



Annual Report 2013

LÄNSFÖRSÄKRINGAR HYPOTEK

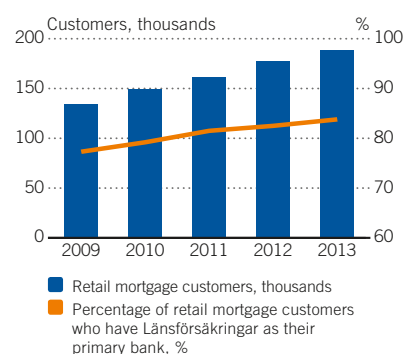
Länsförsäkringar Hypotek

In brief

Länsförsäkringar Hypotek is one of Sweden's largest mortgage institutions with loans of SEK 112 billion.

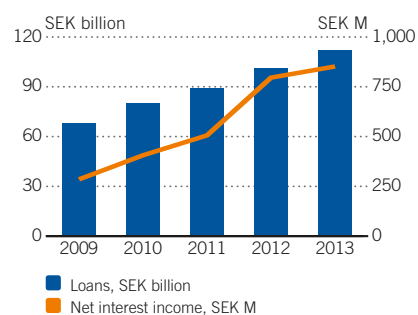


Customer trend



The number of customers has risen an average of 10% per year over the past five years. The percentage of retail mortgage customers who have Länsförsäkringar as their primary bank is 84%.

Loans and net interest income



Loans have increased an average of 16% per year over the past five years and net interest income has risen an average of 22% per year during the same period.

Länsförsäkringar Hypotek is one of Sweden's largest mortgage institutions with loans of SEK 112 billion and 188,000 customers. The strategy is based on the Länsförsäkringar Alliance's large customer base, a strong brand and local presence through the customer-owned regional insurance companies. Mortgages are primarily offered to the slightly more than 3.5 million customers of the Länsförsäkringar

Alliance. Customer contact takes place during personal meetings at 130 of the regional insurance companies' branches throughout Sweden and via digital services and telephone. The aim is, based on low risk, to continue to have growth in volumes and profitability, have the most satisfied customers and increase the share of customers who have both banking and insurance with Länsförsäkringar. ■

KEY FIGURES	2013	2012	2011	2010	2009
Return on equity, %	4.8	5.2	3.6	3.5	4.1
Return on total capital, %	0.23	0.26	0.17	0.15	0.19
Investment margin, %	0.64	0.65	0.45	0.40	0.38
Cost/income ratio before loan losses	0.22	0.22	0.30	0.31	0.33
Cost/income ratio after loan losses	0.24	0.23	0.28	0.30	0.29
Capital adequacy ratio according to Basel II, %	25.3	24.2	22.8	22.3	24.2
Capital adequacy ratio according to transition rules, %	10.1	10.1	10.5	10.4	10.7
Core Tier 1 ratio according to Basel II, %	23.4	22.3	20.6	19.7	20.3
Core Tier 1 ratio according to transition rules, %	9.4	9.4	9.4	9.2	9.0
Percentage of impaired loans, net, %	0.01	0.00	0.00	0.01	0.00
Reserve ratio in relation to loans, %	0.04	0.04	0.04	0.05	0.05
Loan losses in relation to lending, %	0.01	0.00	0.00	0.00	-0.01

The year in brief

Net interest income rose 7% to SEK 852 million (796).

Loan losses amounted to SEK 6.6 million (2.3), corresponding to loan losses of 0.01% (0.00).

Operating profit declined 4% to SEK 305 million (319) and the return on equity was 4.8% (5.2).

Lending increased 11% to SEK 112 billion (101).

Core Tier 1 ratio according to the transition rules amounted to 9.4% (9.4) on December 31, 2013.

The number of customers rose 6% to 188,000.



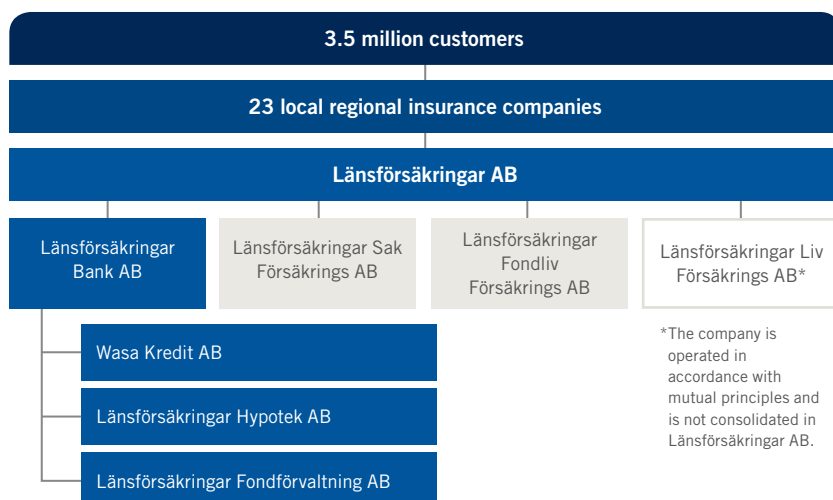


Länsförsäkringar in brief

Customer-owned regional insurance companies with local presence

Länsförsäkringar consists of 23 local and customer-owned regional insurance companies and the jointly owned Länsförsäkringar AB, which is the bank's Parent Company. The regional insurance companies are owned by the insurance customers, and the principles of customer ownership also apply to the banking operations. 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 create substantial 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 primary task. The Länsförsäkringar Alliance has more than 3.5 million customers and approximately 5,900 employees. ■



*The company is operated in accordance with mutual principles and is not consolidated in Länsförsäkringar AB.

Contents

Introduction

- 1 2013 in brief
- 2 Statement by the President

Operations

- 3 Strategy, offering and financial position
- 4 Economic environment and market
- 6 Loans and credit quality
- 8 Funding and liquidity
- 10 Board of Directors' Report
- 13 Corporate Governance Report
- 15 Five-year summary

Financial statements

- 17 Income statement
- 17 Statement of comprehensive income
- 17 Balance sheet
- 18 Cash-flow statement
- 18 Statement of changes in shareholders' equity
- 19 Notes to the financial statements
- 42 Audit report

Other information

- 43 Board of Directors, Management and auditor
- 44 Definitions
- 44 Financial calendar
- 45 Addresses

Security for our retail mortgage customers

STATEMENT BY THE PRESIDENT

Länsförsäkringar Hypotek has a good growth and the loan portfolio continues to have a very high credit quality. Customers' rigorous requirements and expectations drive us in our offering.

High level of service and local presence

Länsförsäkringar's retail mortgage lending operations are local, through the independent, customer-owned regional insurance companies across Sweden that handle all customer contact. Joint credit regulations are applied throughout the company, while business decisions are made locally. The regional insurance companies' commitment and network provide broad and in-depth customer and market knowledge ensuring that a high level of credit quality is maintained in lending.

For eight of the past nine years, we have had Sweden's most satisfied customers in the mortgage market and we have excellent growth. Retail mortgage operations are conducted based on the principles of customer ownership and it is customers' rigorous demands and expectations that drive us in our offering, our service and our advisory services. We want customers to be highly satisfied with us and their mortgages.

Growth with high credit quality

As part of the banking offering, Länsförsäkringar Hypotek offers mortgages to private individuals. All loans are granted in

Sweden in SEK and have a well-diversified geographic distribution. During the year, the loan portfolio increased 11% to SEK 112 billion, which represents balanced growth in line with our plan to grow while maintaining very high credit quality. Loan origination is carefully considered and includes customers' amortisation needs.

Funding

The funding operations continued to be successful during the year. At year-end, Länsförsäkringar Hypotek also became the first Swedish mortgage institution to have a complete curve of Swedish benchmark loans with maturities of up to seven years.

Strong performance in Sweden

The finances of Swedish households strengthened during the year and housing prices continued to rise. There is a housing shortage in parts of Sweden, which partly explains this housing price trend. Accordingly, housing construction requires urgent stimulation to build more homes.

Sweden has seen continued growth in household lending in recent years, although at a significantly lower rate. This trend is being monitored by both banks and authorities, and a number of measures have been taken to slow growth.

Sweden's GDP growth was impacted by the global economic slowdown and weakened during the year, while low interest rates contributed to continued high purchasing power among households. Sweden's government finances are in excellent condition, which provides a large buffer in an uncertain economic environment.



Regulatory developments

The aim of these extensive regulatory developments is to ensure stability and transparency in the market, which we welcome. Regulatory changes were introduced during the year, although many uncertainties remain.

The changes include the introduction of a risk weight floor of 15% on mortgages, which took place in May. After that, the Swedish Financial Supervisory Authority also proposed a risk weight floor of 25% on mortgages.

These changes are being made at a high tempo and it is important that the authorities' rules are clear. Many of the regulatory changes are taking place at the same time, which makes it difficult to obtain an overview of the long-term effects on the national economy.

Continued successful growth

Our successful growth and position in the mortgage market is based on Länsförsäkringar's strong brand, local presence and customer ownership. We will continue to follow our stated path by offering mortgages as an integrated part of the banking offering. With reliable mortgages and a high level of service and quality, we have an excellent basis for meeting the needs of customers and making them Sweden's most satisfied retail mortgage customers.

Stockholm, February 2014

ANDERS BORGRANTZ

President



One of the largest mortgage institutions

STRATEGY, OFFERING AND POSITION Länsförsäkringar Hypotek, founded in 2001, is one of Sweden's largest mortgage institutions with a market share of 4.9% and has had many years of stable growth.

Strategy and goals

Länsförsäkringar Hypotek is one of Sweden's largest mortgage institutions. The strategy, which is based on the Länsförsäkringar Alliance's large customer base with 3.5 million customers, a strong brand and local presence through the customer-owned regional insurance companies, is to offer mortgages to primarily the Länsförsäkringar Alliance's 2.9 million retail customers and 1.8 million home-insurance customers. The mortgage offering is an integrated part of the bank offering.

The vast majority of retail mortgage customers have chosen Länsförsäkringar as their primary bank and Länsförsäkringar had very satisfied retail mortgage customers according to the 2013 Swedish Quality Index. The aim is, based on continued low risk, to continue to have growth in volumes and profitability, have the most satisfied customers and increase the share of customers who have both banking and insurance with Länsförsäkringar.

Mortgages

The offering primarily comprises mortgages for private individuals' homes. Mortgages up to 75% of the market value on the granting date are deposited with Länsförsäkringar Hypotek and other mortgages are offered by Länsförsäkringar Bank. The offering also includes first-lien mortgages for multi-family housing and first-lien mortgages for industrial and office properties. Loans to the public rose 11% to SEK 112 billion during the year.

Customer ownership

The Länsförsäkringar Alliance comprises 23 local and customer-owned regional

insurance companies and the jointly owned Länsförsäkringar AB, which is the bank's Parent Company. The insurance customers own the regional insurance companies, which means that the principles of customer ownership also apply to the banking and retail mortgage operations.

The mortgage institution has a low risk tolerance, which provides a stable performance. Loans are granted at low risk and the local customer and market knowledge

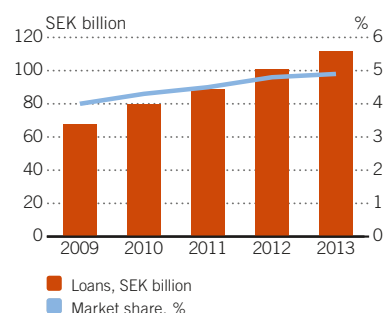
of the regional insurance companies, combined with the conservative view of risk, generates growth with high credit quality.

Customer meetings and local market knowledge

The retail mortgage operations have a local presence through the customer-owned regional insurance companies that manage all customer contact. Business decisions are made locally and the regional insurance



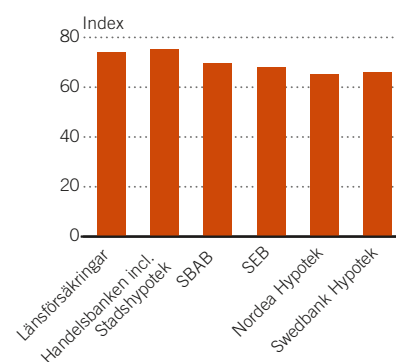
Loans and market shares



Source: Länsförsäkringar and Statistics Sweden

Länsförsäkringar is successively strengthening its position in the Swedish mortgage market.

Customer satisfaction, retail mortgages



Source: Swedish Quality Index

Länsförsäkringar has very satisfied retail mortgage customers and was among the top ranking companies again this year.

► companies' local involvement and network provide broad and in-depth customer and market knowledge. Mortgages are offered at 130 branches of the regional insurance companies. Personal customer meetings are a high priority at Länsförsäkringar and they create trust and long-term relationships.

A strong brand

Successful growth and positioning in the market is largely based on Länsförsäkringar's strong brand, local presence and customer ownership. Länsförsäkringar has the highest reputation among banking and insurance companies, according to Nordic Brand's brand ranking and the Reputability Barometer for 2013.

FACTS IN BRIEF

- Business and mission: to offer mortgages, finance banking and retail mortgage operations and develop products and concepts as well as provide support to the regional insurance companies in their mortgage sales and service to customers
- Lending volume: SEK 112 billion
- Number of customers: 188,000
- Number of branches in which mortgages are offered: 130
- Percentage of primary customers who are also retail mortgage customers: 84%



Slow global economic recovery

ECONOMIC ENVIRONMENT AND MARKET

Several of the world's larger economies implemented significant austerity measures. Monetary policy remained highly expansive, which contributed to a slight improvement in growth in 2013 compared with 2012.

Weak global growth

In 2013, several of the large economies in the world implemented significant austerity measures, particularly eurozone countries and the US, which kept demand down and emerging markets experienced an economic downturn. However, monetary policy remained highly expansive, which contributed to a slight improvement in growth. The value of most classes of asset rose pending both the future recovery of the real economy and a favourable liquidity situation.

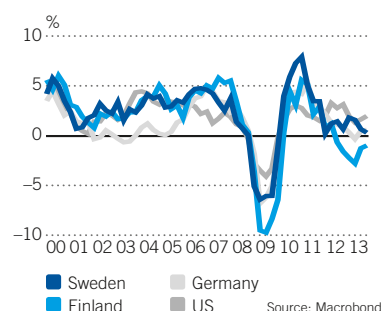
The stock markets experienced major fluctuations during the year. Performance was affected by the highly expansive monetary policies of several central

banks, while economic trends remained weak. Global growth was hampered by debt reduction in both the public sector and among households. Several countries pursued an austere fiscal policy, while private consumption was held back by high savings. The purchase of government and mortgage bonds by the Federal Reserve continued to impact the market.

Interest-rate trends

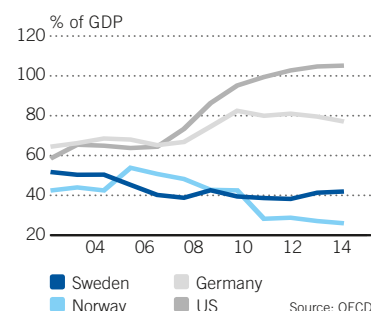
Bond rates were low at the beginning of the year and subsequently rose gradually, in line with, for example, expectations that the Federal Reserve would reduce its bond-buying stimulus. At the end of 2013, the Federal Reserve announced that it

GDP growth



The Swedish economy displayed a weaker performance during the year.

Government debt



Swedish government debt is relatively low compared internationally.

planned to reduce its bond buying from January 2014. Improved economic indicators from the US, and also from Europe, gave support to rising interest rates. However, short-term market interest rates remained low as a result of low key interest rates and also promises from central banks that monetary policy will be kept expansive for a long period of time.

Leading global stock markets performed strongly during the year. The Swedish stock market also displayed a strong trend, while the performance of the stock markets in emerging economies was considerably weaker and more volatile. The difference between government bond rates and the interest rate for mortgage bonds and other loans declined during the year.

Sweden

The Swedish economy displayed a weaker performance than expected during the year and unemployment remained relatively

high. However, there are signs that the labour market is performing positively with rising employment.

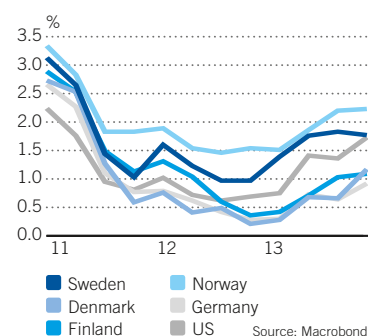
The Riksbank lowered its key interest rate again to 0.75% due to the very low inflation. Accordingly, Swedish monetary policy is highly expansive. Sweden's government finances remained excellent.

Housing market

Swedish housing prices continued to rise, primarily due to the strong price trend in tenant-owned apartments in metropolitan areas, except for Malmö. Prices of single-

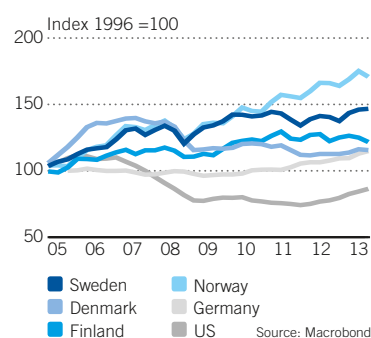
family homes were generally at the same level as three years ago, according to Valueguard's HOX Index. The range of both single-family homes and tenant-owned apartments was unusually low during the year, which is partly the reason for the strong price trend. The continued expansive Swedish monetary policy with low interest rates also resulted in falling mortgage rates, which in the past has been a key factor in the housing price trend. Loans to Swedish households increased 5% during the year, which represents significantly lower growth than in recent years.

Government bond rates



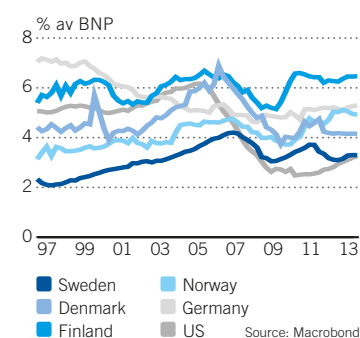
The financial market has a positive view of Sweden, which is particularly evident in Swedish five-year government bond rates.

Housing-price trends



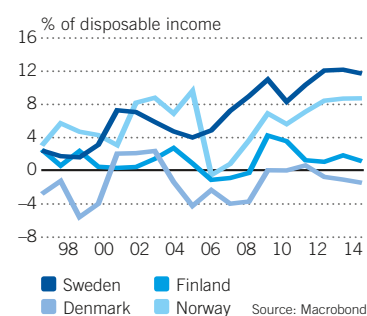
Swedish housing prices increased in 2013.

Housing construction



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

Household savings



Swedish households' savings are high in relation to their disposable incomes.

Loan portfolio of very high credit quality

LOANS AND CREDIT QUALITY All loans are granted in Sweden, and in SEK and have a well-diversified geographic distribution. Origination is primarily directed towards retail mortgages for private individuals and all loans are granted based on standardised and stringent credit regulations.

Credit process

All loans are granted in Sweden, in SEK and have a well-diversified geographic distribution. Origination is primarily directed towards retail mortgages for private individuals and all loans are granted based on standardised and stringent credit regulations, and the credit scoring process has integrated system support. In the business model between Länsförsäkringar Hypotek and the regional insurance companies, there is a strong incentive to maintain very high credit quality.

The system support for credit regulations and loan origination, combined with the deep, local customer and market knowledge of the advisors, provides favourable condi-

tions for consistent loan origination and a loan portfolio that maintains high credit quality. The credit regulations impose strict requirements on customers' repayment capacity and the quality of collateral. In connection with credit scoring, the repayment capacity of borrowers and households is stress tested and the quality of the loan portfolio and borrowers' repayment capacity are continuously monitored and reviewed.

Primarily mortgages for private individuals

Retail mortgages for private individuals' private homes comprises 94% of the loan portfolio, and 77% of the collateral comprises single-family homes, 21% tenant-

owned apartments and 2% vacation homes. Market-value analyses of the collateral in retail mortgages are performed continuously and a market-value update is performed at least once per year for all single-family homes, tenant-owned apartments and vacation homes that are also included in the cover pool.

Of the remaining 6% of the loan portfolio, 5% comprises first-lien mortgages for multi-family housing and 1% first-lien mortgages for industrial and office properties.

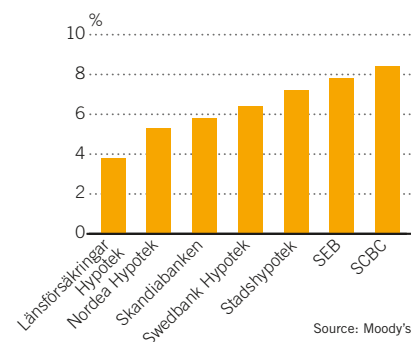
Cover pool

The cover pool contains 93% of the loan portfolio, corresponding to SEK 105 billion. The collateral exclusively comprises private homes, including 77% single-family homes, 21% tenant-owned apartments and 2% vacation homes. At the end of 2013, the weighted average loan-to-value ratio (LTV) was 62% and the current OC amounted to 22%. The geographic spread throughout Sweden is well-diversified and the average loan amount is SEK 414,000. Only 0.5% of the cover pool's mortgages exceeds SEK 5 M. No impaired loans are included in the cover pool.

The collateral in the cover pool is stress tested continuously at a 20% decline in the market value of the assets. During a stress test of the cover pool, based on a 20% price drop in the market value of the mortgages' collateral, the weighted average LTV was 67% on December 31, 2013. Market-value analyses of the cover pool are performed continuously.

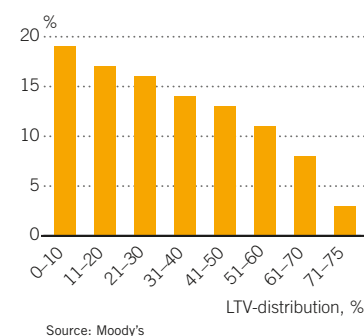


Moody's collateral score



Länsförsäkringar Hypotek's collateral in the cover pool has the highest credit quality, compared with all other Swedish issuers of covered bonds with a collateral score of 3.8%. The lower the collateral score, the higher the credit quality according to Moody's. The average collateral score for Swedish issuers is 6.7%.

Average loan-to-value ratio



The weighted average LTV of the cover pool was 62% on December 31, 2013.

Standard for greater transparency

Länsförsäkringar Hypotek provides information in accordance with the ECB's "Covered Bond Label," which is a joint standard for greater transparency in the European covered bonds market, see also www.coveredbondlabel.com. Länsförsäkringar Hypotek's website is updated every month with this reporting and some other additional information about the cover pool is also provided. For more information, see www.lansforsakringar.se/financialhypotek.

Impairment and impaired loans

The high credit quality of the loan portfolio is a result of loan origination being based on a low risk tolerance and Länsförsäkringar applying a conservative impairment model. Impaired loans and loan losses remained at very low levels, indicating that credit quality is very high. Impaired loans, gross, amounted to SEK 6 M, corresponding to a percentage of impaired loans gross in relation to loans of 0.005% at year-end.

Reserves amounted to SEK 49 M and the reserve ratio in relation to loans amounted to 0.04%. Loan losses remained low and amounted to SEK 7 M. The loan loss level is low and amounted to 0.006%.

For more information concerning credit risks and credit quality, see note 3 Risks and capital adequacy on page 24. For more information concerning loans, impaired loans and impairment of loan receivables, see Accounting policies on page 23.



COVER POOL

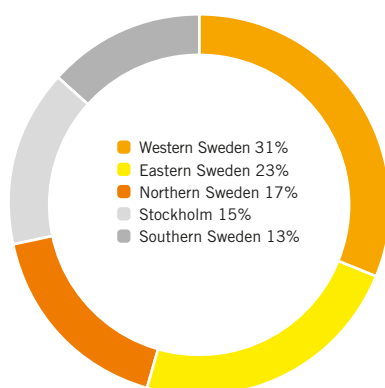
	Dec 31, 2013	Dec 31, 2012
Total volume, SEK billion	121	114
Swedish mortgages, SEK billion	104	95
Substitute collateral, SEK billion	16	19
Collateral	Private homes	Private homes
Weighted average Max-LTV, %	62	63
OC ¹⁾ , nominal, current level, %	22	25
Seasoning, months	60	58
Number of loans	252,240	236,639
Number of borrowers	115,490	108,527
Number of properties	115,988	109,057
Average commitment, SEK 000s	901	875
Average loan, SEK 000s	414	404
Interest rate type, variable, %	55	52
Interest rate type, fixed, %	45	48
Impaired loans	None	None

¹⁾ OC is calculated using nominal values and excludes accrued interest rates.

Debt securities in issue in other currencies than SEK are translated into SEK using the swap rate.

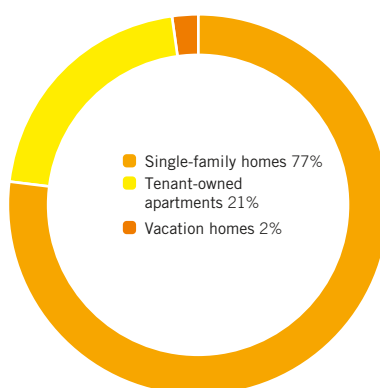
Debt securities in issue include repurchase agreements.

Cover pool, geographic distribution



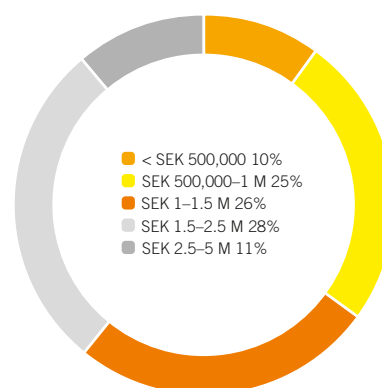
The cover pool is well distributed throughout Sweden. No collateral is found outside Sweden.

Cover pool, collateral distribution



The collateral in the cover pool comprises only private homes, mainly single-family homes.

Cover pool, distribution of commitments



Commitments with a maximum loan amount of SEK 1.5 million account for 61%. Only 0.5% of loans have a loan amount of more than SEK 5 million.

Strong liquidity

FUNDING AND LIQUIDITY

The retail mortgage operations' main financing sources comprise funding with Länsförsäkringar Hypotek's covered bonds, which have the highest credit rating, Aaa/Stable from Moody's, and AAA/Stable from Standard & Poor's.

Objectives

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

Financing sources

The retail mortgage operations' financing sources mainly comprise funding with Länsförsäkringar Hypotek's covered bonds, which have the highest credit rating, Aaa/Stable from Moody's and AAA/Stable from

Standard & Poor's. 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 maturities until 2020.

The Swedish covered bond market is one of Europe's largest and most liquid, which secures excellent access to long-term financing.

Diversification

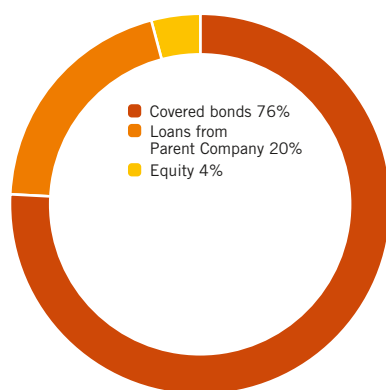
Since all assets in the balance sheet are in SEK, the mortgage institution has no struc-

tural need for financing in foreign currency. However, it has chosen to conduct a certain portion of its capital market funding in international markets in an effort to diversify and broaden the investor base. In recent years, funding has 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, diversification takes place through issuances of bonds in primarily NOK and CHF.

Refinancing and liquidity risk management

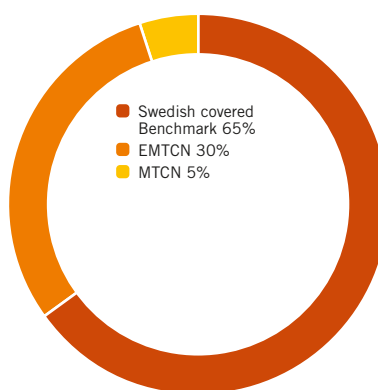
The mortgage institution works proactively with its outstanding liabilities by

Financing sources



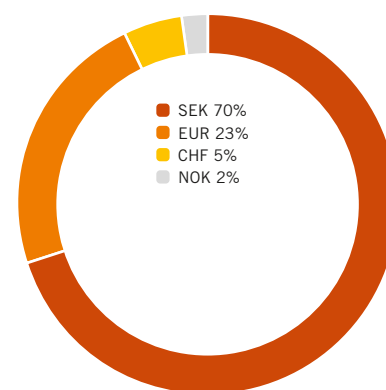
Some 76% of loans were financed by covered bonds, 20% by loans from the Parent Company and 4% by equity.

Funding by programme



Funding primarily takes place with Swedish benchmark bonds, which amounted to 65% of total programme funding at year-end.

Funding by currency



Funding primarily takes place in SEK, which amounted to 70% of funding by currency at year-end.

repurchasing bonds with short remaining terms against issuance of long-term liabilities as a means of managing and minimising the liquidity and refinancing risk.

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

Funding operations during the year

Länsförsäkringar Hypotek had highly favourable access to funding in both the Swedish and international markets during the year. Issue volumes in 2013 had a longer average maturity than maturities in recent years. Covered bonds were issued at a volume corresponding to a nominal amount of SEK 23.5 billion and issuances of EUR, CHF and NOK were also launched. Three new covered domestic benchmark loans were issued during the year.

Liquidity

The 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 the liquidity reserve are conservative and take place within the limits established by the Board in the Financial Policy.

The liquidity reserve totalled a nominal SEK 17.3 billion at December 31, 2013, according to the Swedish Bankers' Association's definition, of which 91% comprised

Swedish covered bonds with an AAA/Aaa credit rating and 9% Swedish government bonds.

Rating

Länsförsäkringar Hypotek's covered bonds have an unchanged highest rating of Aaa/Stable from Moody's and AAA/Stable from Standard & Poor's. Länsförsäkringar

Hypotek is thus one of four issuers in the Swedish market for covered bonds with the highest rating from both Standard & Poor's and Moody's.

Länsförsäkringar Bank's long-term credit rating is A/Stable from Standard & Poor's and A3/Stable from Moody's. The short-term credit rating is A-1 from Standard & Poor's and P-2 from Moody's.



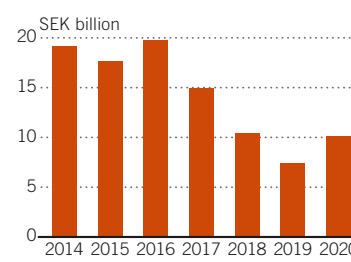
FUNDING PROGRAMMES

Programme	Limit, Nom, SEK billion	Issued in 2013, Nom, SEK billion	Issued in 2012, Nom, SEK billion	Outstanding, Dec 31, 2013, Nom, SEK billion	Outstanding, Dec 31, 2012, Nom, SEK billion	Remaining average term, years Dec 31, 2013	Remaining average term, years Dec 31, 2012
Swedish covered Benchmark	Unlimited	17.1	22.7	64.2	58.8	3.1	2.4
MTCN	SEK 30	–	3.3	4.9	8.7	1.4	1.5
EMTCN	EUR 5	6.5	2.2	30.1	23.8	2.7	2.3
Total		23.6	28.5	99.2	91.3	2.9	2.3

SWEDISH COVERED BENCHMARK BONDS

Loans	Date of maturity	Outstanding, SEK billion	Coupon, %
506	May 5, 2014	7.7	4.50
510	June 17, 2015	4.1	2.25
508	March 15, 2016	19.2	4.00
507	June 21, 2017	13.5	4.50
511	June 20, 2018	10.1	2.50
512	June 19, 2019	6.1	2.50
513	September 16, 2020	3.5	3.25
Total		64.2	

Maturity profile, funding



Board of Directors' Report

The Board of Directors and the President of Länsförsäkringar Hypotek AB (publ) hereby submit the Annual Report for 2013.

Ownership

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

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

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

Focus of operations

The company conducts mortgages operations involving the origination of loans against collateral in the form of single-family homes, tenant-owned apartments and vacation homes as well as multi-family housing and industrial and office properties. Lending, which is provided to private individuals and homeowners, is conducted at 130 (130) branches of the regional insurance companies throughout Sweden and via digital services and telephone. Sales and certain administration of banking and mort-

gage services are carried out in the branches of the regional insurance companies. The regional insurance companies are reimbursed for sales and administration through a reimbursement system based on volumes managed. Another part of the full-service offering is the 152 (150) branches of Länsförsäkringar Fastighetsförmedling throughout Sweden.

Market commentary

Both the stock markets and fixed-income markets experienced major fluctuations during the year. Performance was affected by the highly expansive monetary policies of several central banks, while economic trends remained weak. Global growth was hampered by debt reduction in both the public sector and among households. Several countries pursued an austere fiscal policy while private consumption was held back by high savings. The purchase of government and mortgage bonds by the Federal Reserve continued to impact the market.

Bond interest rates were low at the start of the year and subsequently rose gradually, in line with, for example, expectations that the Federal Reserve would reduce its bond-buying stimulus. At the end of 2013, the

Federal Reserve announced that it planned to reduce its bond buying from January 2014. Improved economic indicators from the US, and also from Europe, lent support to rising interest rates. However, short-term market interest rates remained low as a result of low key interest rates and also promises from central banks that monetary policy will be kept expansive for a long period of time.

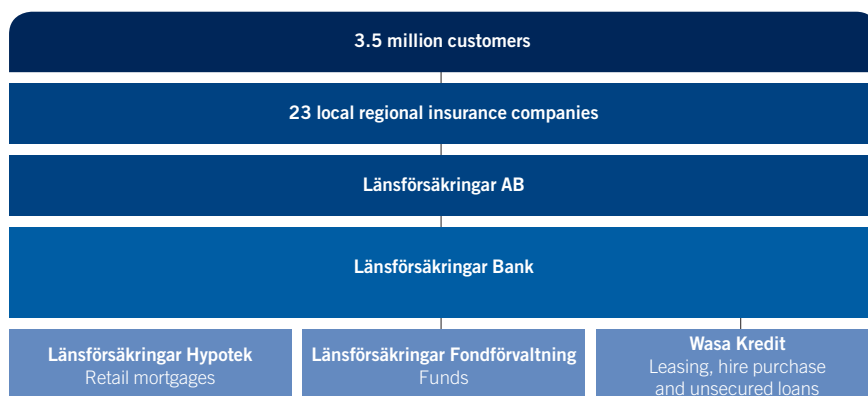
The Swedish economy displayed a weaker performance during the year and unemployment was relatively high.

At the end of the year, the Riksbank lowered its key interest rate again to 0.75% due to the very low inflation. The difference between government bond rates and the interest rate for mortgage bonds and other loans declined during the year.

Loans to households in the Swedish market rose 5% during the year and 1% during the fourth quarter.

Housing prices in Sweden increased 7% during the year according to Valueguard's HOX index, which was largely due to rising prices for tenant-owned apartments. Prices of single-family homes rose 4%, while prices of tenant-owned apartments increased 13%.

Länsförsäkringar Hypotek – part of the Länsförsäkringar Alliance



Growth and customer trend

Loans to the public rose 11%, or SEK 11 billion, to SEK 112 billion (101). The number of customers rose 6%, or 11,000, to 188,000 (177,000), and 84% (82) of mortgage customers had Länsförsäkringar as their primary bank.

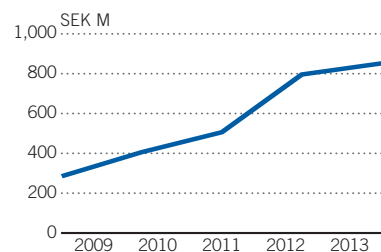
Earnings and profitability

Profit before loan losses fell 3% to SEK 312 M (322) and operating profit declined 4% to SEK 305 M (319), which was due to net losses from financial items. Return on equity amounted to 4.8% (5.2).

Income

Operating profit fell 3% to SEK 401 M (413), attributable to net losses from financial items. Higher lending volumes strengthened net interest income by 7% to SEK 852 M (796). The investment margin was 0.64% (0.65). Net gains from financial items declined to a loss of SEK 105 M (gain: 2) due to the negative effects of changes in fair value and the repurchase of own debt. Net commission amounted to an expense of SEK 346 M (385).

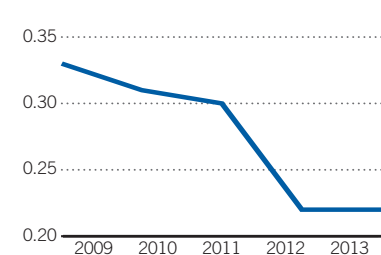
Net interest income



Expenses

Operating expenses amounted to SEK 90 M (91) and the cost/income ratio before loan losses remained unchanged at 0.22. The cost/income ratio after loan losses amounted to 0.24 (0.23).

Cost/Income ratio before loan losses



Loan losses

Loan losses amounted to SEK 6.6 M (2.3), corresponding to loan losses of 0.006% (0.002). Reserves amounted to SEK 49 M

(40), providing an unchanged reserve ratio in relation to loans of 0.04%. Impaired loans, gross, amounted to SEK 6 M (3), corresponding to a percentage of impaired loans of 0.005% (0.003). For more information regarding loan losses, reserves and impaired loans, see notes 15 and 19.

Loans

Loans to the public rose 11%, or SEK 11 billion, to SEK 112 billion (101). On December 31, 2013, the market share for retail mortgages was 4.9% (4.8), according to data from Statistics Sweden. All loans are granted in Sweden and in SEK. The credit quality of the loan portfolio, comprising 74% (75) single-family homes, 20% (20) tenant-owned apartments, 5% (4) multi-family housing and 1% (1) other loans, continued to be favourable.

Cover pool

A total of 93% of the loan portfolio, corresponding to SEK 105 billion, is included in the cover pool. The collateral comprises private homes of which 77% (78) are single-family homes, 21% (20) tenantowned apartments and 2% (2) vacation homes. The geographic distribution throughout Sweden is favourable and the average loan amount is SEK 414,000 (404,000). The weighted average loan-to-value ratio, LTV, was 62% (63) and the nominal, current OC amounted to 22% (25).

During a stress test of the cover pool based on a 20% price drop in the market value of collateral for the mortgages, the weighted average Max-LTV was 67% (68) on December 31, 2013. No impaired loans are included in the cover pool.

According to Moody's report from January 31, 2014, the assets in Länsförsäkringar Hypotek's cover pool continue to maintain the highest credit quality among all Swedish covered-bond issuers and are among the best in Europe.

Funding

Debt securities in issue increased 9% to SEK 99 billion (91). Issuances, primarily of bonds with longer maturities, were launched during the year. At year-end, Länsförsäkringar Hypotek became the first Swedish institution to have a complete curve of Swedish benchmark loans with maturities of up to seven years. Issued covered bonds totalled a nominal SEK 23.5 billion (28.5) and repurchases of a nominal SEK 7.2 billion (16.0) were executed during the year. Matured covered bonds amounted to a nominal of SEK 8.4 billion (6.6).

Liquidity

On December 31, 2013, the liquidity reserve amounted to SEK 17.3 billion (20.3) according to the Swedish Bankers' Association's definition, of which 91% (92) is in Swedish covered bonds with an AAA/Aaa credit rating and 9% (8) in Swedish government bonds.

Rating

Länsförsäkringar Hypotek is one of four issuers in the Swedish market with the highest credit rating for covered bonds from both Standard & Poor's and Moody's. The Parent Company Länsförsäkringar Bank's credit rating is A/stable from Standard & Poor's and A3/stable from Moody's.

COVER POOL

	Dec 31, 2013	Dec 31, 2012
Cover pool, SEK billion	121	114
OC ¹⁾ , nominal, current level, %	22	25
Weighted average Max-LTV, %	62	63
Collateral	Private homes	Private homes
Seasoning, months	60	58
Number of loans	252,240	236,639
Number of borrowers	115,490	108,527
Number of properties	115,988	109,057
Average commitment, SEK 000s	901	875
Average loan, SEK 000s	414	404
Fixed-interest period, variable, %	55	52
Fixed-interest period, fixed, %	45	48
Impaired loans	None	None

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

Capital adequacy

Länsförsäkringar Hypotek applies the Internal Ratings-based Approach (IRB Approach). The advanced IRB Approach is applied to all retail exposures and the Standardised Approach is used for all other exposures. Core Tier 1 capital amounted to SEK 5,144 M (4,739) and Core Tier 1 ratio according to transition rules was 9.4% (9.4) on December 31, 2013. The capital base amounted to SEK 5,569 M (5,143) and the capital adequacy ratio was 10.1% (10.1). According to Basel II rules, Core Tier 1 ratio amounted to 23.4% (22.3) and the capital adequacy ratio amounted to 25.3% (24.2). For more information about the calculation of capital adequacy, see note 3.

Employees

The mortgage institution, as part of the Bank Group, is from a human resources work perspective, part of the Länsförsäkringar AB. Based on company values, a new leader profile was produced in 2013 that describes expectations for managers. The basis for employee performance and development, in both the short and long term, is the business plan and corporate culture. Länsförsäkringar has a strong employer brand in the recruitment market and university graduates rank Länsförsäkringar as one of the leaders in the category of "Ideal Employer" in Universum's Career Barometer survey. Länsförsäkringar Bank came in fifth in the Corporate Barometer survey.

In 2013, the average number of employees was 7(6), of whom 2 (2) were women and 4 (4) were men.

Environment

The environmental work of the mortgage 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 mortgage institution can primarily impact the environment in such areas as loan origination, paper-based communication and product management with customers, by directing customers to digital services.

Risks and uncertainties

The operations are characterised by a low risk profile. Länsförsäkringar Hypotek is exposed to a number of risks, primarily credit risks, refinancing risks and market risks. The macroeconomic situation in Sweden is critical for credit risk since all loans are granted in Sweden. Market risks primarily comprise interest-rate risks. Loan losses remain low and the refinancing of business activities was highly satisfactory during the year. For more information about risks, risks and capital management and policies for risk governance, see note 3 Risks and capital adequacy on page 24.

Expectations regarding future development

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

Events after year-end

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

Proposed appropriation of profit

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

	SEK
Fair value reserve	62,514,577
Retained earnings	4,724,887,123
Shareholders' contribution received	200,000,000
Net profit for the year	159,478,400
Profit to be appropriated	5,146,880,100

The Board proposes that SEK 5,146,880,100 be carried forward, of which SEK 62,514,577 be allocated to the fair value reserve.

RATING

Company	Agency	Long-term rating	Short-term rating
Länsförsäkringar Hypotek ¹⁾	Standard & Poor's	AAA/Stable	–
Länsförsäkringar Hypotek ¹⁾	Moody's	Aaa/Stable	–
Länsförsäkringar Bank	Standard & Poor's	A/Stable	A–1(K–1)
Länsförsäkringar Bank	Moody's	A3/Stable	P–2

¹⁾ Pertains to the company's covered bonds.

For more information on the company's recognised earnings, financial position and average number of employees, see the income statement, balance sheet, cash-flow statement, changes in shareholders' equity and notes on pages 16–40. See page 15 for the five-year summary. All figures in the Annual Report are reported in SEK M unless otherwise specified.

Corporate Governance Report

Introduction

Länsförsäkringar Hypotek AB (referred to below as Länsförsäkringar Hypotek) is a wholly owned subsidiary of Länsförsäkringar Bank AB. Länsförsäkringar Bank AB and its subsidiaries are included in the Länsförsäkringar AB Group. Länsförsäkringar Hypotek is a public limited liability company whose bonds are listed on Nasdaq OMX Stockholm, the Luxembourg Stock Exchange and SIX Swiss Exchange.

Shareholders and General Meeting

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

Decisions are made at the Annual General Meeting regarding the Annual Report, the election of members of the Board and auditors, remuneration to Board members and auditors and other important matters to be addressed in accordance with laws and the Articles of Association.

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

Composition of Board of Directors

The Board of Directors of Länsförsäkringar Hypotek is elected by the Annual General Meeting and, in accordance with the Articles of Association, is to comprise between five and ten Board members elected by the Annual General Meeting, with no more than three deputies. Board members are elected at the Annual General Meeting for a mandate period of two years. The President

is not a member of the Board. Länsförsäkringar Hypotek has no time limit for the length of time a member may sit on the Board and no upper age limit for Board members. The Chairman of the Board is appointed by the Annual General Meeting.

The Board currently comprises a total of five members. The Chairman of the Board is the President of Länsförsäkringar Bank AB. A presentation of the Board members can be found on page 43.

Board responsibilities

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

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

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

The Board must also regularly manage and evaluate the company's risk development and risk management. During the

year, the Board regularly reviews the company's earnings and sales trends, financial position and risk trends in relation to the business plan and forecasts. The Board receives regular reports from Compliance, Risk Control and Internal Audit. The Board continuously monitors current matters with authorities.

Internal control and risk management relating to financial reporting

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

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

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

Control environment

The foundation of internal control relating to financial reporting is the control environ-

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

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

Risk assessment

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

The processes and control activities associated with key risks are assessed based on the risk analysis to identify material

errors in the financial reporting. The risks associated with the operations conducted in Länsförsäkringar Hypotek are managed in the part of the operations in which they arise.

Control activities

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

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

Information and communications

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

Follow-up

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

Five-year summary

SEK M	2013	2012	2011	2010	2009
INCOME STATEMENT					
Interest income	6,337.4	7,205.9	6,891.7	4,018.9	3,641.8
Interest expense	5,485.1	-6,410.3	-6,385.3	-3,613.1	-3,356.4
Net interest income	852.3	795.6	506.4	405.8	285.4
Net commission expense	-346.1	-385.2	-248.6	-198.2	-162.8
Net gains/losses from financial items	-105.4	2.4	4.5	8.0	76.8
Other operating income	0.4	0.1	0.4	0	0.1
Total operating income	401.2	412.9	262.7	215.6	199.5
Staff costs	-14.8	-12.9	-13.6	-10.4	-10.7
Other administration expenses	-74.6	-78.2	-64.4	-57.0	-55.4
Depreciation	-0.1	-0.1	0	-	-
Total operating expenses	-89.5	-91.2	-78.0	-67.4	-66.1
Profit before loan losses	311.7	321.7	184.7	148.2	133.4
Loan losses, net	-6.6	-2.3	4.0	3.3	7.4
Operating profit	305.1	319.4	188.7	151.5	140.8
Appropriations	-65.0	-	-	-	-
Tax on net profit for the year	-80.6	-62.1	-39.2	-46.7	-40.9
Net profit for the year	159.5	257.3	149.5	104.8	99.9
BALANCE SHEET					
Assets					
Treasury bills and other eligible bills	1,491.9	1,544.9	8,341.5	2,820.7	-
Loans to credit institutions	4,710.0	1,696.2	1,912.1	8,155.8	9,389.0
Loans to the public	112,143.4	101,434.4	88,625.0	79,666.7	67,535.9
Bonds and other interest-bearing securities	15,375.9	18,218.7	14,504.5	12,483.3	2,056.7
Derivatives	1,146.2	1,746.4	1,470.3	995.9	1,416.8
Other assets and accrued income	2,341.4	2,678.0	2,558.4	1,547.1	1,351.6
Total assets	137,208.8	127,318.6	117,411.8	105,669.5	81,750.0
Liabilities and equity					
Due to credit institutions	26,437.8	22,984.2	19,985.7	17,844.4	20,476.2
Debt securities in issue	98,989.5	90,962.4	85,396.2	79,695.4	54,679.5
Derivatives	2,538.0	2,824.3	2,237.8	1,864.8	842.8
Other liabilities and accrued expenses	3,445.5	5,155.2	4,949.5	2,141.4	2,291.9
Provisions	0.7	0.5	-	0.2	0.2
Subordinated liabilities	501.0	501.0	501.0	501.0	575.0
Untaxed reserves	65.0	-	-	-	-
Equity	5,231.3	4,891.0	4,341.6	3,622.3	2,884.4
Total liabilities and equity	137,208.8	127,318.6	117,411.8	105,669.5	81,750.0
KEY FIGURES					
Return on equity, %	4.8	5.2	3.6	3.5	4.1
Return on total capital, %	0.23	0.26	0.17	0.15	0.19
Investment margin, %	0.64	0.65	0.45	0.40	0.38
Cost/income ratio before loan losses	0.22	0.22	0.30	0.31	0.33
Cost/income ratio after loan losses	0.24	0.23	0.28	0.30	0.29
Capital adequacy ratio according to Basel II, %	25.3	24.2	22.8	22.3	24.2
Capital adequacy ratio according to transition rules, %	10.1	10.1	10.5	10.4	10.7
Tier 1 ratio and Core Tier 1 ratio according to Basel II, %	23.4	22.3	20.6	19.7	20.3
Tier 1 ratio and Core Tier 1 ratio according to transition rules, %	9.4	9.4	9.4	9.2	9.0
Percentage of impaired loans, net, %	0.01	0.00	0.00	0.01	0.00
Reserve ratio in relation to loans, %	0.04	0.04	0.04	0.05	0.05
Loan losses in relation to lending, %	0.01	0.00	0.00	0.00	-0.01

Financial statements

Income statement	17	Note 20 Bonds and other interest-bearing securities	36
Statement of comprehensive income	17	Note 21 Derivatives	36
Balance sheet.....	17	Note 22 Fair value changes of interest-rate-risk hedged items in portfolio hedge.....	36
Cash-flow statement.....	18	Note 23 Property and equipment	36
Statement of changes in shareholders' equity.....	18	Note 24 Deferred tax assets and tax liabilities.....	36
Note 1 Company information	19	Note 25 Other assets	37
Note 2 Accounting policies	19	Note 26 Prepaid expenses and accrued income	37
Note 3 Risks and capital adequacy.....	24	Note 27 Due to credit institutions	37
Note 4 Segment reporting.....	32	Note 28 Debt securities in issue	37
Note 5 Interest income	32	Note 29 Other liabilities.....	37
Note 6 Interest expense.....	32	Note 30 Accrued expenses and deferred income.....	37
Note 7 Commission income	32	Note 31 Provisions	37
Note 8 Commission expense.....	32	Note 32 Subordinated liabilities.....	37
Note 9 Net gains from financial items	33	Note 33 Assets and liabilities, foreign currency	37
Note 10 Other operating income	33	Note 34 Untaxed reserves.....	38
Note 11 Employees, staff costs and remuneration of senior executives	33	Note 35 Equity	38
Note 12 Other administration expenses.....	34	Note 36 Pledged assets, contingent liabilities and commitments	38
Note 13 Remuneration of auditors.....	34	Note 37 Financial assets and liabilities by category	38
Note 14 Depreciation and impairment of property and equipment.....	34	Note 38 Fair value valuation techniques	39
Note 15 Loan losses, net.....	34	Note 39 Information about offsetting	40
Note 16 Tax.....	35	Note 40 Disclosures on related parties, pricing and agreements	40
Note 17 Treasury bills and other eligible bills.....	35	Note 41 Events after balance-sheet date.....	40
Note 18 Loans to credit institutions.....	35		
Note 19 Loans to the public	35	Statement from the Board.....	41

Income statement

SEK M	Note	2013	2012
Interest income	5	6,337.4	7,205.9
Interest expense	6	5,485.1	-6,410.3
Net interest income		852.3	795.6
Commission income	7	2.1	2.4
Commission expense	8	-348.2	-387.6
Net gains from financial items	9	-105.4	2.4
Other operating income	10	0.4	0.1
Total operating income		401.2	412.9
Staff costs	11	-14.8	-12.9
Other administration expenses	12,13	-74.6	-78.2
Depreciation and impairment of property and equipment	14	-0.1	-0.1
Total operating expenses		-89.5	-91.2
Profit before loan losses		311.7	321.7
Loan losses, net	15	-6.6	-2.3
Operating profit		305.1	319.4
Appropriations	34	-65.0	-
Tax	16	-80.6	-62.1
Net profit for the year		159.5	257.3

Statement of comprehensive income

SEK M	Note	2013	2012
Net profit for the year		159.5	257.3
Other comprehensive income	35		
Items that may subsequently be transferred to profit and loss			
Reclassification of realised securities		-13.0	-38.4
Change in fair value of available-for-sale financial assets		-11.6	-48.0
Tax attributable to items that may subsequently be transferred to profit and loss		5.4	22.5
Total		-19.2	-63.9
Total other comprehensive income for the year, net after tax		-19.2	-63.9
Comprehensive income for the year		140.3	193.4

Balance sheet

SEK M	Note	Dec 31, 2013	Dec 31, 2012
ASSETS			
Treasury bills and other eligible bills	17	1,491.9	1,544.9
Loans to credit institutions	18	4,710.0	1,696.2
Loans to the public	19	112,143.4	101,434.4
Bonds and other interest-bearing securities	20	15,375.9	18,218.7
Derivatives	21	1,146.2	1,746.4
Fair value changes of interest-rate risk hedged items in portfolio hedge	22	486.0	781.1
Property and equipment	23	0.5	0.6
Deferred tax assets	24	-	3.3
Other assets	25	0.0	23.4
Prepaid expenses and accrued income	26	1,854.9	1,869.6
TOTAL ASSETS		137,208.8	127,318.6
LIABILITIES, PROVISIONS AND EQUITY			
Due to credit institutions	27	26,437.8	22,984.2
Debt securities in issue	28	98,989.5	90,962.4
Derivatives	21	2,538.0	2,824.3
Fair value changes of interest-rate risk hedged items in portfolio hedge	22	599.7	2,067.7
Other liabilities	29	51.7	256.0
Accrued expenses and deferred income	30	2,794.1	2,831.5
Provisions	31	0.7	0.5
Subordinated liabilities	32	501.0	501.0
Total liabilities and provisions		131,912.5	122,427.6
Untaxed reserves	34	65.0	-
Equity	35		
Share capital, 70,335 shares		70.3	70.3
Statutory reserve		14.1	14.1
Fair value reserve		62.5	81.7
Retained earnings		4,924.9	4,467.6
Net profit for the year		159.5	257.3
Total equity		5,231.3	4,891.0
TOTAL LIABILITIES, PROVISIONS AND EQUITY		137,208.8	127,318.6
Pledged assets, contingent liabilities and commitments			
For own liabilities, pledged assets/collateral	36	120,780.3	114,865.2
Other pledged assets/collateral		None	None
Contingent liabilities		2,930.6	2,730.6
Other commitments		4,308.2	4,952.2
Other notes			
Company information	1		
Accounting policies	2		
Risks and capital adequacy	3		
Segment reporting	4		
Assets and liabilities, foreign currency	33		
Financial assets and liabilities by category	37		
Fair value valuation techniques	38		
Information about offsetting	39		
Disclosures on related parties	40		
Events after balance-sheet date	41		

Cash-flow statement, indirect method

SEK M	2013	2012
Cash and cash equivalents, January 1	6.9	5.8
Operating activities		
Operating profit before tax	305.1	319.3
Adjustment of non-cash items	46.3	36.2
<i>Change in assets of operating activities</i>		
Change in treasury bills and other eligible bills	28.7	6,446.1
Change in loans to credit institutions	-3,013.3	216.9
Change in loans to the public	-10,720.8	-12,816.0
Change in bonds and other interest-bearing securities	2,631.3	-3,618.6
Change in derivatives	347.9	-83.2
Change in other assets	-48.7	-22.0
<i>Change in liabilities of operating activities</i>		
Change in due to credit institutions	2,912.7	3,051.2
Net changes in debt securities in issue	7,473.2	6,395.2
Change in other liabilities	43.9	-29.1
Change in derivatives	41.0	-85.1
Cash flow from operating activities	47.3	-189.1
Investing activities		
Purchase of property and equipment	0.0	-0.3
Cash flow from investing activities	0.0	-0.3
Financing activities		
Shareholders' contribution received	200.0	538.0
Group contribution paid	-247.0	-347.5
Cash flow from financing activities	-47.0	190.5
Net cash flow for the year	0.3	1.1
Cash and cash equivalents, December 31	7.2	6.9
<i>Non-cash items</i>		
Change in surplus value of financial assets	2.3	2.3
Other unrealised change in securities, net	57.1	-11.0
Change in impairment of loan losses, excluding recoveries	9.5	5.9
Change in accrued expense/income	-22.9	40.0
Provisions	0.0	0.6
Other	0.0	-1.6
Total non-cash items	46.0	36.2
Cash and cash equivalents comprise:		
Loans to credit institutions, payable on demand	7.2	6.9
Total cash and cash equivalents	7.2	6.9
Interest received amounts to	6,350.1	7,309.8
Interest paid amounts to	5,517.8	6,509.4
Income tax paid amounts to	0.0	0.0

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

Statement of changes in shareholders' equity

SEK M	Share capital	Statutory reserve	Fair value reserve	Retained earnings	Net profit for the year	Total
Opening balance, January 1, 2012	70.3	14.1	145.6	3,962.1	149.5	4,341.6
Net profit for the year					257.3	257.3
Other comprehensive income for the year			-63.9			-63.9
<i>Comprehensive income for the year</i>			-63.9		257.3	193.4
Resolution by Annual General Meeting				149.5	-149.5	0.0
Group contribution paid				-247.0		-247.0
Tax on Group contribution paid				65.0		65.0
Conditional shareholders' contribution received				538.0		538.0
Closing balance, December 31, 2012	70.3	14.1	81.7	4,467.6	257.3	4,891.0
Opening balance, January 1, 2013	70.3	14.1	81.7	4,467.6	257.3	4,891.0
Net profit for the year					159.5	159.5
Other comprehensive income for the year			-19.2			-19.2
<i>Comprehensive income for the year</i>			-19.2		159.5	140.3
Resolution by Annual General Meeting				257.3	-257.3	0.0
Group contribution paid				200.0		200.0
Closing balance, December 31, 2013	70.3	14.1	62.5	4,924.9	159.5	5,231.3

Statutory reserve

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

Fair value reserve

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

Retained earnings, including net profit for the year

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

Notes to the financial statements

(All figures in SEK M unless otherwise stated)

1 COMPANY INFORMATION

The Annual Report for Länsförsäkringar Hypotek AB (publ) (Corp. Reg. No. 556244-1781) was presented on December 31, 2013. Länsförsäkringar Hypotek AB (publ) is a mortgage institution registered in Sweden, with its registered office in Stockholm. The address of the head office is Tegeluddsvägen 11–13. The company is a wholly owned subsidiary of Länsförsäkringar Bank AB (publ) (Corp. Reg. No. 516401-9878), with its registered office in Stockholm, which prepares the consolidated financial statements for the smallest Group in which Länsförsäkringar Hypotek AB (publ) is a subsidiary. Länsförsäkringar Hypotek AB (publ) is part of the Group for which Länsförsäkringar AB (publ) (Corp. Reg. No. 556549-7020), with its registered office in Stockholm, prepares the consolidated financial statements for the largest Group in which the company is included as a sub-subsidiary.

The Annual Report for Länsförsäkringar Hypotek AB (publ) was approved by the Board and President for publication on February 13, 2014. Final approval of the Annual Report will be made by the company's Annual General Meeting on May 12, 2014.

2 ACCOUNTING POLICIES

Compliance with standards and legislation

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

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

Conditions relating to the preparation of the financial statements

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

The reporting is based on historical cost. Financial assets and liabilities are recognised at amortised cost, except for certain financial assets and liabilities that are measured at fair value, see note 38, or when fair value hedge accounting is applied. Financial assets and liabilities measured at fair value comprise derivative instruments, financial instruments classified as financial assets or financial liabilities measured at fair value in profit and loss or as available-for-sale financial assets.

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

Judgements and estimates

The preparation of accounts in accordance with legally restricted 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 historical experiences and the best information available on the balance-sheet date. The actual outcome may deviate from these judgements and estimates.

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

Critical judgements made in the application of the company's accounting policies

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

- The selection of categories and valuation techniques for financial instruments (described in the section on financial instruments below)
- The company's remuneration to the regional insurance companies, which the company has opted to recognise as commission expense. The regional insurance companies are compensated for their work with Länsförsäkringar Hypotek's customer-related matters in each of the regional insurance companies' geographic areas, see note 8.

Significant sources of estimation uncertainty

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

Such information is adjusted to a number of factors to provide a neutral estimate of expected cash flows. Secondly, other models are used based on historical experience. Any reserve requirements on loans that are not deemed to require individual reserves are identified and valued 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 under accounting policies.

Changed accounting policies caused by new or amended IFRS and interpretations

The changes applied by the company since January 1, 2013 are described below. Other changes to IFRS applicable from 2013 had no significant effect on the company's accounts.

Disclosures – Financial instruments

According to the amended IFRS 7, disclosure is to be provided for financial assets and liabilities that have been offset in the balance sheet, see note 39.

Presentation of 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 reversed to net profit for the period. Other comprehensive income currently has only one category, which is

why the amendment did not have any significant impact on the presentation of other comprehensive income. Comparative figures are presented according to the new presentation format.

Fair value measurement

From January 1, 2013, the company applies IFRS 13 Fair Value Measurement. This framework contains a fair value hierarchy comprising three levels of inputs for valuation techniques. The company started applying this standard before it came into effect (see note 38 Fair value valuation techniques), which means that it will not have any discernible effect on the current reporting. IFRS 13 also entails that changes in credit risks will affect the measurement of derivatives. The company has CSA agreements with all derivative counterparties, meaning that the credit risk is small.

New IFRS and interpretations that have not yet taken effect

The new or amended standards and interpretations described below will not take effect until the next fiscal year, and have not been applied in advance when preparing these financial statements.

- The amendment of IAS 32 Financial Instruments: Presentation clarifies the principles for offsetting financial assets and liabilities. Assets and liabilities may only be offset in the balance sheet when a legally enforceable right to set off the amounts exists and the intention is to settle the item on a net basis, or to realise the asset and settle the liability simultaneously. The amendment is to be applied to fiscal years beginning on or after January 1, 2014 with retrospective application. (Amendment approved by the EU).
- The amendment of IAS 39 (Novation of Derivatives and Continuation of Hedge Accounting) entails that companies can continue hedge accounting despite the counterparty of the derivative contract having changed due to legislation. The reason for this amendment of OTC derivatives is that the rules have been changed in many countries making it necessary to “novate” certain OTC derivatives to a central counterparty. The amendment is to be applied to fiscal years beginning on or after January 1, 2014 with retrospective application. (The amendment was approved by the EU in the fourth quarter of 2013).
- IFRS 9 Financial instruments: The IASB has published the first parts of what will jointly comprise the final version of IFRS 9. The first part addresses the classification and measurement of financial assets. The categories of financial assets under IAS 39 will be replaced by two categories: measured at fair value or amortised cost. Amortised cost is to be utilised for instruments held as part of a business model, the goal of which is to collect the contractual cash flows. These cash flows are to comprise payments of principal and interest on the principal outstanding on specified dates. Other financial assets are to be measured at fair value and the fair value option under IAS 39 will be retained. Changes in fair value are to be recognised in profit, except for changes in the value of equity instruments that are not held for trading and for which a decision has been made to initially recognise the changes in value in other comprehensive income. In November 2012, the IASB published a proposal for changes to the adopted rules for the classification and measurement of financial assets. According to these proposed amendments, which have not yet been adopted, a company is to measure its financial instruments at fair value via other comprehensive income under certain conditions. The IASB has also published the parts of IFRS 9 that pertain to the classification and measurement of financial liabilities. In November 2013, the IASB published the section of IFRS 9 that addresses hedge accounting. The purpose of this section is to increase the usability of financial statements by relaxing the current hedge accounting requirements provided in IAS 39. The effectiveness requirement of 80-125% currently prescribed by IAS 39 has been removed, as has the requirement for retrospective effectiveness testing, although the prospective effectiveness testing remains in place. Effectiveness testing can be either quantitative or qualitative. IFRS 9 also provides the option of hedging an aggregated exposure (a combination of a derivative and another exposure that may be designated as a hedged item), which was

not possible under IAS 39. Certain ineffectiveness, called “cost of hedging,” can be recognised in other comprehensive income and includes: change in foreign-currency basis spread, the time value component of options and the forward element of forwards.

The IASB plans to complete the work on correcting the adopted rules for classification and measurement of financial assets, and the ongoing work on new rules for the recognition of expected loan losses during the first half of 2014. The effective date has not yet been decided, but the IASB has announced that it will not be until at least January 1, 2017. The EU has not yet approved IFRS 9 and, accordingly, advance application of this standard is not permitted.

On December 31, 2013, the company had treasury bills and other eligible bills, as well as bonds and other interest-bearing securities valued at a carrying amount of SEK 16,867.8 M, of which SEK 206.3 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 adopted by the EU. Under IFRS 9, financial liabilities measured at fair value are to be recognised via other comprehensive income. The company's financial liabilities are recognised at amortised cost, which is why changes in the regulations will not have any effect on the reporting.

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

Description of significant accounting policies

Shareholders' contributions

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

Group contributions

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

Related parties

Legal entities closely related to Länsförsäkringar Hypotek AB include companies within the Länsförsäkringar Bank Group, the Länsförsäkringar AB Group, companies within the Länsförsäkringar Liv Group, the regional insurance companies, associated companies of the Länsförsäkringar AB Group and other related companies, comprising Länsförsäkringar Mäklarservice AB, Länsförsäkringar Fastighetsförmedling AB, Länsförsäkringar PE Holding 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 16 local insurance companies, which together own 100% of Länsförsäkringar AB. The Group has been assigned by the regional insurance companies to conduct operations in areas in which economies of scale constitute a decisive competitive advantage and to provide such service to the regional insurance companies, which, for reasons of efficiency, is to be produced and provided jointly within the Länsförsäkringar AB Group.

Operating segments

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

Transactions in foreign currency

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

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

Income

Income is recognised when:

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

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

Interest income and interest expense

Interest income and interest expense presented in the income statement comprise interest on financial assets and liabilities that is valued at amortised cost, including interest on impaired loans, and interest from 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.

Commission income and commission expense

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

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

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

Net gains from financial items

The item Net gains from financial items contains the realised and unrealised changes in value that occurred as a result of financial transactions. The capital gain/loss on the divestment of financial assets and liabilities,

including interest compensation received when customers pay loans prematurely, is recognised in this item. 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 hedging of fair value.

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

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

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

Other operating income

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

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

Remuneration of employees

Current remuneration

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

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

Remuneration after termination of employment

Pension plans

The company primarily utilises defined-contribution pension plans. The company is generally covered by the FTP plan, which does not depend on any payments from employees.

The regulations of the Swedish Financial Supervisory Authority and the Swedish Financial Reporting Board entail that defined-benefit pension plans are recognised differently compared with the provisions stipulated in item 34 of IAS 19 Employee Benefits. In all other respects, pension commitments are recognised and measured in accordance with IAS 19 Employee Benefits.

Defined-contribution pension plans

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

The pension agreement for the insurance industry, the FTP plan, through insurance with the Insurance Industry's Pension Fund (FPK) is a multi-employer defined-benefit pension plan. According to IAS 19, this pension plan entails that a company, as a rule, recognises 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 item 34. Also, no information is available on surpluses and deficits in the plan or whether these surpluses and deficits would then affect the contributions for the plan in future years.

Remuneration for termination of employment

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

Impairment

The carrying amounts of the company's assets are assessed on every balance sheet-date to determine whether there are any indications of impairment. These include financial assets tested in accordance with IAS 39 Financial Instruments: Recognition and measurement, and deferred tax assets tested in accordance with IAS 12 Income Taxes. The carrying amounts of the exempted assets above are tested according to the respective standard. IAS 36 is applied to impairment assessments for assets that are not tested according to any other standard, although no such assets currently exist in the company.

Loan losses

The item loan losses comprises confirmed and probable loan losses. Confirmed loan losses pertain to the entire receivable when there is no realistic possibility of recovery. Probable loan losses pertain to impairment for the year for the loan losses based on a calculated recoverable amount when there is an indication that impairment is required. Recoveries comprise reversed amounts of loan losses that were previously recognised as confirmed. Probable loan losses are reversed when no impairment requirement is deemed to exist. Only the company's share of confirmed loan losses is recognised. The regional insurance companies' share of confirmed loan losses is settled through remuneration 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 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 established or decided in practice on the balance-sheet date. This also includes adjustments of current tax attributable to prior periods.

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

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

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

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

Financial assets and liabilities

Financial assets recognised in the balance sheet include loan receivables, interest-bearing securities, derivatives with positive market value and accounts receivable. Financial liabilities include debt securities in issue, derivatives with negative market value and accounts payable. The policies of the company concerning financial risk are described in note 3 Risks and capital adequacy.

Recognition and derecognition in the balance sheet

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

Financial assets and financial liabilities are offset and recognised as a net amount in the balance sheet only when a legal right exists to offset the amounts and the intention is present to settle the item in a net amount or simultaneously realise the asset and settle the liability. This possibility was not utilised in 2013.

Business transactions in the monetary, bond and equities markets are recognised in the balance sheet on the transaction date, which is the time when the significant risks and rights are transferred between the parties. Lending transactions are recognised on the settlement date. Loan receivables are recognised in the balance sheet when the loan amount is paid to the borrower. Loan commitments are recognised as a commitment in note 36.

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 when recognised in the balance sheet. A transaction cost is added to financial instruments that are not continuously measured at fair value.

The continuous measurement may be at fair value, cost or amortised cost depending on the category to which the instrument belongs, see the section Classification below. For instruments that are not continuously measured at fair value, there is the option of selecting fair value as the measurement policy, known as the fair value option. The company did not utilise this policy in 2013.

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 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 listed selling rate. Instruments listed on an active market are found under the balance-sheet items Treasury bills and other eligible bills and Bonds and other interest-bearing securities. The largest portion of the company's securities holding is assigned a fair value at prices listed on an active market.

Financial instruments not listed on an active market

If the market for a financial instrument is not active, the company determines the fair value by using a valuation technique. The valuation tech-

niques applied are based on market data as far as possible, whereas company-specific information is used a little as possible. The company regularly calibrates its valuation techniques and tests their validity by comparing the outcomes of the valuation techniques with prices from observable, relevant market transactions in the same or similar instruments. Valuation techniques are used for derivative instruments (OTC derivatives). The valuation techniques used for OTC derivatives comprise analyses of discounted cash flows.

The valuation techniques applied are calibrated such that on initial recognition the fair value amounts to the transaction price and changes in fair value are subsequently recognised continuously based on changes that occur in the underlying market-risk parameters.

Classification

A financial instrument is classified on initial recognition on the basis of the purpose of the acquisition of the instrument, but also 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 company has initially decided to place in this category according to the fair value option. Financial instruments in this category are continuously measured at fair value, with changes in value recognised in profit and loss. Transaction costs are expensed 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 determinable payments and that are not listed on an active market. These receivables are represented by the balance-sheet items Loans to credit institutions, Loans to the public and Other assets in the balance sheet. For further information, see the section Loans.

Held-to-maturity investments

Held-to-maturity investments are financial assets and comprise interest-bearing securities with fixed or determinable payments and determined terms that are traded on an active market and that the company expressly intends and has the capacity to hold to maturity. Assets in this category are measured at amortised cost.

Available-for-sale financial assets

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

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, similar to dividends on shares. Any transaction costs for these instruments will be included in the cost when first recognised and thereafter included in the continuous valuations.

Financial liabilities measured at fair value in profit and loss

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

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

Other financial liabilities

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

Hedge accounting

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

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

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

The change in the value of the derivative is recognised in profit and loss together with the change in the value of the hedged item in profit and loss under the item Net gains from financial items. Unrealised changes in the value of hedging instruments are recognised in the item Net gains from financial 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 funding and hedging of interest-rate risk in bonds that carry fixed interest rates. The portfolio method that is applied implies that the lending and interest swaps used in the hedging instrument are distributed to various time pockets based on the contractual timing of interest renegotiation or maturity. Evaluation of hedge relationships occurs at least quarterly on the 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 forward-looking (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 any impairment or provisions.

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 recoverable amount is valued at the present value of expected future cash flow discounted by the effective interest of the receivable according to the latest interest-adjustment date.

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

Collective impairments

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

Takeover of collateral

The company has not taken over any collateral. The collateral is directly sold in the event of insolvency.

Confirmed losses

Confirmed loan losses are those losses whose amount is regarded as finally established or where the assessment is that the possibility of receiving additional payments is very small, or after all of the collateral has been realised.

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

Property and equipment

Equipment

Property and equipment are recognised as assets in the balance sheet when, based on information available, it is likely that the future financial benefits associated with the holding will accrue to the company and that the cost of the asset can be calculated in a reliable manner. Equipment is recognised at cost less accumulated depreciation and any accumulated impairment. Depreciation according to plan takes place following the straight-line method over the asset's expected useful life, commencing when the asset is put into operation. Depreciation and any scrapping and divestments are recognised in profit and loss. Impairment requirements are tested in accordance with IAS 36 Impairment of Assets. Useful lives are retested at the end of every fiscal year.

Useful lives of equipment:

Vehicles	5 years
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Provisions

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

Loan commitments

A loan commitment can be:

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

Loan commitments are not recognised in the balance sheet. Issued irrevocable loan guarantees are valid for three months and 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.

3 RISKS AND CAPITAL ADEQUACY

Länsförsäkringar Hypotek is exposed to risks that are managed in accordance with the guidelines and risk limits produced to meet the risk appetite expressed by the Board. These risks are managed through the company's employees, as a natural part of ongoing work, and are monitored by the independent risk control function in Länsförsäkringar Bank. Accordingly, duality in risk management is achieved and risk awareness is prevalent in all day-to-day business decisions. The risks to which the company is exposed are defined in table overleaf. As a supplement to these definitions, a qualitative description has been prepared, in which the boundaries in relation to closely related risks, managing risk with risk-reduction measures and future risk exposure are also presented.

Credit risks	Credit risk consists of the counterparty's inability to fulfil its commitments and whereby the company is affected by a financial loss. Accordingly, credit risk is assigned to the loan portfolio, but credit risk in the liquidity portfolio and derivative exposure are also included in this category.
Market risks	Market risk refers to the risk of loss or lower future earnings due to changes in interest rates and exchange rates.
Liquidity risks	Liquidity risk is defined as the risk that the company, due to insufficient cash funds, will be unable to fulfil its commitments or only be able to fulfil its commitments by funding 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 and compliance risk.

Risk-management system

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

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

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

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

Combined, this organisation ensures that the Board has an objective and clear understanding of the overall risk profile of the operations.

The Board is responsible for ensuring that an efficient risk-management system is in place and that is customised to the company's risk tolerance and risk appetite. The Board approves all significant elements of the internal models used within the company and is also responsible for ensuring that regulatory compliance and risks are managed in a satisfactory manner through the company's Compliance, Risk Control and Internal Audit functions.

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 and processes that form the internal measurement and control of identified risks work in the manner intended and decided by the Board. The President's responsibility also includes establishing more detailed regulations for the risk-management system within the framework determined by the Board. The President is to continuously ensure that each unit, including Risk Control, reports to the Board.

The Risk Control unit is charged with the operational responsibility for the independent risk control and must thus objectively manage and report risks in the company. Risk Control's areas of responsibility are defined and documented in an instruction prepared by the President.

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

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

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

Länsförsäkringar Hypotek 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 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 company and the risk that the counterparty's pledged collateral will not cover the company's receivables. The company calculates credit risks for loans to the public in accordance with the Internal Ratings-based Approach (IRB).

The loan portfolio exclusively comprises credits within Sweden, with low average loan-to-value ratios and a well-diversified geographic distribution. Concentration risk is thus primarily attributable to the product concentration in retail mortgages. For more information regarding credit risks and credit quality, see the section Loan portfolio of very high credit quality on page 6.

Credit process

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

Credit scoring of retail loans is supported by a credit research system, which is largely automated in accordance with the Advanced IRB Approach and a joint credit scoring model for the mortgage operations. Loan origination is primarily managed by the regional insurance companies. The credit rules are established by the company's Board of Directors and apply to all regional insurance companies.

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

IRB system

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

- Credit process for risk assessment and credit-granting decisions
- Calculation of portfolio reserves
- Calculation of risk-adjusted returns
- Monitoring and reporting to management and the Board
- Calculation of capital requirement
- Capital allocation

Some of the core concepts in the IRB system are described below. For Länsförsäkringar Hypotek, only retail exposures are included in the IRB system. The probability of default (PD) is the probability that a counterparty has a payment that is more than 60 days past due or if the counterparty is deemed unable to meet its undertaking to the company.

A PD is initially calculated for each counterparty and is to reflect the average proportion of default over several cycles. The counterparties are ranked and grouped according to a PD scale comprising 11 risk classes (grades) for non-defaulted counterparties and one risk category for defaulted counterparties.

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 and accrued and past due unpaid interest and fees. For commitments off the balance sheet, EAD is calculated by multiplying the counterparty's total granted amount by a conversion factor (CF). These estimates are calculated on the basis of internal information regarding degree of realisation, degree of utilisation and products.

The companies' credit exposure according to the risk-classification scale is presented below. The results show a stable distribution of exposure, with 92% (92) of exposure found in the 1–5 PD grades and deemed to have a PD of less than 1%.

PD grade, SEK M	PD (%)	Dec 31, 2013	Dec 31, 2012
1	0.05	14,307	12,285
2	0.10	17,844	17,417
3	0.20	30,291	26,865
4	0.40	24,275	22,192
5	0.80	15,943	14,880
6	1.60	5,074	3,881
7	3.20	2,022	1,635
8	6.40	1,102	1,120
9	12.80	629	514
10	25.60	294	283
11	51.20	241	232
Default	100.00	159	156
Total IRB Approach		112,181	101,460
Not IRB classified		12	14
Loans to the public, gross		112,193	101,474

Credit quality

Lending increased to SEK 112 billion (101). The cover pool includes 93% of the loan portfolio. Essentially all lending qualifies to be included in the covered-bond operations, which are regulated by the Swedish Covered Bonds (Issuance) Act (2003:1223). The term covered bonds refers to bonds with preferential rights in the sections of the issuing institution's assets that are approved by legislation (cover pool). The remaining lending pertains partly to multi-family housing that qualifies for inclusion in the cover pool but that Länsförsäkringar Hypotek has chosen to exclude.

Maximum credit risk exposure not taking into consideration collateral or any other credit enhancement received, SEK M	Dec 31, 2013	Dec 31, 2012
<i>Credit risk exposure for items recognised in the balance sheet</i>		
Cash and balances with central banks	1,492	1,545
Loans to credit institutions	4,710	1,696
Loans to the public	112,143	101,434
Bonds and other interest-bearing securities	15,376	18,219
Derivatives	605	1,747
Other assets	0	27
Prepaid expenses and accrued income	1,855	1,870
<i>Credit risk exposure for memorandum items</i>		
Loan commitments and other credit commitments	4,332	4,963
Total	140,513	131,501

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

Cover pool

On December 31, 2013, the cover pool had a volume of SEK 121 billion (114). The geographic distribution in Sweden is well-diversified and collateral consists only of private homes: single-family homes, tenant-owned apartments and, to a small extent, vacation homes. The quality of the loan portfolio remains high. The weighted average loan-to-value ratio (LTV) was 62% (63) and the average commitment per property was SEK 901,000 (875,000). The market value of all single-family homes, tenant-owned apartments and vacation homes in the loan portfolio is updated annually.

Loan portfolio by collateral

Collateral	Dec 31, 2013		Dec 31, 2012	
	SEK M	%	SEK M	%
Single-family homes and vacation homes	83,635	74	76,697	76
Tenant-owned apartments	22,169	20	19,892	20
Multi-family housing	5,789	5	4,382	4
Industrial properties	589	1	491	0
Other	11	0	11	0
Total	112,193	100	101,474	100

Collateral in the form of mortgage deeds has been provided for all of the items above.

Cover pool	Dec 31, 2013	Dec 31, 2012
Cover pool, SEK billion	121	114
of which, Swedish mortgages, SEK billion	104	95
of which, substitute collateral, SEK billion	16	19
Collateral	Private homes	Private homes
Weighted average LTV ²⁾ , %	62	63
Seasoning, months	60	58
Number of loans	252,240	236,639
Number of properties	115,988	109,057
Average commitment, SEK 000s	901	875
Average loan, SEK 000s	414	404
Interest-rate type, variable, %	55	52
Interest-rate type, fixed, %	45	48
OC ³⁾ , nominal current level, %	22	25
Impaired loans	None	None

³⁾ OC is calculated using nominal values and excludes accrued interest rates. Debt securities in issue in other currencies than SEK are translated into SEK using the swap rate. Debt securities in issue include repurchase agreements.

Cover pool by collateral¹⁾

Region	Dec 31, 2013, %	Dec 31, 2012, %
Stockholm	15	15
Gothenburg	7	–
Malmö	3	–
Southern Sweden	10	14
Western Sweden	24	31
Eastern Sweden	24	23
Northern Sweden	17	17
Total	100	100

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

Cover pool by LTV

LTV-intervall, %	Dec 31, 2013		Dec 31, 2012	
	SEK M	%	SEK M	%
0–10	19,642	19	17,789	19
11–20	18,214	17	16,574	17
21–30	16,634	16	15,179	16
31–40	14,987	14	13,680	14
41–50	13,171	13	12,015	13
51–60	11,015	10	10,037	10
61–70	8,063	8	7,452	8
71–75	2,780	3	2,804	3
Total	104,506	100	95,530	100

Distribution of commitments in cover pool

Commitment interval SEK 000s	Dec 31, 2013		Dec 31, 2012	
	SEK M	%	SEK M	%
< 500	10,786	10	10,428	11
500–1,000	25,719	25	24,372	26
1,000–1,500	26,572	26	24,473	26
1,500–2,500	29,489	28	26,494	28
2,500–5,000	11,447	11	9,424	9
> 5,000	493	0	339	0
Total	104,506	100	95,530	100

Only 0.5% of the loans in the cover pool amount to more than SEK 5 M. A total of 61% (63) of the commitments in the cover pool have a commitment of not more than SEK 1.5 M.

Cover pool by collateral

Collateral	Dec 31, 2013		Dec 31, 2012	
	SEK M	%	SEK M	%
Single-family homes	80,458	77	74,183	78
Tenant-owned apartments	22,033	21	19,729	2
Vacation homes	2,015	2	1,618	20
Total	104,506	100	95,530	100

Stress test of the cover pool

During a stress test of the cover pool based on a 20% price drop in the market value in the loan portfolio, the weighted average LTV increased to 67% compared with a current weighted average LTV of 62% on December 31, 2013.

Impaired loans

Impaired loans, gross, amounted to SEK 6.1 M (3.1), corresponding to a percentage of impaired loans gross of 0.005% (0.003) of the loan portfolio. Loan losses, net, amounted to SEK 6.6 M (2.3), corresponding to unchanged loan losses of 0.006% (0.002). Impaired loans and loan losses continued to account for a minor percentage of total loans.

Impaired loans by collateral, SEK M	Dec 31, 2013	Dec 31, 2012
Single-family homes and vacation homes	5.9	3.1
Tenant-owned apartments	0.2	0.0
Total	6.1	3.1

Non-performing receivables not included in impaired loans, SEK M	Dec 31, 2013	Dec 31, 2012
10–19 days	0.5	0.3
20–39 days	43.4	66.2
40–60 days	0.0	12.2
Total	43.9	78.7

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 is a receivable that is more than nine days and up to 60 days past due.

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

Counterparty risk

Counterparty risk is defined as the risk that Länsförsäkringar Hypotek could suffer 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 net accounting of positive and negative derivatives, which reduces the risk to the net position per counterparty. For the covered bond operations, ISDA agreements are in place, as well as accompanying unilateral CSA agreements. CSA agreements involve commitments concerning delivery and receipt of collateral in the event of changes to the included derivatives' market values. Each counterparty is also assigned a maximum exposure amount.

Derivatives, fair value, SEK M	Positive values	
	Dec 31, 2013	Dec 31, 2012
AA-/Aa3	131.5	24.0
A+/A1	132.8	0.0
A+/A2	0.0	544.5
A/A2	275.7	188.5
Total	540.0	757.0

Positive and negative values netted per counterparty. Only positive values, netted, are included in the table.

Covered bonds, SEK M	Dec 31, 2013	Dec 31, 2012
AAA/Aaa	15,375.9	18,218.7
Total	15,375.9	18,218.7

Currency distribution

Billions	Dec 31, 2013				Dec 31, 2012			
	EUR	CHF	NOK	Total	EUR	CHF	NOK	Total
Assets, (translated to SEK, nominal amount)	–	–	–	–	–	–	–	–
Derivatives	–	–	–	–	–	–	–	–
Net positions in currency	–	–	–	–	–	–	–	–
Liabilities, (translated to SEK, nominal amount)	–22.1	–4.7	–2.1	–28.9	–17.2	–3.8	–1.2	–22.2
Derivatives	22.1	4.7	2.1	28.9	17.2	3.8	1.2	22.2
Net positions in currency	0	0	0	0	0	0	0	0

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

Dec 31, 2013, SEK M	Not more than 1 month	More than 1 month but not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 3 years	More than 3 years but not more than 5 years	More than 5 years	Without interest	Total
Assets									
Treasury bills and other eligible bills					1,058.8	433.1			1,491.9
Loans to credit institutions	4,710.0								4,710.0
Loans to the public	45,858.7	19,538.7	4,664.3	4,901.2	30,606.9	5,832.0	741.6		112,143.4
Bonds and other interest-bearing securities			9,566.8		3,143.0	2,666.1			15,375.9
Other assets								2,946.7	2,946.7
Total assets	50,568.7	19,538.7	14,231.1	4,901.2	34,808.7	8,931.2	741.6	2,946.7	136,667.9
Liabilities									
Due to credit institutions	25,896.9								25,896.9
Debt securities in issue	398.0	956.6	17,104.0	1,170.2	38,858.4	24,700.0	15,802.3	0.0	98,989.5
Other liabilities								6,049.2	6,049.2
Subordinated liabilities			161.0	340.0					501.0
Equity								5,231.3	5,231.3
Total liabilities and equity	26,294.9	956.6	17,265.0	1,510.2	38,858.4	24,700.0	15,802.3	11,280.5	136,667.9
Difference assets and liabilities	24,273.8	18,582.1	-3,033.9	3,391.0	-4,049.7	-15,768.8	-15,060.7	-8,333.8	
Interest-rate derivatives, nominal values, net	-195.7	-29,775.0	2,953.0	-5,040.0	-1,790.2	15,776.1	16,910.9		
Net exposure	24,078.1	-11,192.9	-80.9	-1,649.0	-5,839.9	7.3	1,850.2	-8,333.8	

Dec 31, 2012, SEK M	Not more than 1 month	More than 1 month but not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 3 years	More than 3 years but not more than 5 years	More than 5 years	Without interest	Total
Assets									
Treasury bills and other eligible bills					1,094.7	450.2			1,544.9
Loans to credit institutions	1,696.2								1,696.2
Loans to the public	40,577.1	16,767.7	4,561.6	9,460.3	25,188.9	4,286.6	620.3	-28.2	101,434.4
Bonds and other interest-bearing securities				2,915.9	12,607.9	2,694.9			18,218.7
Other assets								4,424.4	4,424.4
Total assets	42,273.3	16,767.7	4,561.6	12,376.2	38,891.6	7,431.8	620.3	4,396.2	127,318.6
Liabilities									
Due to credit institutions	22,984.2								22,984.2
Debt securities in issue		2,479.6	1,391.1	6,378.5	43,388.3	32,340.9	4,983.9		90,962.3
Other liabilities								7,980.1	7,980.1
Subordinated liabilities		501.0							501.0
Equity								4,891.0	4,891.0
Total liabilities and equity	22,984.2	2,980.6	1,391.1	6,378.5	43,388.3	32,340.9	4,983.9	12,871.1	127,318.6
Difference assets and liabilities	19,289.1	13,787.1	3,170.6	5,997.7	-4,496.7	-24,909.1	-4,363.5	-8,474.5	
Interest-rate derivatives, nominal values, net	574.8	-18,573.5	-5,645.0	-6,400.0	-19,340.0	25,620.0	3,425.0		
Net exposure	19,864.0	-4,786.4	-2,474.4	-402.3	-23,836.7	710.9	-938.5	-8,474.5	

Market risk

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

- Interest-rate risk
- Currency risk

Interest-rate risk

Interest-rate risk arises if assets, liabilities and derivatives do not have matching fixed-interest periods. Whenever possible, fixed lending should be matched by means of corresponding funding or covering the gap using

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

On December 31, 2013, 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 40 M (64). The sensitivity analysis includes both market-valued and non-market-valued interest-bearing items and thus does not describe the expected effects on the balance sheet or income statement.

Currency risk

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

The company is exposed to this risk in funding in EUR, CHF and NOK. In line with the Financial Policy, all funding is swapped to SEK which means that the effect on the income statement is 0 (0) and there are no effects on equity. In cases where exposure is managed with hedging according to IFRS, hedging of fair value is used. For further information, see note 33 Assets and liabilities in foreign currency.

Liquidity risks

Liquidity risk and financing strategy

The company is governed based on the liquidity and financing in the business plan to achieve the Board's low risk tolerance. The strategy is determined annually and is reviewed at least every six months and continuously by the ALCO, and is updated whenever necessary. Material deviations are immediately reported to the Board. The management of liquidity and financing is assured by effective long-term planning, explicit functional definitions and a high level of control. A satisfactory liquidity reserve ensures that sufficient liquidity is always available. The management and investment of reserves complies with the established limits set out in the Financial Policy, which comprises the framework of the financial operations.

Liquidity risk is defined as the risk of the company, due to insufficient cash and cash equivalents, being unable to fulfil its commitments or only being able to fulfil its commitments by funding cash and cash equivalents at a significantly higher cost. Liquidity risk also refers to the risk of financial instruments that cannot immediately be converted to cash and cash equivalents without decreasing in value. Liquidity risks pertaining to the risk of financial investments decreasing in value are minimised by essentially investing exclusively in high-liquidity instruments in the form of government securities, covered bonds and mortgage certificates that are pledgeable at the Riksbank and, if necessary, with the ECB and the Federal Reserve.

Liquidity risks are to be minimised and prevented as far as possible. Future liquidity requirements and access to funds are secured by preparing accurate forecasts for the next 12-month period. The liquidity strategy is specified in a financing plan containing key figures and targets for fulfilment of the objectives. Liquidity risk limits have been established that reflect the company's risk appetite. The central measure in the management of liquidity risk comprises the liquidity limit which measures the level of the survival horizon that the Group is to achieve under both stressed and normal circumstances by setting a limit on the negative cash flow that may arise during a certain period of time. To comprehensively analyse liquidity risk, the liquidity limit is supplemented with a number of structural and quantitative risk measures adapted to the risk profile that includes a minimum requirement for unutilised scope (over collateralisation) in the cover pool for the issuance of covered bonds for the purpose of managing price drops in the property market. 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. Liquidity risk is measured, controlled and reported on a daily basis. Internal pricing reflects the actual cost of maintaining the required liquidity levels to achieve transparency and correct business governance.

The general objective of the funding operations is to ensure that there is, at any given time, a sufficiently strong liquidity position with which to manage turbulent periods in the capital markets, when access to funding is limited or sometimes non-existent. Most of the funding takes place with covered bonds since the majority of assets comprise Swedish mortgages. The company has highly diversified funding and a liquidity reserve comprising securities with high liquidity and high credit rating, which means that the reserve can be rapidly converted into cash and cash equivalents.

In addition to these, there are unutilised funding programmes that, in combination, provide opportunities for managing the risk inherent in the difference between the contractual cash flows of assets and liabilities. For more information about the funding programmes, see page 9.

Liquidity management

The objective of liquidity management is that the company is, at any given time, to have sufficient cash and cash equivalents with which to fulfil its commitments under both normal and stressed market conditions. Liquidity risk is managed by Länsförsäkringar Bank's Treasury unit and is quantified using liquidity forecasts that contain all financial cash flows and expected cash flows, as well as the net lending increases adopted. The Treasury unit is also responsible for the liquidity reserve. The size and structure of the liquidity reserve are included in daily report reviews, which allows liquidity to be monitored on a daily basis.

Liquidity reserve

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

On December 31, 2013, the liquidity reserve amounted to SEK 17.3 billion (20.3) according to the Swedish Bankers' Association's definition, of which 91% (92) is in Swedish covered bonds with an AAA/Aaa credit rating and 9% (8) in Swedish government bonds.

Contingency plans

Plans for managing disruptions that affect the 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 refinancing objectives

The general objectives of the funding operations are to ensure that the operations have a sufficiently strong liquidity position with which to manage turbulent periods in the capital markets, when access to funding is limited or non-existent. The liquidity risk is controlled and limited on the basis of a survival horizon, meaning how long all known cash flows can be met without access to capital-market financing. In addition, funding is to contribute to overall profitability by ensuring a competitive funding cost in relation to relevant competitors.

Strategy for ensuring short and long-term refinancing

In its funding operations, Länsförsäkringar Hypotek is to act predictably and actively in the market and aim at achieving as high liquidity as possible in outstanding debt to build up long-term confidence among investors. Regular meetings are held with both Swedish and international investors to ensure that these investors have a clear overview of the operations and that the operations have satisfactory risk management, which means that limits are in place and a long-term interest in and a willingness to invest in Länsförsäkringar Hypotek's securities over time is established. Funding takes place in a manner that creates a healthy maturity structure and avoids maturity concentrations.

The refinancing activities are also based on diversification in terms of a variety of investors and markets. Refinancing primarily takes place in the markets for SEK, EUR, CHF and NOK. The mortgage institution endeavours to regularly launch issuances in these markets to maintain investors' credit lines.

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

Dec 31, 2013, SEK M	On demand	< 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Without maturity	Total nominal cash flows	Carrying amount	Of which, expected recovery period of > 12 months
Assets									
Treasury bills and other eligible bills				1,400.0			1,400.0	1,491.9	1,400.0
Loans to credit institutions	4,709.0						4,709.0	4,710.0	
Loans to the public				3.0	112,140.0		112,143.0	112,143.4	112,143.0
Bonds and other interest-bearing securities			9,400.0	5,450.0			14,850.0	15,375.9	5,450.0
Other assets						3,487.6	3,487.6	3,487.6	
Total	4,709.0		9,400.0	6,853.0	112,140.0	3,487.6	135,189.6	137,208.8	117,593.0
Liabilities									
Due to credit institutions		26,389.8					26,389.8	26,437.8	
Debt securities in issue		1,140.0	17,149.9	61,761.6	17,530.9		98,047.4	98,989.5	79,274.4
Other liabilities						6,049.2	6,049.2	6,049.2	
Subordinated liabilities					501.0		501.0	501.0	501.0
Total liabilities		27,529.8	17,149.9	61,761.6	18,031.9	6,049.2	130,987.4	131,977.5	79,775.4
Difference assets and liabilities	4,709.0	-27,529.8	-8,214.9	-54,908.6	94,108.1	-2,561.6	4,202.2	5,231.3	
Loans approved but not disbursed		4,308.2					4,308.2		
Total difference, excluding derivatives	4,709.0	-31,838.0	-8,214.9	-54,908.6	94,108.1	-2,561.6	-106.0		
Dec 31, 2012, SEK M									
Assets									
Treasury bills and other eligible bills				1,400.0			1,400.0	1,544.9	1,400.0
Loans to credit institutions	1,696.2						1,696.2	1,696.2	
Loans to the public			0.2	38.5	101,395.7		101,434.4	101,434.4	93,522.5
Bonds and other interest-bearing securities			2,850.0	14,350.0			17,200.0	18,218.7	14,350.0
Other assets						4,424.4	4,424.4	4,424.4	
Total	1,696.2		2,850.2	15,788.5	101,395.7	4,424.4	126,155.0	127,318.6	109,272.5
Liabilities									
Due to credit institutions		11.3	22,913.7				22,925.0	22,984.2	
Debt securities in issue		2,325.0	7,238.3	74,662.0	5,399.1		89,624.4	90,962.4	69,437.0
Other liabilities						7,980.0	7,980.0	7,980.0	
Subordinated liabilities					501.0		501.0	501.0	501.0
Total liabilities		2,336.3	30,152.0	74,662.0	5,900.1	7,980.0	121,030.4	122,427.6	501.0
Difference assets and liabilities	1,696.2	-2,336.3	-27,301.8	-58,873.5	95,495.6	-3,555.6	5,124.6	4,891.0	
Loans approved but not disbursed		4,952.2					4,952.2		
Total difference, excluding derivatives	1,696.2	-7,288.5	-27,301.8	-58,873.5	95,495.6	-3,555.6	5,124.6		

Liquidity exposure, derivatives

Dec 31, 2013, SEK M	< 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Total nominal cash flows
Derivatives at fair value in profit and loss					
– Currency					
– Interest					
Derivatives in hedge accounting					
– Currency	167.1	-62.6	-74.6	561.5	591.4
– Interest	200.1	-160.6	1,938.8	280.8	2,259.1
Total difference, excluding derivatives	367.2	-223.2	1,864.2	842.3	2,850.5
Dec 31, 2012, SEK M					
Derivatives at fair value in profit and loss					
– Currency					
– Interest					
Derivatives in hedge accounting					
– Currency	103.8	341.4	-962.6	20.3	-497.1
– Interest	93.1	-318.2	1,543.6	81.4	1,399.9
Total difference, excluding derivatives	196.9	23.1	581.0	101.8	902.8

Business risk

Business risk primarily comprises earnings risk. Earnings risk is defined as volatility in earnings that creates a risk of lower income due to an unexpected decrease in income as a result of such factors as competition or volume reductions. Earnings risk is associated with all products and portfolios. The company's business has a low level of volatility and thus a low earnings risk.

Operational risk

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 risk and compliance risk. Based on this definition, operational risk encompasses the entire operations.

Operational risk is primarily categorised into the following areas:

- Internal fraud
- External crime
- 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 operations perform an analysis of the operational risk associated with the processes. These risk analyses are part of the operations' overall risk assessment. Since the operations, external environment and threat scenario are constantly changing, the processes must be subject to regular quality assurance. This is carried out to ensure that the risks remain within the company's tolerance level. Risk analysis is one of the tools used to prepare the basis for decision-making in order to introduce measures for managing significant risks.

The purpose of risk analysis is to:

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

Serious incidents may lead to a crisis. A crisis may arise, for example, due to fire, IT failure or a similar serious event. The company works constructively to prevent this type of incident from arising. Business continuity plans have been produced in the operations to support employees and managers in a crisis and if a serious event were to occur. Crisis training is conducted periodically to ensure that the plans are suitable.

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 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.

Compliance risk

Compliance risk pertains to the risk that Länsförsäkringar Hypotek does not comply with legislation, regulations, ethical guidelines, good market practice or other relevant regulations for the licensable operations and is thus exposed to the risk of incurring sanctions or other remarks from the Swedish Financial Supervisory Authority, negative publicity in the media and a decline in confidence among customers or other stakeholders. The internal regulations contain rules on managing compliance risks, with the central part comprising the Compliance instruction decided on by the Board. The purpose of the internal rules is to ensure that the company, at any given time, meets the quality and conduct requirements demanded by customers and supervisory authorities.

Internal Capital Adequacy Assessment Process (ICAAP)

Länsförsäkringar Hypotek is part of the Bank Group's Internal Capital Adequacy Assessment Process (ICAAP). ICAAP was designed based on the requirements of the Basel II rules, the requirements established by the Board of Directors for the operations and the internal demands of an increasingly complex business operation. The regulations aimed at the internal capital adequacy assessment processes of financial companies are based on principles and are comprehensive in nature. To a large extent, this means that the Bank Group has the option and an obligation to independently design its process and, in the long run, its scope and level of sophistication. The 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 Bank Group and forms the basis for business planning and Board decisions concerning capital targets and capital forecasts.

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

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

At least once annually, the basic prerequisites for stress tests are discussed by the Board. This discussion provides guidance for the continuing work involving stress tests. Work on stress tests is based on a number of scenarios and the impact of these scenarios on risk in the Bank Group. For more detailed information see the Pillar III report Risk and capital management in the Länsförsäkringar Bank Group on the company's website www.lansforsakringar.se/financialbank.

3 RISKS, cont.

Capital-adequacy analysis

SEK M	Dec 31, 2013	Dec 31, 2012
Capital base		
Tier 1 capital and Core Tier 1 capital before deductions	5,219.5	4,809.3
Less deferred tax assets	0.0	-3.3
Less IRB deficit	-75.9	-67.2
Tier 1 capital and Core Tier 1 capital	5,143.6	4,738.8
Tier 2 capital	501.0	471.0
Deductions for Tier 2 capital	-75.9	-67.2
Total capital base	5,568.7	5,142.6
Risk-weighted assets according to Basel II	21,980.3	21,248.9
Risk-weighted assets according to transition rules	55,010.7	50,668.7
Capital requirement		
Capital requirement for credit risk according to Standardised Approach	182.2	291.6
Capital requirement for credit risk according to IRB Approach	1,544.7	1,381.0
Capital requirement for operational risk	35.7	27.3
Capital requirement according to Basel II	1,762.6	1,699.9
Adjustment according to transition rules	2,641.6	2,353.6
Total capital requirement	4,404.2	4,053.5
Capital adequacy		
Tier 1 ratio and Core Tier 1 ratio according to Basel II, %	23.4	22.3
Capital adequacy ratio according to Basel II, %	25.3	24.2
Capital ratio according to Basel II	3.16	3.03
Tier 1 ratio and Core Tier 1 ratio according to transition rules, %	9.3	9.4
Capital adequacy ratio according to transition rules, %	10.1	10.1
Capital ratio according to transition rules	1.26	1.27
Special disclosures		
IRB Provisions surplus (+)/deficit (-)	-151.8	-134.4
IRB Total provisions (+)	49.2	39.7
IRB Anticipated loss (-)	-20.1	-174.1
Capital requirement		
Credit risk according to Standardised Approach		
Exposures to institutions	53.4	80.6
Exposures to corporates	0.0	2.8
Retail exposures	0.0	57.3
Exposures secured on residential property	-	0.0
Past due items	-	0.0
Covered bonds	126.4	149.7
Other items	2.4	1.1
Total capital requirement for credit risk according to Standardised Approach	182.2	291.5
Credit risk according to IRB Approach		
Retail exposures		
Exposures secured by real estate collateral	1,271.8	1,122.9
Other retail exposures	3.4	1.2
Total retail exposures	1,275.2	1,124.1
Exposures to corporates	269.4	256.9
Total capital requirement for credit risk according to IRB Approach	1,544.6	1,381.0
Operational risk		
Standardised Approach	35.7	27.3
Total capital requirement for operational risk	35.7	27.3

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 Fond-förvaltning AB (publ) (556364-2783).

4 SEGMENT REPORTING

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

5 INTEREST INCOME

SEK M	2013	2012
Loans to credit institutions	41.5	34.8
Loans to the public	3,479.3	3,687.0
Interest-bearing securities	474.7	576.5
<i>Derivatives</i>		
Hedge accounting	2,341.9	2,907.6
Non-hedge accounting	-	-
Total interest income	6,337.4	7,205.9
of which, interest income on impaired loans	0.0	0.0
of which, interest income from financial items not measured at fair value	3,520.8	3,721.8
Average interest rate on loans to the public during the year, %	3.3	3.9

6 INTEREST EXPENSE

SEK M	2013	2012
Due to credit institutions	-519.6	-540.1
Interest-bearing securities	-2,723.1	-2,833.4
Subordinated liabilities	-19.9	-22.9
<i>Derivatives</i>		
Hedge accounting	-2,185.8	-2,977.4
Non-hedge accounting	-	-
Other interest expense	-36.7	-36.5
Total interest expense	-5,485.1	-6,410.3
of which, interest expense from financial items not measured at fair value	-3,299.3	-3,432.9

7 COMMISSION INCOME

SEK M	2013	2012
Loans	2.1	2.4
Total commission income	2.1	2.4

8 COMMISSION EXPENSE

SEK M	2013	2012
Remuneration to regional insurance companies	-346.9	-386.3
Other commission	-1.3	-1.3
Total commission expense	-348.2	-387.6

9 NET GAINS FROM FINANCIAL ITEMS

SEK M	2013	2012
Change in fair value		
Interest-related instruments	-464.5	281.8
Currency-related instruments	1,085.2	-783.9
Change in fair value of hedged items	-728.0	478.2
Capital gains/losses		
Interest-related instruments	-44.2	-23.4
Interest compensation	46.1	49.7
Total net gains from financial items	-105.4	2.4
Profit/loss by measurement category		
Available-for-sale financial assets, realised	40.7	377.0
Derivative assets intended for risk management, non-hedge accounting	-	-
Derivative liabilities intended for risk management, non-hedge accounting	-	-
Derivatives in hedge accounting, realised	49.4	-90.9
Loans and receivables	46.0	49.7
Financial liabilities at amortised cost	-134.3	-309.5
Change in fair value of derivatives that are hedging instruments in a fair value hedge	615.6	-502.1
Change in fair value of hedged items with regard to the hedged risk in fair value hedges	-722.8	478.2
Total	-105.4	2.4

10 OTHER OPERATING INCOME

SEK M	2013	2012
Other income	0.4	0.1
Total other operating income	0.4	0.1

11 EMPLOYEES, STAFF COSTS AND REMUNERATION OF SENIOR EXECUTIVES, cont.

Remuneration of and other benefits for senior executives

SEK M	Basic salary	Variable remuneration	Other benefits	Pension costs	Total	Pension costs as a percentage of pensionable salary, % Defined-contribution
2013						
Anders Borgcrantz, President	2.6			1.0	3.6	35
Martin Rydin, Executive Vice President	1.7		0.0	0.6	2.3	33
Christer Malm, Board member	0.1				0.1	
Christian Bille, Board member	0.1				0.1	
Total	4.5		0.0	1.6	6.1	
2012						
Anders Borgcrantz, President	2.5			1.0	3.5	35
Martin Rydin, Executive Vice President	1.6			0.4	2.0	25
Christer Malm, Board member	0.1				0.1	
Christian Bille, Board member	0.1				0.1	
Total	4.3			1.4	5.7	

Pension costs pertain to the impact on net profit for the year.

Pensions

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

11 EMPLOYEES, STAFF COSTS AND REMUNERATION OF SENIOR EXECUTIVES

Average number of employees, Sweden	2013	2012
Men	5	4
Women	2	2
Total number of employees	7	6

Salaries and other remuneration, as well as social security expenses, other employees	2013	2012
Salaries and remuneration	4.1	2.6
of which, variable remuneration	-	-
Social security expenses	2.8	2.5
of which, pension costs	1.3	1.0
Total	6.9	5.1

Board of Directors and other senior executives, 4 (4)	2013	2012
Salaries and remuneration	4.6	4.3
of which, fixed salary to the President and Executive Vice President	4.3	4.0
of which, variable remuneration to the President and Executive Vice President	-	-
Social security expenses	3.3	3.0
of which, pension costs	1.5	1.4
Total	7.9	7.3

Total salaries, other remuneration and social security expenses	2013	2012
Salaries and remuneration	8.7	6.9
of which, variable remuneration	-	-
Social security expenses	6.1	5.5
of which, pension costs	2.8	2.4
Total	14.8	12.4

Remuneration of 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 of 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 corporate management.

(SACO). Furthermore, an additional pension premium corresponding to one price base amount per year is paid every year.

Severance pay

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

11 EMPLOYEES, STAFF COSTS AND REMUNERATION OF SENIOR EXECUTIVES, cont.

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

A Remuneration Policy for the Länsförsäkringar AB Group regulates the preparation and decision-making process for remuneration of 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 of and other terms of employment for senior executives and employees with overall responsibility for any 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 Chairman and one Board member.

Policies for remuneration of 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 health care insurance and other benefits offered to all employees.

	Dec 31, 2013	Dec 31, 2012
Number of women among senior executives, %		
Board members	20	20
Other senior executives	0	0

Loans to senior executives

SEK M	Länsförsäkringar Hypotek		Länsförsäkringar AB Group	
	2013	2012	2013	2012
Board members	1.5	1.6	56.6	50.1
of which, loans from Länsförsäkringar Bank	1.0	1.0	15.2	11.6
of which, loans from Länsförsäkringar Hypotek	0.5	0.6	41.4	38.5
of which, loans from Wasa Kredit	–	–	–	–
President and Executive Vice Presidents	–	–	16.9	17.8
of which, loans from Länsförsäkringar Bank	–	–	3.5	3.8
of which, loans from Länsförsäkringar Hypotek	–	–	13.4	13.7
of which, loans from Wasa Kredit	–	–	–	0.3
Senior executives	–	–	34.2	36.4
of which, loans from Länsförsäkringar Bank	–	–	7.3	6.6
of which, loans from Länsförsäkringar Hypotek	–	–	26.9	29.8
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 employees is the repo rate less 0.5 percentage points, but can never be lower than 0.5 percentage points. The interest benefit is calculated in accordance with the Swedish National Tax Board's rules and is included in other benefits as above. The terms and conditions of other loans are market-based.

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

Remuneration Policy

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

12 OTHER ADMINISTRATION EXPENSES

SEK M	2013	2012
Costs for premises	0.0	0.0
IT costs	–0.8	–0.9
Management costs	–2.7	–2.1
Other administration expenses	–71.1	–75.2
Total administration expenses	–74.6	–78.2

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

13 REMUNERATION OF AUDITORS

SEK M	2013	2012
Audit fees		
KPMG		
– Audit assignment	–0.6	–0.4
– Audit activities other than audit assignment	–	–
– Other assignments	–	–0.3
Deloitte		
– Audit assignment	–	–
– Audit activities other than audit assignment	–	–
– Other assignments	–0.6	–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.

14 DEPRECIATION AND IMPAIRMENT OF PROPERTY AND EQUIPMENT

SEK M	2013	2012
Depreciation of property and equipment	–0.1	–0.1
Total depreciation	–0.1	–0.1

15 LOAN LOSSES AND IMPAIRED LOANS

SEK M	2013	2012
Specific reserve for individually assessed loan receivables		
Write-off of confirmed loan losses during the year	–8.2	–8.0
Reversed earlier provisions of loan losses recognised as confirmed losses	5.0	1.8
Provisions for loan losses during the year	–35.9	–4.6
Payment received for prior confirmed loan losses	11.1	11.6
Reversed provisions of loan losses no longer required	15.8	1.2
Covering of losses from related companies		
Net expense for the year for individually assessed loan receivables	–12.2	2.0
Collective reserves for individually assessed receivables		
Provision/reversal of impairment of loan losses	–	–
Collectively assessed homogenous groups of loan receivables of limited value and similar credit risk		
Provision/reversal of impairment of loan losses	5.6	–4.3
Net expense for the year for collectively assessed homogenous loan receivables	5.6	–4.3
Net expense for the year for fulfilment of guarantees		
Net income/expense of loan losses for the year	–6.6	–2.3

All information pertains to receivables from the public.

15 LOAN LOSSES AND IMPAIRED LOANS, cont.

Impaired loans, SEK M	Dec 31, 2013				Dec 31, 2012			
	Gross	Individual reserve	Collective reserve	Net	Gross	Individual reserve	Collective reserve	Net
Corporate sector	–	–	–	–	–	–	–3.2	–3.2
Retail sector	6.1	–17.0	–32.2	–43.1	3.1	–1.9	–34.6	–33.4
Total	6.1	–17.0	–32.2	–43.1	3.1	–1.9	37.8	–36.6

Sector reporting according to IRB definition.

Reconciliation of impairment of loan losses SEK M	Dec 31, 2013			Dec 31, 2012		
	Individual reserve	Collective reserve	Total	Individual reserve	Collective reserve	Total
Opening balance	–1.9	–37.8	–39.7	–0.3	–33.5	–33.8
Reversed earlier provisions for loan losses recognised in the annual accounts as confirmed losses	5.0	–	5.0	1.8	–	1.8
Reversed provisions of loan losses no longer required	15.8	5.6	21.4	1.2	–4.3	–3.1
Provisions for loan losses during the year	–35.9	–	–35.9	–4.6	–	–4.6
Closing balance	–17.0	–32.2	–49.2	1.9	–37.8	–39.7

16 TAX

SEK M	2013	2012
Current tax		
Current tax expense	–77.3	–64.9
Total current tax	–77.3	–64.9
Deferred tax		
Change in deferred tax expense on temporary differences	–3.3	3.0
Total deferred tax	–3.3	3.0
Total recognised tax expense	–80.6	–62.1
Reconciliation of effective tax rate		
Profit before tax	240.1	319.3
Tax at applicable tax rate	–52.8	–84.0
Tax on non-deductible income	3.3	–
Tax on non-deductible costs	–3.5	–0.2
Tax attributable to changed tax rates	–4.8	–0.7
Other	–	22.8
Tax attributable to prior years	–22.8	–
Total tax on net profit for the year	–80.6	–62.1
Applicable tax rate	22%	26.3%
Effective tax rate	33.6%	19.4%
Tax items recognised directly against equity		
Current tax in Group contribution paid	–	–64.9
Tax items recognised in other comprehensive income		
Tax on available-for-sale financial assets	11.5	22.8

SEK M	2013			2012		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Tax attributable to other comprehensive income						
Available-for-sale financial assets	24.6	5.4	–19.2	–86.4	22.5	–63.9

17 TREASURY BILLS AND OTHER ELIGIBLE BILLS

SEK M	Dec 31, 2013	Dec 31, 2012
Carrying amount		
Swedish government	1,491.9	1,544.9
Total treasury bills and other eligible bills	1,491.9	1,544.9
Fair value	1,491.9	1,544.9
Amortised cost	1,468.2	1,497.0
Nominal value	1,400.0	1,400.0
Remaining term of more than 1 year	1,491.9	1,544.9

18 LOANS TO CREDIT INSTITUTIONS

SEK M	Dec 31, 2013	Dec 31, 2012
Loans to credit institutions	4,710.0	1,696.2
Total loans to credit institutions	4,710.0	1,696.2
Payable on demand	4,710.0	1,696.2

Loans to credit institutions includes investments of SEK 4,480.8 M (1,683.8) in the Parent Company.

19 LOANS TO THE PUBLIC

Loan receivables are geographically attributable in their entirety to Sweden.

SEK M	Dec 31, 2013	Dec 31, 2012
Loans to the public before reserves		
Public sector	–	–
Corporate sector	5,210.3	3,881.7
Retail sector	106,982.3	97,592.4
Other	–	–
Total	112,192.6	101,474.1
Reserves	–49.2	–39.7
Loans to the public	112,143.4	101,434.4
Remaining term of not more than 3 months	65,397.4	57,316.7
Remaining term of more than 3 months but not more than 1 year	9,565.5	14,021.9
Remaining term of more than 1 year but not more than 5 years	36,438.9	29,475.5
Remaining term of more than 5 years	741.6	620.3
Total	112,143.4	101,434.4

Remaining term is defined as the remaining fixed-income period if the loan has periodically restricted conditions. For more information about reserves, see note 15.

20 BONDS AND OTHER INTEREST-BEARING SECURITIES

Issued by organisations other than public bodies

SEK M	Dec 31, 2013	Dec 31, 2012
Carrying amount		
Swedish mortgage institutions	15,375.9	18,218.7
Total bonds and other interest-bearing securities	15,375.9	18,218.7
Fair value	15,375.9	18,218.7
Amortised cost	15,193.3	17,824.7
Nominal value	14,850.0	17,200.0
Market status		
Securities listed	15,375.9	18,218.7
Securities unlisted	–	–
Remaining term of not more than 1 year	9,566.9	2,915.9
Remaining term of more than 1 year	5,809.0	15,302.8

21 DERIVATIVES

SEK M	Dec 31, 2013		Dec 31, 2012	
	Nominal value	Fair value	Nominal value	Fair value
Derivatives with positive values				
<i>Derivatives in hedge accounting</i>				
Interest	62,013.0	850.9	64,458.0	1,522.2
Currency	2,999.3	295.3	8,651.5	417.1
Collateral received, CSA	–	–	–	–192.9
<i>Other derivatives</i>				
Interest	–	–	–	–
Currency	–	–	–	–
Total derivatives with positive values	65,012.3	1,146.2	73,109.5	1,746.4
Remaining term of not more than 1 year	15,229.0	85.5	5,518.0	153.9
Remaining term of more than 1 year	49,783.3	1,060.6	67,591.5	1,785.4
Derivatives with negative values				
<i>Derivatives in hedge accounting</i>				
Interest	79,803.0	818.0	67,333.0	1,205.1
Currency	32,517.5	1,720.0	26,065.6	1,619.2
<i>Other derivatives</i>				
Currency	–	–	–	–
Total derivatives with negative values	112,320.5	2,538.0	93,398.6	2,824.3
Remaining term of not more than 1 year	35,096.6	468.6	21,025.0	139.4
Remaining term of more than 1 year	77,223.9	2,069.4	72,373.6	2,684.9

24 DEFERRED TAX ASSETS AND TAX LIABILITIES

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

SEK M	Deferred tax assets		Deferred tax liabilities		Net	
	Dec 31, 2013	Dec 31, 2012	Dec 31, 2013	Dec 31, 2012	Dec 31, 2013	Dec 31, 2012
Liabilities	–	–3.3	–	–	–	–3.3
Deferred tax asset (–)/deferred tax liability (+)	–	–3.3	–	–	–	–3.3
Net deferred tax asset (–)/deferred tax liability (+)	–	–3.3	–	–	–	–3.3

Change in deferred tax in temporary differences

SEK M	Amount at Jan 1	Recognised in profit and loss	Recognised in other comprehensive income	Amount at Dec 31
Dec 31, 2013				
Liabilities	–3.3	3.3	–	–
Deferred tax assets (–)/deferred tax liabilities (+)	–3.3	3.3	–	–
Dec 31, 2012				
Liabilities	–0.3	–3.0	–	–3.3
Deferred tax assets (–)/deferred tax liabilities (+)	–0.3	–3.0	–	–3.3

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

SEK M	Dec 31, 2013	Dec 31, 2012
Assets		
Carrying amount at beginning of year	781.1	640.5
Changes during the year pertaining to lending	–295.1	140.6
Carrying amount at year-end	486.0	781.1
Liabilities		
Carrying amount at beginning of year	2,067.7	1,755.8
Changes during the year pertaining to funding	–1,468.0	311.9
Carrying amount at year-end	599.7	2,067.7

23 PROPERTY AND EQUIPMENT

SEK M	Dec 31, 2013	Dec 31, 2012
Equipment		
Opening cost	0.7	0.3
Purchases	–	0.4
Closing cost	0.7	0.7
Opening depreciation	–0.1	0.0
Depreciation for the year	–0.1	–0.1
Closing accumulated depreciation	–0.2	–0.1
Total property and equipment	0.5	0.6

25 OTHER ASSETS

SEK M	Dec 31, 2013	Dec 31, 2012
Accounts receivable	–	–
Other assets	0.0	23.4
Total other assets	0.0	23.4

26 PREPAID EXPENSES AND ACCRUED INCOME

SEK M	Dec 31, 2013	Dec 31, 2012
Accrued interest income	1,834.6	1,867.3
Prepaid expenses	20.3	2.3
Total prepaid expenses and accrued income	1,854.9	1,869.6

27 DUE TO CREDIT INSTITUTIONS

SEK M	Dec 31, 2013	Dec 31, 2012
Swedish credit institutions	26,437.8	22,984.2
Total liabilities due to credit institutions	26,437.8	22,984.2
Payable on demand	–	–
Remaining term of not more than 3 months	285.0	16.3
Remaining term of more than 3 months but not more than 1 year	26,152.8	22,967.9
Remaining term of more than 1 year but not more than 5 years	–	–
Remaining term of more than 5 years	–	–
Credit granted in Länsförsäkringar Bank amounts to	SEK 20.5 billion	SEK 20.5 billion

Loans to credit institutions includes funding of SEK 26,152.8 M (22,972.9) from the Parent Company. Genuine repurchase transactions amounted to SEK 24.2 M (11.3), of which SEK 0 M (0) with Group companies.

28 DEBT SECURITIES IN ISSUE

SEK M	Dec 31, 2013	Dec 31, 2012
Bond loans	98,989.5	90,962.4
Total debt securities in issue	98,989.5	90,962.4
Remaining term of not more than 1 year	18,754.9	9,303.5
Remaining term of more than 1 year	80,234.6	81,658.9

All securities are covered bonds.

29 OTHER LIABILITIES

SEK M	Dec 31, 2013	Dec 31, 2012
Accounts payable	9.4	0.4
Unpaid Group contributions	–	247.0
Other liabilities	42.3	8.6
Total other liabilities	51.7	256.0

30 ACCRUED EXPENSES AND DEFERRED INCOME

SEK M	Dec 31, 2013	Dec 31, 2012
Accrued holiday pay	0.6	0.3
Accrued social security expenses	1.4	0.9
Accrued interest expense	2,623.8	2,657.5
Other accrued expenses	168.3	172.8
Total accrued expenses and deferred income	2,794.1	2,831.5

31 PROVISIONS

SEK M	Dec 31, 2013	Dec 31, 2012
Pension commitments		
Other provisions	0.7	0.5
Total	0.7	0.5

Defined-contribution pension plans

Defined-contribution pension plans are plans according to which the company pays fixed contributions to a separate legal entity and does not have a legal or informal obligation to pay additional contributions. The Group's payments to 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 encompasses all employees except for a few employees who have individual solutions. 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 Employee Benefits, this pension plan entails that, as a rule, a company is to recognise its proportional share of the defined-benefit pension commitment and the plan assets and expenses associated with the pension commitment. Disclosure is also to be presented in the accounts according to the requirements for defined-benefit pension plans. FPK is unable to provide the necessary information on this, which is why the pension plans above are recognised as a defined-contribution plan in accordance with item 34 of IAS 19. Nor is any information available on future surpluses and deficits in the plan or whether these surpluses and deficits would then affect the contributions for the plan in future years. The Group's expected fees in 2014 for the FTP plan amounted to SEK 1.1 M.

	2013	2012
Expenses for defined-contribution plans	1.7	1.7

32 SUBORDINATED LIABILITIES

SEK M	Dec 31, 2013	Dec 31, 2012
Subordinated debt	501.0	501.0
Total subordinated liabilities	501.0	501.0

	Dec 31, 2013	Dec 31, 2012	
Specification of subordinated debt from Länsförsäkringar Bank AB (publ)	Carrying amount	Carrying amount	Coupon rate of interest
Subordinated debt 2007/2017 LF Bank	–	150.0	variable 3 months
Subordinated debt 2008/2018 LF Bank	–	40.0	variable 3 months
Subordinated debt 2008/2018 LF Bank	–	150.0	variable 3 months
Subordinated debt 2009/2019 LF Bank	161.0	161.0	variable 3 months
Subordinated debt 2013/2023 LF Bank	190.0	–	variable 3 months
Subordinated debt 2013/2023 LF Bank	150.0	–	variable 3 months
Total	501.0	501.0	

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

33 ASSETS AND LIABILITIES, FOREIGN CURRENCY

	Dec 31, 2013		Dec 31, 2012	
SEK M	Foreign currency	SEK	Foreign currency	SEK
Liabilities				
Debt securities in issue				
CHF	648.1	4,711.6	538.5	3,929.1
EUR	2,494.7	22,995.2	1,996.6	18,728.1
NOK	1,999.8	2,328.8	1,000.0	1,177.3
Total liabilities		30,035.6		23,834.5

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

34 UNTAXED RESERVES

SEK M	Dec 31, 2013	Dec 31, 2012
Tax allocation reserve	65	–
Total	65	–

See also appropriations in the income statement on page 17.

35 EQUITY

SEK M	Dec 31, 2013	Dec 31, 2012
Restricted equity		
Share capital (70,335 shares, quotient value SEK 100 per share)	70.3	70.3
Statutory reserve	14.1	14.1
Total restricted equity	84.4	84.4
Non-restricted equity		
Fair value reserve	62.5	81.7
Retained earnings	4,924.9	4,467.6
Net profit for the year	159.5	257.3
Total non-restricted equity	5,146.9	4,806.6
Total equity	5,231.3	4,891.0

Conditional shareholders' contribution received totalled:

During 2007	75.0
During 2008	125.0
During 2009	537.6
During 2010	745.0
During 2011	710.0
During 2012	538.0
During 2013	200.0
Total	2,930.6

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

37 FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

Dec 31, 2013	Financial assets at fair value in profit and loss					Total	Fair value
	Loans and receivables	Financial assets according to fair value option	Held for trading	Derivatives used in hedge accounting	Available-for-sale financial assets		
SEK M							
Assets							
Treasury bills and other eligible bills					1,491.9	1,491.9	1,491.9
Loans to credit institutions	4,710.0					4,710.0	4,710.0
Loans to the public	112,143.4					112,143.4	113,010.2
Bonds and other interest-bearing securities					15,375.9	15,375.9	15,375.9
Derivatives				1,146.2		1,146.2	1,146.2
Accounts receivable						0.0	0.0
Total assets	116,853.4			1,146.2	16,867.8	134,867.4	135,734.2

Dec 31, 2013	Financial liabilities at fair value in profit and loss				Total	Fair value
	Financial liabilities according to fair value option	Held for trading	Derivatives used in hedge accounting	Other financial liabilities		
SEK M						
Liabilities						
Due to credit institutions				26,437.8	26,437.8	26,437.8
Debt securities in issue				98,989.5	98,989.5	102,707.6
Derivatives			2,538.0		2,538.0	2,538.0
Accounts payable				9.4	9.4	9.4
Subordinated liabilities				501.0	501.0	
Total liabilities			2,538.0	125,937.7	128,475.7	131,692.8

35 EQUITY, cont.

Specification of balance-sheet item	Dec 31, 2013	Dec 31, 2012
Opening reserve	81.7	145.6
Change in fair value of available-for-sale financial assets	–24.6	–86.4
Tax on available-for-sale financial assets	5.4	22.5
Closing reserve	62.5	81.7

36 PLEDGED ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS

SEK M	Dec 31, 2013	Dec 31, 2012
For own liabilities, pledged assets		
Collateral paid due to repurchase agreement	24.2	11.3
Loan receivables, covered bonds	104,506.1	95,529.8
Loan receivables, substitute collateral	16,250.0	19,324.1
Total for own liabilities, pledged assets	120,780.3	114,865.2
Other pledged assets	None	None
Contingent liabilities		
Unconditional shareholders' contributions	2,930.6	2,730.6
Other commitments		
Loans approved but not disbursed	4,308.2	4,952.2

Loans to the public were provided as collateral for issuance of covered bonds and mortgage bonds. In the event of the company's insolvency, bond holders have preferential rights to the assets that are registered as cover pool in accordance with the Swedish Covered Bonds (Issuance) Act (2003:1223). Other pledged securities will be transferred to the pledgee in the event of bankruptcy.

37 FINANCIAL ASSETS AND LIABILITIES BY CATEGORY, cont.

Dec 31, 2012	Financial assets at fair value in profit and loss					Total	Fair value
	Loans and receivables	Financial assets according to fair value option	Held for trading	Derivatives used in hedge accounting	Available-for-sale financial assets		
SEK M							
Assets							
Treasury bills and other eligible bills					1,544.9	1,544.9	1,544.9
Loans to credit institutions	1,696.2					1,696.2	1,696.2
Loans to the public	101,434.4					101,434.4	102,389.8
Bonds and other interest-bearing securities					18,218.7	18,218.7	18,218.7
Derivatives				1,746.4		1,746.4	1,746.4
Accounts receivable	23.4					23.4	23.4
Total assets	103,154.0			1,746.4	19,763.6	124,664.0	125,619.4

SEK M	Financial liabilities at fair value in profit and loss				Total	Fair value
	Financial liabilities according to fair value option	Held for trading	Derivatives used in hedge accounting	Other financial liabilities		
Liabilities						
Due to credit institutions				22,984.2	22,984.2	22,984.2
Debt securities in issue				90,962.4	90,962.4	96,094.7
Derivatives			2,824.3		2,824.3	2,824.3
Accounts payable				0.4	0.4	0.4
Subordinated liabilities				501.0	501.0	
Total liabilities			2,824.3	114,448.0	117,272.3	121,903.6

The fair value of accounts receivable, due to credit institutions and accounts payable comprises a reasonable approximation of the fair value based on the cost of the assets and liabilities, since these assets and liabilities have short terms. The fair value of loans was calculated discounting expected future cash flows using a discount rate set at the current lending rate applied (including discounts)

The main principle for measuring the fair value of debt securities in issue is that the value is measured at prices from external parties at year-end or the most recent trading date. If external prices are not available or are deemed to deviate from market levels, a standard method or valuation technique based on the estimated or original issue spread is utilised.

38 FAIR VALUE VALUATION TECHNIQUES

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

Dec 31, 2013	Instruments with published price quotations (Level 1)	Valuation techniques based on observable market data (Level 2)	Valuation techniques based on unobservable market data (Level 3)	Total
SEK M				
Assets				
Treasury bills and other eligible bills	1,491.9			1,491.9
Bonds and other interest-bearing securities	15,375.9			15,375.9
Derivatives		1,146.2		1,146.2
Liabilities				
Derivatives		2,538.0		2,538.0
Dec 31, 2012				
SEK M				
Assets				
Treasury bills and other eligible bills	1,544.9			1,544.9
Bonds and other interest-bearing securities	18,218.7			18,218.7
Derivatives		1,746.4		1,746.4
Liabilities				
Derivatives		2,824.3		2,824.3

There were no significant transfers between Level 1 and Level 2 during 2013 or during 2012. For further information about how the fair value was determined for financial instruments measured at fair value in the balance sheet, and about valuation techniques and

inputs, see note 1 Accounting policies. For information about determining the fair value of financial assets and liabilities not measured at fair value in profit and loss, see note 37. Gains and losses are recognised in profit and loss under Net gains from financial items.

39 INFORMATION ABOUT OFFSETTING

The table below contains financial assets and liabilities covered by a legally binding framework agreement regarding netting or a similar agreement but that are not offset in the balance sheet. The company has ISDA and CSA agreements with all derivative counterparties and corresponding netting agreements for repurchase agreements, which means that all

exposures are covered by both types of agreements. The framework netting agreement entails that parties are to settle their exposures net (meaning that receivables are offset against liabilities) in the event of a serious credit incident.

				Related amounts not offset in the balance sheet			
SEK M Dec 31, 2013	Recognised financial assets, gross	Recognised financial liabilities, gross, offset in the balance sheet	Amounts recognised in the balance sheet	Financial- instruments	Paid (+)/Received (–) collateral – securities	Paid (+)/Received (–) cash – collateral	Net amount
Assets							
Derivatives	1,146.2		1,146.2	–844.5		–251.9	49.8
Repurchase agreements			0.0				0.0
Liabilities							
Derivatives	–2,538.0		–2,538.0	844.5			–1,693.5
Repurchase agreements	–24.7		–24.7		24.7		0.0
Total	–1,416.5		–1,416.5	0.0	24.7	–251.9	–1,643.7

				Related amounts not offset in the balance sheet			
SEK M Dec 31, 2012	Recognised financial assets, gross	Recognised financial liabilities, gross, offset in the balance sheet	Amounts recognised in the balance sheet	Financial- instruments	Paid (+)/Received (–) collateral – securities	Paid (+)/Received (–) cash – collateral	Net amount
Assets							
Derivatives	1,939.3		1,939.3	–1,485.9		–192.9	260.5
Repurchase agreements							
Liabilities							
Derivatives	–2,824.3		–2,824.3	1,485.9			–1,338.4
Repurchase agreements	–11.3		–11.3		11.3		0.0
Total	–896.3		–896.3	0.0	11.3	–192.9	–1,077.9

Counterparty risk in derivative contracts is reduced through netting agreements (ISDA agreements), meaning the netting of positive and negative values in all derivative contracts with the same counterparty. Netting agreements are supplemented with agreements on the

provision of collateral for net exposures (CSA agreements). The bank currently has ISDA and CSA agreements with all counterparties.

40 DISCLOSURES ON RELATED PARTIES, PRICING AND AGREEMENTS

Related parties

Related legal entities include the Länsförsäkringar AB Group's and the Länsförsäkringar Liv Group's companies, associated companies, the 23 regional insurance companies with subsidiaries and other related parties. Other related parties comprise: Länsförsäkringar Mäklarservice, Länsförsäkringar, Fastighetsförmedling AB, 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 price level of the goods and services that Länsförsäkringar Hypotek AB purchases and sells within the Länsförsäkringar Alliance is determined by Länsförsäkringar AB's corporate management once a year in conjunction with the adoption of the business plan.

Agreements

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

Transactions

SEK M	Receivables		Liabilities		Income		Expenses	
	Dec 31, 2013	Dec 31, 2012	Dec 31, 2013	Dec 31, 2012	2013	2012	2013	2012
Länsförsäkringar Bank AB (Parent Company)	4,695.7	1,760.2	26,813.5	23,778.7	291.5	147.0	692.5	756.7
Other companies in the Bank Group	0.3	0.3	–	–	–	–	1.3	1.1
Other companies in the Länsförsäkringar AB Group	0.2	0.2	0.5	247.0	–	–	1.2	0.5
Regional insurance companies	–	–	20.1	113.2	–	–	346.9	386.3

For information regarding remuneration of related key persons such as members of the Board of Directors and senior executives, see note 11 concerning staff costs.

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

41 EVENTS AFTER BALANCE-SHEET DATE

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

Statement from the Board

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

Stockholm, February 13, 2014

Rikard Josefson
Chairman

Christian Bille
Board member

Bengt Clemetson
Board member

Maria Jerhamre Engström
Board member

Christer Malm
Board member

Anders Borgcrantz
President

My audit report was submitted on February 20, 2014

Stefan Holmström
Authorised Public Accountant

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

Audit Report

To the Annual Meeting of the shareholders of Länsförsäkringar Hypotek AB (publ), Corporate identity number 556244-1781

Report on the annual accounts

I have audited the annual accounts of Länsförsäkringar Hypotek AB (publ) for the year 2013. The annual accounts of the company are included in the printed version of this document on pages 10–41.

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

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

Auditor's responsibility

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

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

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

Opinions

In my opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act of Credit Institutions and Security Companies and present fairly, in all material respects, the financial position of Länsförsäkringar Hypotek AB (publ) as of December 31, 2013 and of its financial performance and its cash flows for the year

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

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

Report on other legal and regulatory requirements

In addition to my audit of the annual accounts, I have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the President of Länsförsäkringar Hypotek AB (publ) for the year 2013.

Responsibilities of the Board of Directors and the President

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

Auditor's responsibility

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

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

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

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

Opinions

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

Stockholm, February 20, 2014

Stefan Holmström
Authorised Public Accountant

Board of Directors, Management and Auditor

Board of Directors



RIKARD JOSEFSON

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



CHRISTIAN BILLE

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



BENGT CLEMEDTSON

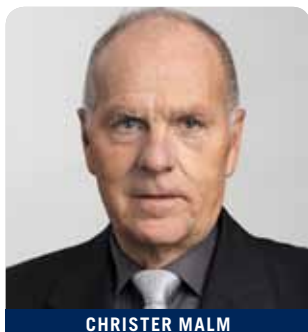
Born 1964. Board member since 2009. **Title:** Head of Business Länsförsäkringar Bank. **Education:** Master of Science in Business and Economics. **Other Board appointments:** Board Chairman of AB Superb Produkt. **Background:** President Skandiabanken Bolån AB.

Board of Directors



MARIA JERHAMRE ENGSTRÖM

Born 1969. Board member since 2012. **Title:** CIO Länsförsäkringar AB. **Education:** University studies in law and psychology. **Other Board appointments:** Board member of Finansiell ID-Teknik AB, BGC Bankgirot AB of Wasa Kredit AB. **Background:** Head of Business and Head of Internet Bank Länsförsäkringar Bank.



CHRISTER MALM

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



ANDERS BORGCRA NTZ

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



MARTIN RYDIN

Born 1968. Executive Vice President and CFO. Employed since 2012. **Education:** Master of Laws. **Background:** Head of Long Term Funding Swedbank.

Auditor

Stefan Holmström,
Authorised Public Accountant,
KPMG AB.

Definitions

Capital base

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

Capital adequacy ratio

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

Capital ratio

Capital base in relation to capital requirements.

Core Tier 1 capital

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

Core Tier 1 ratio

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

Cost/income ratio

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

Fixed-interest term

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

Impaired loans reserve ratio excluding collective impairments

Individual reserves for loan receivables in relation to impaired loans gross.

Investment margin

Net interest in relation to average total assets.

Impaired loan

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

Loan losses, net

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

Loan losses in relation to lending

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

Percentage of impaired loans

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

Reserves in relation to loans

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

Return on equity

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

Return on total capital

Operating profit in relation to average total assets.

Risk-weighted amount

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

Tier 1 capital

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

Tier 1 ratio

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

Tier 2 capital

Primarily comprises fixed-term subordinated debt.

Total impaired loans reserve ratio

Total reserves for loan receivables in relation to impaired loans gross.

Financial calendar 2014

First quarter:

Interim report January–March April 29, 2014

Second quarter:

Interim report April–June July 18, 2014

Third quarter:

Interim report July–September October 23, 2014

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