB.

Sven Eggefalk
Born 1969.
President Wasa Kredit.
Employed since December 2011.
Education: Master of Science in Business and Economics.
Previous experience: 15 years at SEB, most recently as Head of Development and Sales at SEB Retail.

Eva Gottfridsdotter Nilsson
Born 1960.
President Länsförsäkringar Fondförvaltning.
Employed since 2000.
Education: Master of Science in Business and Economics.
Previous experience: President Fondbolaget, CEO Länsförsäkringar Asset Management.

Maria Jerhamre Engström
Born 1969.
Head of Product.
Employed since 2006.
Education: University studies in law and psychology.
Previous experience: Head of Business Support at Länsförsäkringar Bank, Head of Internet Bank at Länsförsäkringar Bank.

Richard Lundberg
Born 1976.
Head of Back Office.
Employed since October 2012.
Education: Studies in chemical engineering
Previous experience: Head of Sales Support and sales manager at Länsförsäkringar Skåne.

Göran Zakrisson
Born 1953. Chief Risk Officer.
Employed since 2004.
Education: Master of Science in Business Economics.
Previous experience: Vice President Swedbank Hypotek, Credit Analyst at Credit Suisse First Boston, Senior Banking Analyst at Fitch and auditor at Ernst & Young.

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 loans
Receivables for which payments are unlikely to be made in accordance with the agreed contractual terms and after deductions for the value of collateral. 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.

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 loans
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 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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