Risk and capital management at the Länsförsäkringar Bank Group 2010

Pillar III of the Basel II regulatory framework

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Introduction

The aim of this report is to provide detailed information about Länsförsäkringar Bank's risks, risk management and capital adequacy in accordance with the reporting requirements (known as Pillar III) stipulated in the Capital Requirements Directive (CRD) through which Basel II was implemented within the EU. Information requirements were introduced in Sweden on the basis of the regulations and general advice FFFS 2007:5 of Finansinspektionen (the Swedish Financial Supervisory Authority).

Under the Basel II rules, an option for calculation of the capital requirement for credit risk was introduced by utilising either the Standardised Approach or an Internal Ratings-based Approach (IRB Approach). Since the Basel II rules were introduced, Länsförsäkringar Bank has applied the IRB Approach in accordance with a permit issued by Finansinspektionen. The aim of the new rules was to achieve enhanced transparency and risk management, and thereby greater stability in the financial system. The Advanced IRB Approach provides the greatest opportunities to strategically and operationally manage credit risks and is used for all retail exposures. As of 2010, the Foundation IRB Approach is used for agricultural customers and the Standardised Approach is used until further notice for other exposures to calculate the capital requirement for credit risk. Changes in the capital requirement will emerge gradually since Basel II contains transition rules involving an adaptation period over a number of years.

Future capital adequacy rules (Basel III)

Basel III is a new international capital adequacy and liquidity standard that was adopted by the Basel Committee on Banking Supervision in December 2010. This third Basel agreement was produced in response to the shortcomings in the current banking-supervision regulations, which came to the fore during the recent global financial crisis. In brief, Basel III involves higher capital-requirement levels, changes to what may be included as capital, changed calculations of capital requirements, new rules regarding liquidity risk and the introduction of a non-risk-sensitive leverage ratio. Basel III will be introduced within the EU through a revised capital requirement directive (CRD IV), which is expected to come into effect in 2013, be subsequently implemented over a six-year period and be fully implemented by 2019.

Länsförsäkringar Bank Group

Länsförsäkringar Bank AB (publ) is part of the Länsförsäkringar AB Group, with Länsförsäkringar AB (publ) as the Parent Company, which is owned by 24 independent and customer-owned regional insurance companies. The regional insurance companies offer customer products via their three core businesses: banking operations, non-life insurance and life assurance. Länsförsäkringar Bank is 100% owned by Länsförsäkringar AB (publ) (556549-7020). The Bank Group comprises the Parent Company Länsförsäkringar Bank AB (publ) (516401-9878) and the wholly owned subsidiaries Länsförsäkringar Hypotek AB (publ) (556244-1781), Wasa Kredit AB (556311-9204) and Länsförsäkringar Fondförvaltning AB (publ) (556364-2783). All companies have their registered offices in Stockholm.

Business concept

The business concept is to offer a complete range of reasonably priced banking services to private individuals and farmers.[1)] These mortgage services are offered in such a straight-forward and clear manner that customers perceive Länsförsäkringar to be a reliable and sound choice. Länsförsäkringar aims to be the first choice in banking, insurance and pensions for customers.

Mission of Länsförsäkringar Bank

The mission of Länsförsäkringar Bank is to work together with Länsförsäkringar AB to conduct business activities, develop products and concepts, channels and tools, and provide service to the regional insurance companies in areas generating economies of scale so that these companies can offer their customers a full range of banking services.

Objective and objective fulfilment

Länsförsäkringar Bank's objectives are as follows:

- Achieve profitable growth
- Have the most satisfied customers
- Increase the percentage of customers who combine their banking, insurance and pension commitments with Länsförsäkringar.

The objectives of the banking operations contribute to the aims of the Länsförsäkringar Alliance.

Länsförsäkringar Bank had a business volume of SEK 232 billion in 2010 that has risen an average of 14% on an annual basis since 2006. Profitability is stable with a return on equity of 4.9% in 2010 and an average of 4.7% over the past five years.

According to the 2010 Swedish Quality Index, Länsförsäkringar has Sweden's most satisfied retail bank customers for the sixth time in seven years and Sweden's most satisfied retail mortgage customers for the sixth consecutive year. These awards, which Länsförsäkringar has won for many years consecutively, strongly demonstrate that Länsförsäkringar has extremely satisfied bank and mortgage customers.

The number of customers who have Länsförsäkringar as their primary bank rose 15% to 223,000 in 2010. Of these customers, 92% also have insurance and/or a pension with Länsförsäkringar.

[1)] An offering to small businesses has been available since 2010. This offering is under development.

Strategy

The strategy for banking operations is based on the Länsförsäkringar Alliance's existing infrastructure:

- Large customer base
- A strong brand
- The regional insurance companies' local market presence, market knowledge and personal service

The strategy is to conduct sales and marketing activities of the bank offering aimed at selected target groups in the Länsförsäkringar Alliance's customer base. All customer contact is handled by the 24 regional insurance companies.

Large customer base

The Länsförsäkringar Alliance has 3.4 million customers and the prioritised target groups in the banking operations are the 1.7 million home insurance customers and the 188,000 agricultural customers.

Household insurance customers are offered mortgages and the option of making Länsförsäkringar their primary bank. Agricultural customers are offered first-lien mortgages for agricultural properties and the option of making Länsförsäkringar their primary bank. With this approach, customers will have broader and more lucrative commitments with Länsförsäkringar, while Länsförsäkringar will secure even stronger and more long-term relationships with its customers.

Focus of operations

Savings
Länsförsäkringar has a full-service in savings and is growing in the deposits market. During the year, advisory services were enhanced with more products and services to provide customers with a greater range of short- and long-term savings and investment products.

Deposits
Deposits increased 11% to SEK 42 billion (37) in 2010. This increase is primarily attributable to the rising number of customers with Länsförsäkringar as their primary bank and who also move their deposits to the bank. All types of deposit accounts continued to increase. The market share of deposits from households rose to 3.5% (3.4) during the year, according to data from Statistics Sweden.

Fund market and IPS
Länsförsäkringar is Sweden's fifth largest fund company with a market share in 2010 of 3.9% (4.0) according to statistics from the Swedish Investment Fund Association. Fund volumes increased 9% to SEK 72 billion (67). A total of 32 (30) investment funds with different investment orientations are managed.

The fund offering comprises mutual funds under Länsförsäkringar's own brand, supplemented with external funds which are continuously evaluated to ensure that they meet Länsförsäkringar's return targets. The majority of own-brand funds have external managers who are also continuously evaluated to ensure that they meet return targets. External funds and external managers who do not meet return targets are replaced. One external manager was replaced during the year. The number of new fund savers rose by 20,000 during the year, demonstrating that Länsförsäkringar has an attractive fund offering.

The IPS services (individual pension savings), was highly successful during the year and the number of customers rose 15,000.

Equities and other securities
The trend in volumes of equities and other securities is steadily growing. The number of deposits rose 11,000 and the volume of capital-protected investments doubled during the year.

Lending
Länsförsäkringar has a highly competitive mortgage offering in the market and is growth steadily. First-lien mortgages for agricultural properties experienced robust growth and leasing and hire purchase in Wasa Kredit are continuously rising.

Household and retail mortgages
The banking operations' loans rose 18% to SEK 118 billion (100) in 2010, of which retail mortgages in Länsförsäkringar Hypotek increased 18% to SEK 80 billion (68). First-lien mortgages up to 75% of the market value are deposited with Länsförsäkringar Hypotek and other housing loans with Länsförsäkringar Bank. The market share for household and retail mortgage lending in 2010 increased to 4.4% (4.0) and Länsförsäkringar's share of market growth in 2010 was nearly 9%, according to data from Statistics Sweden.

The work on homogenous consumer credit management based on the EC Consumer Credit Directive (CCD) was completed in 2010. For customers, the CCD will mean an increase in transparency and comparability between the consumer credits offered by different companies. The CCD was implemented in Sweden on the basis of the Swedish Consumer Credit Act which came into force on January 1, 2011.

Agricultural loans
Länsförsäkringar offers loans to agricultural properties and is Sweden's fifth largest agricultural bank. Agricultural loans rose 27% to SEK 13.8 billion (10.8), of which first-lien mortgages to agricultural properties increased 38% to SEK 10.8 billion (7.8). Länsförsäkringar is growing in the agricultural loans market and the market share rose to almost 7% in 2010. The number of agricultural customers rose to 56,000 (54,000) and the share of agricultural customers with a commitment including banking, insurance and a pension increased 10%.

Other loans
Wasa Kredit's lending volume rose 18% to SEK 10.7 billion (9.1). All leasing, hire purchase and unsecured loan products increased in 2010 and the largest volume increase was in leasing.

Bank cards and payments
The number of cards is rising steadily and the security of payment services is being continuously developed to ensure that customers can feel secure in their payment services.

Income from payment mediation continued to increase in 2010 and bank card transactions accounted for the largest payment transaction volumes. Secure payments is a priority area. Länsförsäkringar was the first bank to launch a unique payment service with a regional blocking system for specific countries in 2010.

The number of bank cards rose 19% to 266,000 (223,000), the number of Länsförsäkringar ATMs increased to 88 (82) and the number of deposit machines rose to 8 (6). In-store bank card transactions rose 29% and payment transactions increased to a total of SEK 108 M (90), up 21%.

During the year, the work on changing the payment services in accordance with the EU Payment Services Directive (PSD) was also concluded. PSD was established to ensure the greatest possible uniformity among payment service products in the EU, thereby simplifying the payment process for customers. The PSD was implemented as two separate laws in Sweden, the Payment Services Act and the Act on Unauthorised Transactions with Payment Instruments.

Regional insurance companies' own bank
The banking operations also offer savings and payment services to the 24 regional insurance companies and the Länsförsäkringar AB Group as required. Business is expanding and during the year, the Länsförsäkringar Alliance's transaction income rose 71%. The regional insurance companies' savings, particularly in funds and capital-protected investments, also increased.

Risks and risk management

Risk management is to be performed by the employees working in the banking operations. Accordingly, risk awareness is prevalent in all day-to-day business decisions. This decentralised method of working and managing risk is a requirement for compliance with the risk tolerance set forth by the Board. The banking operations are to be characterised by a low risk profile whose lending operations focus on private housing and family-owned agricultural operations. Accordingly, credit risk is the Bank Group's single largest category of risk. The types of risk that must also be managed are:

- Financial risks
- Operational risks
- Business risks

Financial risks, which primarily comprise interest-rate risk and liquidity risk, are managed in accordance with a Financial Policy adopted by the Board, which stipulates that interest-rate risks should be as low as possible and that liquidity be invested solely in Swedish securities with high credit quality. Operational risks are measured against a risk-tolerance scale established by the Board. Business risk mainly comprises earnings risk, and pertains to fluctuations in the Bank Group's earning capacity. The overall guidelines for risk tolerance and the strategies for risk-taking state that volume growth and higher profitability should not be generated at the expense of a higher number or greater risks. This requires that risks inherent in the business activities be independently identified, measured, controlled, valued and reported on a continuous basis and that risks be proportionate to the size, product development and growth of the operations. Total risks are compiled and compared with the capital in the Bank Group to ensure a favourable level of capitalisation.

Board

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

President

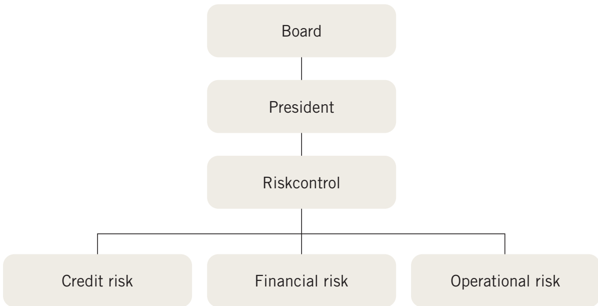
The President is responsible for the ongoing administration of the company in accordance with the risk tolerances and risk strategies established by the Board. This means that the President is responsible for ensuring that the methods, models, systems and processes that form the internal measurement, control and reporting of identified risks work in the manner intended and decided by the Board. The President is the Chairman of the Asset Liability Committee (ALCO), whose main task is to follow up on capital and financial matters arising in the Bank Group.

Riskcontrol

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

One of the most important tasks of the Riskcontrol is to work proactively to ensure that the operations have active risk management and that the risk tolerance established by the Board is converted into limits according to which the operations can conduct their activities. Riskcontrol is responsible for reporting violations of limits to the President and the Board.

Hierarchy of responsibilities for Riskcontrol



Riskcontrol is responsible for continuously reporting to management, the ALCO and Board. For credit risk, these reports include information on developments and trends in exposure amounts, risk weights and capital requirements. For financial risk, these reports primarily contain information about interest-rate risk and liquidity positions. In addition, the reports include information about operational risk.

Capital base and capital requirements

The bank's Board has decided on a capital adequacy target entailing a Tier 1 ratio of 12 percentage points when Basel II is fully implemented. A deviation of +/– 0.5 percentage points is permitted for the target.

The basis for determining the capital adequacy target was the Bank Group's internal capital adequacy assessment process, which considered all risks requiring capital. Consideration was also given to the Tier 1 ratios of comparable financial companies. Internal calculations show that the Bank Group is well capitalised in relation to its total risks.

Basel II is scheduled to take full effect in 2012. However, in a bill presented in March 2011, the Swedish government proposed an extension of the transition rules.

Basel III is a major regulatory change that the banking sector has been presented with in recent years. Based on the requirements that have already been announced, Länsförsäkringar deems that the bank will be able to meet the new capital adequacy and liquidity targets.

Capital adequacy analysis

SEK M	Dec. 31, 2010	Dec. 31, 2009
Tier 1 capital, gross *	5,773.6	4,960.1
Less intangible assets	–372.7	–329.8
Less deferred tax assets	–3.1	–2.1
Less/plus IRB deficit/surplus	–214.8	–106.6
Tier 1 capital, net	**5,183.0**	**4,521.6**
Tier 2 capital	960.0	960.0
Deductions for Tier 2 capital	–214.8	–106.6
Total capital base	**5,928.2**	**5,375.0**
Risk-weighted assets according to Basel II	**43,944.2**	**36,331.3**
Risk-weighted assets according to transition rules	**63,161.2**	**55,197.5**
Capital requirement		
Capital requirement for credit risk according to Standardised Approach	725.4	1,004.0
Total capital requirement for credit risk according to IRB Approach	2,656.4	1,774.6
Capital requirement for operational risk	133.8	127.9
Capital requirement according to Basel II	**3,515.5**	**2,906.5**
Adjustment according to transition rules	1,537.4	1,509.3
Total capital requirement	**5,052.9**	**4,415.8**
Tier 1 ratio according to Basel II, %	11.79	12.45
Capital adequacy ratio according to Basel II, %	13.49	14.79
Capital ratio according to Basel II *	1.69	1.85
Tier 1 ratio according to transition rules, %	8.21	8.19
Capital adequacy ratio according to transition rules, %	9.39	9.74
Capital ratio according to transition rules *	1.17	1.22
Special disclosures		
IRB Provisions surplus (+)/deficit (–)	–429.6	–213.2
– IRB Total reserves (+)	241.5	249.2
– IRB Expected loss (–)	–671.1	–462.4

* of which a Tier 1 capital contribution of SEK 290 M.

SEK M	Dec. 31, 2010	Dec. 31, 2009
Capital requirement		
Credit risk according to Standardised Approach		
Exposures to institutions	77.3	93.4
Exposures to corporates	167.3	396.6
Retail exposures	190.2	30.3
Exposures secured on residential property	97.7	313.8
Past due items	1.0	8.0
Covered bonds	173.6	143.6
Other items	18.2	18.3
Total capital requirement for credit risk according to Standardised Approach	**725.4**	**1,004.0**
Credit risk according to IRB Approach		
Retail exposures		
Exposures secured by real estate collateral	1,241.0	1,230.9
Other retail exposures	626.4	542.2
Total retail exposures	**1,867.4**	**1,773.1**
Exposures to corporates	787.9	–
Non credit-obligation assets	1.0	1.5
Total capital requirement for credit risk according to IRB Approach	**2,656.4**	**1,774.6**
Operational risks		
Standardised Approach	133.8	127.9
Total capital requirement for operational risk	**133.8**	**127.9**
Capital adequacy analysis according to Basel I		
Tier 1 capital	5,397.8	4,628.2
Tier 2 capital	960.0	960.0
Total capital base	**6,357.8**	**5,588.2**
Risk-weighted assets	85,663.8	72,328.6
Capital requirement for credit risk	6,853.1	5,786.3
Tier 1 ratio, %	6.30	6.40
Capital adequacy ratio, %	7.42	7.73
Capital ratio*	0.93	0.97

* capital ratio = total capital base/total capital requirement.

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

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

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 Bank Group and the risk that the counterparty's pledged collateral will not cover the company's receivables. The Bank Group calculates all retail exposures in accordance with the Advanced IRB Approach, which corresponds to about 81% (84) of the Bank Group's loan portfolio. This means that a considerable portion of its credit exposure is calculated using a method that aims to identify and classify risk for each individual counterparty. The bank uses the Foundation IRB Approach for the portion of the loan portfolio pertaining to agricultural operations. The percentage of retail mortgages of the total loan portfolio is 74% (75) and agricultural loans 12% (11). The Standardised Approach is used for other exposures. The lending portfolio is entirely comprised of loans in Sweden, which has a favourable geographic spread throughout the country. Concentration risk is primarily attributable to the product concentration in mortgages.

Credit process

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

Credit scoring of retail loans is supported by a credit research system, which is largely automated in accordance with the advanced IRB Approach, and a joint credit scoring model for Länsförsäkringar's banking operations. Credit scoring of agricultural loans is supported by a credit research system with built-in controls to achieve favourable credit quality. Both credit scoring systems are supported by a number of decision-making bodies and a quality audit. Loan origination is primarily managed by the regional insurance companies, which also have credit responsibility for all loans. The credit rules are established by the bank's Board 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 credit scoring model, combined with the knowledge and credit responsibility of the regional insurance companies, creates excellent conditions for balanced and consistent loan origination. The regional insurance companies continuously monitor and review the quality of the loan portfolio and borrowers' repayment capacity.

Credit quality

The loan portfolio exclusively comprises loans in Sweden, with lending for private housing in the form of single-family homes and tenant-owned apartments accounting for 74% (75) of lending. First-lien mortgages with loan-to-value ratios amounting up to 75% of the market value at the time the mortgage is granted account for the largest percentage of retail mortgages. Low loan-to-value ratios, combined with a favourable geographic distribution and local presence, are the core pillars in ensuring that the loan portfolio maintains a high level of credit quality. The rules regarding loan origination for mortgages have also been tightened with a maximum loan-to-value ratio of 85%.

Loans to the agricultural segment increased substantially in 2010 and accounted for 12% (11) of the loan portfolio. The lending segment is an excellent complement to the bank's mortgages since a large share pertains to loans to family-owned farming businesses. Together with mortgages, this segment accounts for approximately 86% (86) of the Bank Group's total loan portfolio.

Implementation plan for the IRB Approach

In December 2006, Länsförsäkringar Bank was granted permission by Finansinspektionen to apply the IRB Approach in the calculation of the capital requirement for credit risk for retail exposures, which accounts for most of the loan portfolio, and the IRB Approach has been applied for these exposures since February 2007. In December 2009, Länsförsäkringar Bank was then granted permission by Finansinspektionen to apply the Foundation IRB Approach in the calculation of the capital requirement for credit risk for exposures to agricultural customers, and the IRB Approach has been applied for these exposures since January 1, 2010. Internal models will be implemented for other exposures to corporates at Länsförsäkringar Bank and Länsförsäkringar Hypotek during the period until January 1, 2012. Internal models will be implemented after 2012 for other minor loan portfolios in the Bank Group. Permanent exemptions have been granted for exposures to governments, local governments, county councils and banks. This complies with the implementation plan approved by Finansinspektionen.

IRB system

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

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

Some of the core concepts in the IRB system are described below.

The probability of default (PD) is the probability that a counterparty will default over a 12-month period. A counterparty is considered to be in default if a payment is more than 60 days past due or if there is reason to expect that the counterparty cannot meet its undertaking to the bank.

A PD is initially calculated for each counterparty and is to reflect the risk of default within the next 12 months. This PD is subsequently adjusted to reflect the average proportion of default over several economic cycles. Finally, a safety margin is added to the PD to ensure that the risk is not underestimated. Following the calculation of PD, all counterparties are ranked and divided into the bank's PD scale. The PD scale comprises 11 risk classes (grades) for non-defaulted counterparties and one risk class for defaulted counterparties.

PD grade Dec. 31, 2010, SEK 000s	PD(%)	EAD
1	0.05	4,581,690
2	0.10	8,355,132
3	0.20	33,541,695
4	0.40	36,365,337
5	0.80	18,321,695
6	1.60	7,458,033
7	3.20	3,040,196
8	6.40	1,479,988
9	12.80	879,120
10	25.60	460,226
11	51.20	558,402
Default	100.00	450,575
Total		**115,492,090**

Comparisons of PD grades Internal	PD(%)	Indicative credit rating from Standard & Poor's
1–4	< 0.53	AAA till BBB-
5–6	0.53–2.13	BB+ till BB-
7–8	2.13–8.53	B+ till B-
9–11	> 8.53	C
Default	100	D

The information that is most relevant to each type of counterparty has been taken into consideration in the development of models for calculating PD. The division of PD into grades for retail exposures takes place using models based on statistical analysis (credit scoring), while the division of PD into grades for exposures to corporates is partly based on individual expert assessment. These models take both internal and external information into consideration.

Loss Given Default (LGD) is the anticipated share of exposure that will be lost in the event of default. Internal estimates of LGD are calculated for retail exposures. These estimates are based on internal information on loss portions, loan-to-value ratios and products. A safety margin is added to these estimates to ensure that the risk is not underestimated. Finally, the estimate is adjusted to reflect the expected loss portion in a recession. The LGD amounts prescribed by Finansinspektionen are applied to exposures to corporates with agricultural businesses.

Exposure at Default (EAD) is the exposure amount that the counterparty is expected to utilise upon default. For commitments completely within the balance sheet, EAD is defined as capital liability plus accrued and past due unpaid interest and fees. For commitments wholly or partly off the balance sheet, EAD is calculated by multiplying the counterparty's unutilised amount by a credit conversion factor (CCF). Internal estimates of credit conversion factors are calculated for retail exposures. These estimates are calculated on the basis of internal information regarding degree of realisation, degree of utilisation and products. A safety margin is added to these estimates to ensure that the risk is not underestimated. The CCF amounts prescribed by Finansinspektionen are applied to exposures to corporates with agricultural businesses.

Expected Loss Percentage (EL, %) is the PD multiplied by LGD. The expected loss amount is obtained by multiplying EAD by the EL percentage. The Risk Weight (RW) is calculated using functions supplied by Finansinspektionen. The bank's internal estimates of risk parameters serve as input data for these functions. Risk-Weighted Assets (RWA) are calculated by multiplying EAD by the risk weight. The capital requirement is 8% of RWA.

Expected Loss in relation to outcome

The presentation below shows the PD, LGD and EL estimates to be applied in capital adequacy reports, meaning those estimates that include safety margins and adjustments for economic conditions.

The exposure-weighted PD estimate for all non-defaulted exposures encompassed by IRB Approach at December 31, 2009 was 1.07%, distributed on the basis of 0.87% for exposures secured by real estate collateral and 2.25% for other retail exposures. The percentage of these exposures in default in 2010 was 0.53%, distributed on the basis of 0.23% for exposures secured by real estate collateral and 2.33% for other retail exposures.

The exposure-weighted LGD estimate for all non-defaulted exposures encompassed by IRB Approach at December 31, 2008 was 28.9%, distributed on the basis of 24.0% for exposures secured by real estate collateral and 53.9% for other retail exposures. The actual loss rate for the exposures in default in 2009 was 19.2% for exposures secured by real estate collateral and 60.1% for other retail exposures. The calculation of actual loss rates took into account recoveries up to and including December 31, 2010, meaning that the average recovery period is one and a half years.

The EL percentage for all non-defaulted exposures within the scope of the IRB Approach at December 31, 2008 was 0.39%, distributed on the basis of 0.23% for exposures secured by real estate collateral and 1.25% for other retail exposures. The percentage of loan losses for exposures in default in 2009 was 0.40%, distributed on the basis of 0.07% for exposures secured by real estate collateral and 1.5% for other retail exposures. Most loan losses derive from unsecured loans and personal accounts with only one borrower.

Loan receivables and accounts receivable

Loans receivable and accounts receivable are financial assets that are not derivatives, that have fixed or fixable payments and that are not listed on an active market. These receivables are represented by the balance-sheet items "loans to credit institutions," "loans to the public" and "Other assets" in the balance sheet. For further information, refer to Länsförsäkringar Bank's 2010 Annual Report.

Impaired loans

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

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

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

Impaired loans amounted to SEK 209 M (213), corresponding to 0.17% (0.21) of the total loan portfolio before reserves. Loan losses totalled SEK 60 M (50), corresponding to a loan loss of 0.05% (0.05). Impaired loans and loan losses continued to account for a minor percentage of total loans.

Impaired loans by product, SEK M	Dec. 31, 2010	Dec. 31, 2009
Retail mortgages	15.4	8.3
Agricultural loans		
Unsecured loans	103.6	108.7
Leasing	54.2	61.6
Hire purchase	27.5	25.6
Multi-family dwellings		
Other	8.1	8.8
Total	**208.8**	**213.0**

Non-performing loan receivables not included in impaired loans, SEK M	Dec. 31, 2010	Dec. 31, 2009
Receivables 10–19 days past due[1]	0.3	0.1
Receivables 20–39 days past due	265.2	310.6
Receivables 40–60 days past due	7.6	7.9
Total	**273.1**	**318.6**

[1] Excluding Wasa Kredit.

Non-performing loan receivables not included in impaired loans, Dec. 31, 2010, SEK M	Länsförsäkringar Bank	Länsförsäkringar Hypotek	Wasa Kredit	Group
Receivables 10–19 days past due[1]	0.3	0	0	0.3
Receivables 20–39 days past due	20.9	26.6	217.7	265.2
Receivables 40–60 days past due	0.1	0.3	7.2	7.6
Total	**21.3**	**26.9**	**224.9**	**273.1**

[1] Excluding Wasa Kredit.

Impairment

A continuous assessment is made as to whether objective circumstances exist suggesting indications of impairment for both impaired loans and the part of the loan portfolio where the assessment is that cash flow has deteriorated. Indications of impairment are based on objective circumstances, for example delayed or non-payment, bankruptcy or a decline in the value of the collateral, and on a reduced repayment capacity according to risk-based assessments and assumptions.

Counterparty risk

Counterparty risk is the risk of a counterparty being unable to fulfil its commitments to Länsförsäkringar Bank, which could lead to losses. In this context, counterparty refers to counterparties for interest-rate and currency swaps. The Bank Group has a number of swap counterparties, all with high ratings and established ISDA agreements. For Länsförsäkringar Hypotek's 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 market changes affecting swap exposures.

Derivatives, fair value, SEK M	Positive values Dec. 31, 2010
AA-/Aa2	40.3
A/Aa2	57.3
A+/Aa3	424.5
	522.1

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

Concentration risk

Concentration risk is defined as the risk of large, important or significant volumes and/or commitments being concentrated to a limited number of customers, a certain industry, product or geographic area. This means that such positions and relations increase in vulnerability since the effect on the operations could be relatively great. Risk diversification is therefore limited.

Concentration risk can be divided into two types of categories. The first involves individual exposures to a certain counterparty or a group of counterparties that can be grouped together from a risk perspective. This category can primarily be attributed to a large exposure. Large exposures are regulated by and reported to Finansinspektionen. As this reporting is completed, a quarterly report is prepared detailing all exposure that exceeds 10% of the capital base.

The second type of concentration risk involved general exposures that can be divided into a certain category driven by an underlying variable, for example, a geographic division, product, market or collateral type. The Bank Group must take into account the following sectors when assessing the existence of concentrations:

- Geographic division
- Product and market division
- Types of collateral
- Nature of customer and counterparty

Total and average EAD

SEK 000s	Dec. 31, 2010	Average 2010
Exposure classes, IRB Approach		
Retail exposures	98,835,846	94,097,388
Exposures to corporates	16,656,244	15,618,793
Non credit-obligation assets	13,091	14,713
Total IRB Approach	**115,505,181**	**109,730,895**
Exposure classes, Standardised Approach		
Governments and central banks	4,298,330	4,270,453
Regional and local authorities	281,181	255,261
Exposures to institutions	4,902,484	5,133,752
Exposures to corporates	2,091,246	1,925,182
Retail exposures	3,170,122	1,189,233
Exposures secured on residential property	3,048,294	2,593,692
Past due items	10,228	5,857
Exposures in the form of covered bonds	21,702,372	25,688,051
Other items	446,643	795,009
Total Standardised Approach	**39,950,900**	**41,856,490**

Recognisable collateral

Dec. 31, 2009, SEK 000s	EAD	Secured through recognisable collateral
Exposure classes, IRB Approach		
Exposures to corporates	16,656,244	12,627,648
Total IRB Approach	**16,656,244**	**12,627,648**
Exposure classes, Standardised Approach		
Governments and central banks	4,298,330	0
Regional and local authorities	281,181	0
Exposures to institutions	4,902,484	0
Exposures to corporates	2,091,246	0
Retail exposures	3,170,122	0
Exposures secured on residential property	3,048,294	3,048,294
Past due items	10,228	2,461
Exposures in the form of covered bonds	21,702,372	0
Other items	446,643	0
Total Standardised Approach	**39,950,900**	**3,050,755**

EAD for exposures secured by real estate collateral, by geographic region

	Retail exposures		Exposures to corporates [1]	
Dec. 31, 2010, SEK 000s, Geographic region	EAD	Proportion of EAD (%)	EAD	Proportion of EAD (%)
Western Sweden	17,965,122	21.2	2,396,876	22.2
Eastern Central Sweden	17,726,491	20.9	3,030,381	28.1
Stockholm	13,982,109	16.5	51,788	0.5
Southern Sweden	11,774,756	13.9	1,910,748	17.7
Northern Central Sweden	8,750,814	10.3	535,289	5.0
Småland and nearby islands	7,635,322	9.0	1,955,666	18.1
Northern Norrland	3,538,573	4.2	413,677	3.8
Central Norrland	3,248,862	3.8	505,919	4.7
Total	**84,622,050**	**100.0**	**10,800,343**	**100.0**

[1] First-lien mortgages for agricultural mortgages.

EAD, by contractual maturity[1)]

Dec. 31, 2010, SEK 000s	< 3 months	3 – 6 months	6 – 12 months	1 – 3 years	3 – 5 years	> 5 years
Exposure classes, IRB Approach						
Retail exposures	70,912,195	3,527,167	4,793,664	13,724,803	4,474,947	1,403,071
Exposures to corporates	11,950,430	594,413	807,849	2,312,963	754,137	236,452
Non credit-obligation assets	13,091	0	0	0	0	0
Total IRB Approach	**82,875,715**	**4,121,580**	**5,601,513**	**16,037,766**	**5,229,084**	**1,639,522**
Exposure classes, Standardised Approach						
Governments and central banks	1,477,489	0	0	0	2,820,841	0
Regional and local authorities	4,460	5,017	12,971	131,711	119,912	7,110
Exposures to institutions	3,687,035	16,671	2,553	1,181,254	7,015	7,956
Exposures to corporates	1,500,416	74,631	101,428	290,400	94,684	29,687
Retail exposures	2,274,482	113,133	153,755	440,218	143,532	45,003
Exposures secured on residential property	2,187,073	108,785	147,846	423,300	138,016	43,273
Past due items	10,228	0	0	0	0	0
Exposures in the form of covered bonds	0	2,896,919	0	10,195,028	8,610,425	0
Other items	446,643	0	0	0	0	0
Total Standardised Approach	**11,587,825**	**3,215,155**	**418,553**	**12,661,911**	**11,934,426**	**133,030**

1) The residual maturity of agreements with periodically restricted terms should be calculated as the time up until the next date for a change in terms.

Average risk weight for IRB exposures

Dec. 31, 2010, SEK 000s	Exposure	EAD	RW (%)	Risk-weighted assets	Capital requirement
Exposure classes, IRB Approach					
Retail exposures	99,183,847	98,835,846	24	23,343,440	1,867,475
Exposures to corporates	17,022,522	16,656,244	59	9,848,570	787,886
Non credit-obligation assets	13,091	13,091	100	13,091	1,047
Total IRB Approach	**116,219,460**	**115,505,181**	**29**	**33,205,101**	**2,656,408**
Exposure classes, Standardised Approach					
Governments and central banks	4,298,330	4,298,330	0	0	0
Regional and local authorities	364,640	281,181	0	0	0
Exposures to institutions	16,233,936	4,902,484	20	966,296	77,304
Exposures to corporates	2,441,737	2,091,246	100	2,091,246	167,300
Retail exposures	4,424,192	3,170,122	75	2,377,592	190,207
Exposures secured on residential property	3,051,373	3,048,294	40	1,220,818	97,665
Past due items	20,261	10,228	127	13,032	1,043
Exposures in the form of covered bonds	21,702,372	21,702,372	10	2,170,237	173,619
Other items	446,643	446,643	51	227,953	18,236
Total Standardised Approach	**52,983,484**	**39,950,900**	**23**	**9,067,172**	**725,374**

Distribution by PD grade

	Retail exposures					
PD grade	Exposures secured by real estate collateral		Other retail exposures		Exposures to corporates	
Dec. 31, 2010, SEK 000s	EAD	RW (%)	EAD	RW (%)	EAD	RW (%)
1	2,719,284	4	129,639	8	1,732,767	16
2	5,705,240	6	1,435,764	13	1,214,128	25
3	28,603,025	11	2,595,679	20	2,342,992	37
4	29,309,648	15	1,794,390	32	5,261,298	52
5	12,481,130	28	3,222,824	55	2,617,741	71
6	3,624,325	44	2,064,339	75	1,769,370	89
7	984,102	67	1,232,347	87	823,747	105
8	509,207	99	667,774	101	303,007	130
9	236,705	132	403,629	119	238,786	172
10	121,550	154	238,474	136	100,201	211
11	221,994	137	158,015	163	178,394	195
Default	105,840	345	270,922	149	73,813	0
Total	**84,622,050**	**18**	**14,213,796**	**55**	**16,656,244**	**59**

Exposure-weighted LGD for IRB exposures

Dec. 31, 2010	Exposure-weighted LGD (%)[1]
Retail exposures	28.0

[1] Note that this value is forward-looking as of December 31, 2010.

Unutilised undertakings for IRB exposures

Dec. 31, 2010, SEK 000s	Exposure	Average CCF (%)
Retail exposures	2,701,711	87.1

Loan losses, net

SEK M	2010	2009
Specific reserve for individually assessed loan receivables		
Write-off of confirmed loan losses during the year	–123.6	–92.4
Reversed earlier impairment of loan losses recognised in the year-end accounts as confirmed loan losses	105.3	77.6
Impairment of loan losses during the year	–109.2	–37.4
Payment received for prior confirmed loan losses	26.2	–90.2
Reversed impairment of loan losses no longer required	17.3	22.6
Covering of losses from related companies	10.0	–
Net expense for the year for individually assessed loan receivables	**–74.0**	**–119.8**
Collective reserves for individually assessed receivables	**–**	**–**
Collectively assessment of homogenous groups of loan receivables with limited value and similar credit risk		
Provision/reversal of impairment for loan losses	13.9	63.7
Net expense for the year for collectively assessed receivables	**13.9**	**63.7**
Net expense for the year for fulfilment of guarantees	–	5.7
Net expense of loan losses for the year	**–60.1**	**–50.4**

All information pertains to receivables from the public.

Loans to the public

Loan receivables are geographically attributable in their entirety to Sweden.

SEK M	Dec. 31, 2010	Dec. 31, 2009
Loan receivables, gross		
Public sector	236.5	169.6
Corporate sector	8,723 .1	6,862.1
Retail sector	109,233.4	92,847.1
Other	3.7	10.8
Total loan receivables, gross	**118,196.7**	**99,889.6**
Impairment of individually reserved loan receivables		
Corporate sector	–40.5	–44.7
Retail sector	–95.3	–98.8
Total individual reserves	**–135.8**	**–143.5**
Impairment of collectively reserved loan receivables		
Corporate sector	–24.0	–23.5
Retail sector	–126.7	–141.0
Other	0	0
Total collective reserves	**–150.7**	**–164.5**
Total impairment	**–286.5**	**–308.0**
Loan receivables, net		
Public sector	236.5	169.6
Corporate sector	8,658.6	6,793.9
Retail sector	109,011.4	92,607.3
Other	3.7	10.8
Total loans to the public	**117,910.2**	**99,581.6**
Remaining term of not more than 3 months	962.5	909.8
Remaining term of more than 3 months but not more than 1 year	3,311.6	3,042.3
Remaining term of more than 1 year but not more than 5 years	8,520.4	6,939.1
Remaining term of more than 5 years	105,488.2	88,980.0
	118,282.7	**99,871.2**

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

Impaired loans		
Corporate sector	67.9	57.6
Retail sector	140.9	155.0
Total impaired loans	**208.8**	**212.6**

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

Reconciliation of impairment of loan losses

	Dec. 31, 2010			Dec. 31, 2009		
SEK M	Individual impairments	Collective impairments	Total	Individual impairments	Collective impairments	Total
Opening balance	**–143.5**	**–164.5**	**–308.0**	**–80.7**	**–226.5**	**–307.2**
Reversed earlier impairment of loan losses recognised in the year-end accounts as confirmed losses	105.3	1.8	107.1	77.6	–	77.6
Reversed impairment of loan losses no longer required	17.4	47.4	64.8	18.9	64.6	83.5
Impairment of loan losses during the year	–115.0	–35.4	–150.4	–159.3	–2.6	–161.9
Closing balance	**–135.8**	**–150.7**	**–286.5**	**–143.5**	**–164.5**	**–308.0**

Financial risk

The overall framework for the financial operations in the Bank Group 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
- Liquidity risk
- Financing risk
- Currency risk

Interest-rate risk

Interest-rate risk arises if assets, liabilities and derivatives do not have matching fixed-interest periods. Whenever possible, fixed lending should be matched by means of corresponding borrowing or through interest-rate derivatives. In principle, this means that no time differences should exist. In practice, this is impossible, so the Board has established interest-rate risk limits. However, these limits are so conservative that the basic principle for matching still applies. The Financial Policy defines interest-rate risk as a parallel shift in the yield curve of 100 points. On December 31, 2010, 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 52 M (36).

Liquidity risk and financing strategy

The Board of Länsförsäkringar Bank decides on a Financial Policy every year which provides a framework for the financial operations of the bank and its subsidiaries. The Board stipulates the objective of financial risk management in this Policy.

The Board's main target is that liquidity and financing management should be assured by maintaining suitable long-term planning, explicit functional definitions and a high level of control. Limits and guidelines have been established for each type of risk in both the bank's own operations and the Bank Group, and are updated whenever necessary.

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

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

A satisfactory liquidity reserve is to be in place to ensure that sufficient liquidity is always available. The management of and investments in the reserve take place in accordance with the established limits stated in the Financial Policy.

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

Liquidity reserve

The liquidity portfolio totalled SEK 25.7 billion (26.7) on December 31, 2010. All liquidity is invested in Swedish securities with high credit quality. A total of 15% of the liquidity portfolio comprises securities with the government as the counterparty, 80% covered bonds with the highest credit rating and 5% day-to-day loans. The liquidity of the investments is high.

Liquidity management

Liquidity risk is managed by the Treasury unit. Liquidity risk is quantified using liquidity forecasts that contain all financial cash flows and expected cash flows, as well as the net lending increases adopted. The liquidity portfolio is continuously subjected to stress tests according to three scenarios. These scenarios illustrate how long cash and cash equivalents will last, given that

- The operations are being conducted according to plan but no market financing is available
- The growth in loans and deposits remains unchanged, while no market financing is available
- The growth in loans remains unchanged and deposits decline, while no market financing is available

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

Contingency plans

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

General objectives of refinancing strategy

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

Borrowing is to:
- Ensure the short and long-term capital requirements
- Ensure that the price of debt securities in issue is in line with the prices of relevant competitors.

Strategy for ensuring short and long-term refinancing

The Group regularly meets with both current and potential investors to ensure that these investors have a clear overview of the operations that facilitates the existence of limits and a willingness to invest in the Group's securities over time.

The Group's refinancing activities are also based on diversification in terms of a variety of investors and markets. To ensure the success of diversification, the Group also needs to issue the type of securities sought after by the investors in the different markets. This strategy also ensures access to refinancing over time. The instruments that the company is permitted to use are regulated in the Financial Policy. Investor activities encompasses banks, fund managers, insurance companies and central banks.

Furthermore, as part of these activities the Group strives to ensure that as favourable liquidity as possible is maintained in the Group's investments. This also aids the work to secure refinancing options.

Bonds and other interest-bearing securities	**Dec. 31, 2010, SEK M**	**Dec. 31, 2009, SEK M**
AAA/Aaa	21,203.3	19,614.2
A/A2		3,086.9
	21,203.3	**22,701.1**

Financing risk

Financing risk means that the Bank Group, in the event of financing maturity, does not successfully refinance the maturity or only succeeds in borrowing at substantially increased costs. This definition is closely linked to the definition of liquidity risk. By using the largest possible number of financing sources with expanded investor bases and by distributing financing maturities over time, the Bank Group's financing risk decreases. The Financial Policy also stipulates that the average term of borrowing is to exceed the average term of the loan portfolio. The Bank Group's rating has improved in recent years to a current rating of A from Standard & Poor's and a current rating of A2 from Moody's. Länsförsäkringar Hypotek's covered bonds also have the highest rating from both Moody's and Standard & Poor's.

Currency risk

Currency risk refers to the risk of a currency changing in value in relation to another currency. Currency risks arise because losses may be incurred if the exchange rate changes negatively. All borrowing that takes place in a foreign currency is swapped before settlement in SEK in accordance with the Financial Policy to eliminate currency risk.

Operational risks

Operational risk is defined as the risk of losses arising due to inappropriate or unsuccessful internal processes, human error, incorrect systems or external events. This definition also includes legal risks. Based on this definition, operational risk encompasses the entire Bank Group. Operational risk is primarily categorised into the following areas:

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

All significant processes in the Bank Group and the banking operations of the regional insurance companies are required to perform an analysis of the operational risk associated with the process. These risk analyses are included in the Bank Group's total risk assessment in accordance with the Basel regulations. Since the operations, their external environment and threat profile are constantly changing, the processes must be subjected to regular quality assurance. This is carried out to ensure that the risks remain within the Bank Group's tolerance level. Risk analysis is one of the tools used to prepare the basis for decision-making in order to introduce measures for managing significant risks. The purpose of risk analysis is to:

- Identify and reduce significant operational risks
- Plan security activities
- Create awareness of operational risks
- Comply with Finansinspektionen's requirements for measuring and assessing operational risk

Every part of the organisation is responsible for planning an annual risk analysis, carrying out the analysis and managing the results in an action list.

The risk analysis model is based on:

- Predefined events, and
- Other events

The analysis is normally performed in two stages:

- Stage 1, Risk analysis – Risks are defined and assessed based on their consequences and probability. Risk analyses are conducted once annually.
- Stage 2, Action planning – Action is to be taken for significant risks. Proposed solutions are discussed and implemented. This is carried out continuously within the process in order to manage risk.

Incident management

The Bank Group has developed an IT system for reporting operational risk events or incidents. This system enables all employees to report possible incidents. The system automatically divides the incidents into the categories established by Finansinspektionen. Riskcontrol periodically prepares a summary of the incidents in its reports. Incident management is an important part of the Bank Group's operational risk management. Incident statistics contribute to the annual assessment and forecast of operational risk. Incident reporting enables the company to quickly identify critical problems and act upon these.

Model for assessing operational risk

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

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

These factors are aggregated to determine a target value for the operational risk. Management of the Bank Group is responsible for performing the risk analyses, meaning identifying and assessing operational risk, within its area of responsibility. All employees have a responsibility to report incidents. Management is responsible for taking action against intolerable risks in their areas of responsibility.

Business risk

According to the Bank Group's definition, business risk comprises the following risks:

- Strategic risk
- Earnings risk
- Reputation risk

Strategic risk

The Bank Group has identified strategic risk as a significant business risk that must be taken into consideration. Strategic risk refers to institutional changes and changes in basic market conditions that may occur. Strategic risk also includes the ability of the Board and President to plan, organise, follow up on and control the operations and to continuously monitor market conditions.

Earnings risk

Earnings risk is defined by the Bank Group as volatility in earnings that creates a risk of lower income due to an unexpected decrease in income as a result of such factors as competition or volume reductions. Earnings risk is associated with all of the Bank Group's products and portfolios. A considerable portion of the Bank Group's business operations involves retail mortgages. Retail mortgages has a low level of volatility.

Reputation risk

Reputation risk is difficult to assess, but this type of risk could be devastating for an operation like Länsförsäkringar, which is based on a well-established brand. Reputation risk is the risk of a tarnished reputation among customers, owners, employees, authorities and other parties resulting in reduced income.

Internal Capital Adequacy Assessment Process (ICAAP)

The Bank Group's internal capital adequacy assessment process (ICAAP) was designed based on the requirements of the Basel II rules, the requirements established by the Board for the operations and the internal demands of an increasingly complex business operation. The regulations aimed at the internal capital adequacy assessment processes of financial companies are based on principles and are comprehensive in nature. To a large extent, this means that Länsförsäkringar Bank has the option and an obligation to independently design its process and, in the long run, its scope and level of sophistication. The Bank Group's procedures, implementation and results are to be reported to Finansinspektionen annually. The CFO 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 CFO is responsible for developing a methodology document that describes the process and shall include at least the following:

- A detailed description of the capital assessment process and the areas of responsibility associated with the process.
- A detailed description of methods for calculating total capital that take Pillar I risks, Pillar II risks and conducted stress tests into consideration.

The process shall be carried out annually and shall include at least the following activities:

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

At least once annually, the basic prerequisites for stress tests are to be reviewed by the Board. This review should act as a guide for the continuing work involving stress tests. Work involving stress tests is based on a number of scenarios and the impact of these scenarios on risk in the Bank Group. Riskcontrol is to participate in the ICAAP in its entirety and, in particular, assume responsibility for carrying out the stress tests.