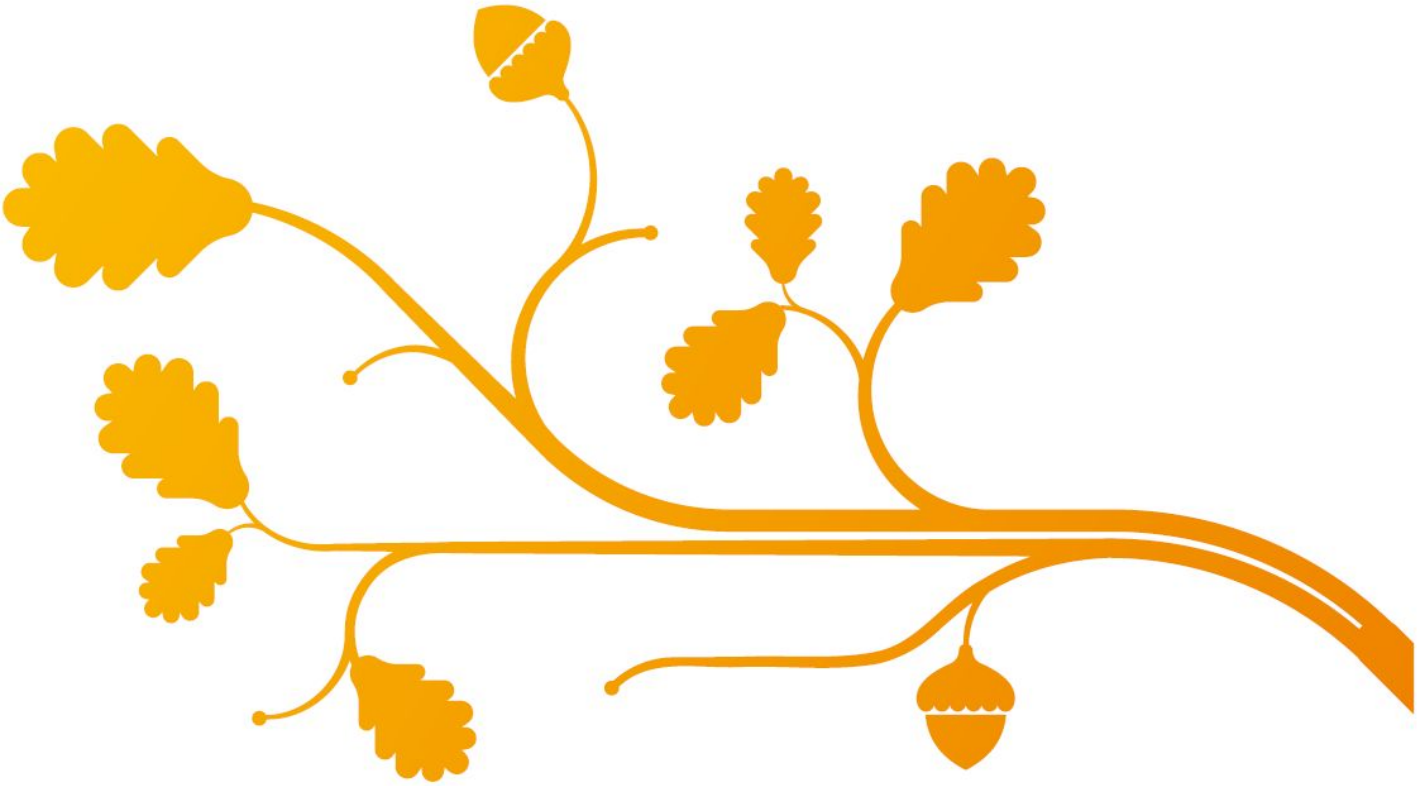
Swedbank AS, Estonia
Annual Report 2012



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Overview

Swedbank AS, Estonia is a fully-owned subsidiary of Swedbank AB (publ), Sweden.

Throughout this annual report "Swedbank Estonia" and "Swedbank" refer to the consolidated financial statements of Swedbank AS, Estonia and its subsidiaries. Swedbank AS is hereinafter referred to as 'the Bank'. 'Swedbank Group' or 'Group' refers to Swedbank AB (publ) and its subsidiaries. Swedbank AB refers to Swedbank AB (publ), Sweden.

Economic development in 2012 and outlook

Global economy

After more than five years of extraordinarily high financial and economic stress, the global economy has become more diverse. In the second half of 2012, economic activity dampened markedly. While the US economy grew moderately, the situation in Europe, especially in euro area, deteriorated in the course of the year. Growth also slowed in China, India, Brazil, Russia, and the Nordic countries, albeit from higher levels.

Although the euro area made progress in the institutional area, growth faltered – not least in southern Europe, where unemployment rose to historical highs. Overall, the biggest challenge is to continue to find a balance between budget austerity and growth, and there are risks of increased social and political unrest in southern Europe. In the euro area, the alternatives to budget consolidation are less obvious than in the US, where financial markets have so far remained relatively confident. The recovery will remain slow due to the combination of fiscal and credit austerity, and the large uncertainties surrounding political decisions.

Inflation pressures will remain subdued in the global economy, except in emerging markets, where spare capacity is low and/or relatively high food and energy prices strongly have affected consumer prices.

The estimated growth for global economy is 3% in 2012, whereas Swedbank expects the growth to accelerate only marginally in 2013 to 3.1%. The euro area undergoes GDP fall two years in a row (2012-2013), but growth rates will become slightly positive at the end of 2013. Southern Europe will lag, as GDP will continue to fall in 2013 and unemployment rates remain high.

Estonian economy

In 2012, Estonia's GDP growth decelerated substantially, from 8.3% in 2011 to 3.2%. Despite this, Estonia remained the fastest-growing economy in the euro area. The slowdown was mainly associated with the gradual weakening of external demand conditions, whereas the output growth of export-oriented manufacturing was negative. Increasing investment activity, contributed mainly by externally financed infrastructure projects, was the main driver behind GDP growth. Uncertainty regarding future export performance held back investment activity in the corporate sector although export sales of manufacturing production accelerated in the last quarter of 2012. Still, the fragile external demand conditions will persist through the first half of 2013 and corporate sector investment activity remain subdued. In addition, there will be fewer state-financed investment projects than in 2012.

As a result, Swedbank does not see remarkable acceleration of the economic growth in 2013 and have forecasted the GDP to increase only by 3.1% in real terms. We foresee a gradual business cycle pickup towards the end of 2013.

Following the increased investment activity and a small terms-of-trade worsening due to higher commodity prices, the external balance of the Estonian economy deteriorated in 2012. The foreign trade balance is likely to weaken over 2013, as exports will remain subdued and investment activity in some larger infrastructure projects has reached a phase where it will become more import intensive. Although, negative trade balance was compensated by surplus in services, current account was in deficit in 2012 and the balance is expected to worsen in 2013.

The labour market continued to improve during 2012. For the first time since the crisis, the unemployment rate fell below 10% in the second half of the year. However, there are signs that employment growth will decelerate and the unemployment rate will unlikely decrease significantly further. On the supply side, the lack of labour, especially qualified labour, is becoming increasingly binding. Wages rose by 5.9% in nominal terms in 2012, which was the highest growth rate since the end of the 2008-2009 crisis. Wages' growth exceeded productivity gains, whereas unit labour costs increased. Despite the tightening of the labour market, wage pressures will be subdued, as corporations rather prevent worsening of their balances.

Private consumption grew in line with a wage bill above 4.5% in 2012. Through 2012, households' purchasing power was negatively affected by higher food and oil prices. Driven by external price pressures, consumer prices were up by 3.9% over the year. However, domestically driven core inflation remained subdued. Swedbank foresees that the rise in consumer prices will decelerate in 2013, whereas the domestic price pressures will become main source of inflation.

Business overview

Swedbank believes in a traditional approach to banking based on sound advice and strong customer relationships. Our bank is inclusive and our goal is to be a respected long term financial partner for private and business customers as well as a caring and fully contributing member of society. Swedbank's strategy is to maintain a low risk level, a focus on costs, a good balance between deposits and lending and buffers for highly stressed scenarios. We should be able to invest in our customers and our businesses even in a downturn.

Priorities of 2012

Swedbank's goal is to retain a strong market position while maintaining profitability. It is achieved through:

- Strengthening relationships with customers
- Meeting new needs for competences
- Developing the electronic channels
- Strengthening opinion-leader status

Stronger relationships with customers

The shift towards a more customer centric business model continued in 2012. Significant emphasis was placed on creating long-term customer relationships with the right products and services. Our surveys show that the overall satisfaction levels of our core customers have strengthened and consequently, we are winning an increasing share of their business. Daily banking activity in Estonia has intensified and over the year the number of active customers increased by 3000. The number of customers who ordered free bank services from Swedbank's increasingly popular reward programme increased by almost 1000 per cent to 35 550 year on year.

New customer service model means new competence needs

Swedbank's customer service model, which focuses more on advisory services, represents a new approach and requires different skills from the bank's employees. We are gradually shifting decision-making authority closer to the customer as we further improve our advisors' understanding of our customers and their skills. This applies in particular to pricing risk and how the structure of the balance sheet affects funding costs.

Improved service in electronic channels

To accommodate changes in our customers' behavior and needs, we have developed a channel strategy for the next five years. We have improved functionality and service in the bank's electronic channels, primarily in terms of sales. We have also taken measures to increase usability and the customer experience. Swedbank has 600 thousand active internet banking users in Estonia, and more than 80 500 customers have now downloaded our mobile banking app. In January 2013 first time in the bank's history the customers contacts via mobile exceeded the number of contacts in branch network. Swedbank has received several awards for its digital channels in recently published surveys. Global Finance ranked Swedbank's Internet Bank as the best in Estonia and our mobile banking solution for commercial customers has been named the world's best.

Swedbank as an opinion leader

Swedbank continued to work closely with government, central bank and capital markets during the year to promote financial stability and increase confidence. Financial education is an important part of our social engagement. By working with governments, organizations and schools, we are part of the local community. Our goal is to help individuals and businesses improve their financial situation and promote future sustainable development in Estonia. In the area of entrepreneurship a study was conducted by Swedbank a year ago that pointed three shortcomings in the development of entrepreneurship: lack of interdisciplinary thinking, lack of international marketing and lack of prototype creation. To tackle the last problem Swedbank venture together with Tallinn University of Technology and Science Park Technopol created Prototron – a pool of money to grant support the young innovators in creating physical prototypes.

Priorities for 2013

In 2013 Swedbank needs to increase cost efficiency and maintain our economy of scale in low base rate environment. We will continue in 2013 to strengthen our customer centric business model based on long-term, full-service relationships. In the next few years we will review the distribution and service model to enable a shift to the next-generation model. This will be based on effective electronic channels for basic banking services such as transactions, sales activities and certain types of advice, allowing the branches to be used mainly to advise customers with more complex needs. We will also continue to strengthen employee competence in terms of risk based pricing.

Recognition

According to the results of the Corporate Responsibility Index 2012 Swedbank ranked among the best companies, achieving the gold level.
Investment & Pensions Europe, the continent's most respected magazine on the topic, has named Swedbank's K3 pension fund as the best in Central and Eastern Europe.

Estonian Health Tracks Foundation received the International Olympic Committee's Sport and Environment Award. The Foundation was established by three companies – Merko Ehitus, Eesti Energia and Swedbank – to ensure year-round opportunities for pursuit health sports.

Swedbank in Estonia got "Act of the Year 2012" award from Estonian Blind Peoples Association for installing aids for the blind and visually impaired people - specially marked keyboard, headphones and voice-activation on its 6 ATMs.

According to TNS Emor's annual survey "Awareness and image of large enterprises in Estonia", Swedbank is the Most Reputable Large Company in Estonia in 2012. This is the fifth consecutive year that Swedbank holds this position.

Financial review

Review of consolidated income statement

Swedbank AS reported a profit of EUR 243.6m from continuing operations for the full year 2012, up from EUR 180.6m a year earlier. The result is improved mostly due to increased net credit recoveries and improved net gains and losses on financial items at fair value.

Total income

The total income of 2012 increased by EUR 30.1m (10 per cent) supported by net gains and losses and other income while net interest income decreased.

Net interest income decreased by 6 per cent (EUR 13.9m) to EUR 206.0m in 2012 compared with EUR 219.9m in 2011. Record low base rates in the second half of 2012 decreased loans interest income by 13% (EUR 43.0m) compared with 2011. The decline was partly compensated by decreased interest expenses influenced by lower deposit rates and improved loan-to-deposit ratio.

Net commission income decreased by less than 1 per cent to EUR 63.9m compared with EUR 64.3m in 2011 – primarily because of decreased card net fees. Also security net commissions decreased. Increased economic activity raised payment, loan/guarantee and other net fees.

Net gains and losses improved by EUR 34m compared with 2011 influenced by EUR 30m foreign exchange loss related to legal structure changes in 2011. Net insurance income decreased by 1 per cent due to increased provisions. Other income increased by EUR 10.7m mainly due to the same legal structure change – starting from the third quarter 2011 the other income includes more intra Swedbank Group revenues. Other expenses increased because of the same reason.

Operating expenses

Expenses increased by 3 per cent (EUR 4 m) year-over-year. Other expenses increased mostly due to additional intra Swedbank Group expenses after selling Latvian and Lithuanian subsidiaries. Excluding these additional expenses, total expenses decreased compared with 2011 despite increased provisions for compensation programs. Increased cost efficiency was supported by 4 per cent decreased number of full-time employees and branch network optimization carried out together with more efficient delivery of services via electronic channels.

Asset quality

Net credit recoveries amounted to EUR 39.5m in 2012 compared with EUR 0.3m credit and other impairments during 2011. The improvement in credit quality was mainly due to ratings upgrades and increasing collateral values as well as the increase in new, low risk lending.

Swedbank's focus is on new lending quality along with credit portfolio management activities to ensure well-balanced, sustainable growth.

Balance sheet review

Lending

Swedbank's net lending volumes increased by 1.1 per cent (EUR 63m) from 31 December 2011. After a fall in the first quarter, the loan portfolio stabilized in the second quarter and grew slightly over the remainder of the year. Swedbank Estonia's market share of lending decreased by 0.5 pp during 2012 to 39.8 per cent as of 31 December 2012.

Swedbank's priority is to support and promote sustainable economic and financial development in its home market countries and hence our customers, not necessarily to maintain market share.

Deposits and savings

Deposit volumes increased by 4.7 per cent (EUR 251m) from 31 December 2011. Swedbank's deposit market share decreased by 0.7 pp to 44.9 per cent compared with 31 December 2011.

The loan-to-deposit ratio decreased to 108 per cent (112 per cent as of 31 December 2011).

Corporate governance report

Council

Pursuant to the Articles of Association, the Supervisory Board (hereinafter referred to as the Council) consists of at least five (5) but not more than twelve (12) members. The members of the Council are elected and recalled by the sole shareholder, Swedbank AB (publ).

As of January 1st 2012 the Council members were Birgitte Bonnesen (the Chair), Tiina Sepa, Johan Rosen, Toms Silinš, Erik Štarkov. On the July 3rd 2012 Kristina Mikenberg was elected as a new Council Member and on the July 31st 2012 Toms Silinš was recalled. On the September 13th 2012 Erik Štarkov was recalled and Pehr Olofsson was elected as a new Council Member. As of December 31st 2012 the Council members were Birgitte Bonnesen (the Chair), Tiina Sepa (the Deputy Chair), Johan Rosen, Kristina Mikenberg and Pehr Olofsson.

The detailed competence and responsibilities of the Council are established in internal governance regulation Swedbank Estonia Governance Rules, approved by the Council. The principal functions of the Council are to plan the activity of Swedbank Estonia and give instructions to the Management Board (hereinafter referred to as the Board) for organization of the management; to supervise the activity of the Board; and to ensure monitoring that the activity of Swedbank Estonia, the Board and employees complies with the legislation and internal rules. As a general principle, the consent of the Council is required for all strategic issues (i.e. issues that are beyond the scope of every business activities) or issues having a principal significance with regard to Swedbank Estonia operations.

Pursuant to the law and Articles of Association, the meetings of the Council are held according to necessity, but not less frequently than once every three (3) months. In 2012 the Council held four (4) meetings and adopted without convening a meeting one (1) resolutions by e-voting and three (3) resolutions in written procedure pursuant to the Article 323 (6) of Estonian Business Code.

The members of the Council are elected for the term of three (3) years. The working language of the Council is English, in which the minutes of meetings are recorded.

The Council members receive no remuneration. Relevant practice was implemented in 2006.

Board

The Articles of Association establishes that the Board consists of at least six (6), but not more than twelve (12) members, elected by the Supervisory Board for the term of three (3) years.

As of January 1st 2012 the Board members were Priit Perens (Chairman), Vaiko Tammeväli (Private Banking Division), Rait Pallo (Credit Management Division), Ulla Ilisson (Retail Banking Division), Heiki Raadik (CFO) and Robert Kitt (Corporate Banking Division).

Pursuant to the law and Articles of Association the Board is the highest executive body of Swedbank Estonia, which organizes day-to-day activities. The Board shall act on the basis of law and be governed by the guidelines of the Council.

The Board meetings are held on a monthly basis. In 2012 the Board held eleven (11) meetings and adopted without convening meeting four (4) resolutions by e-voting and one (1) resolution in written procedure.

The working language of the Board is Estonian, in which the minutes of meetings are recorded.

The Board members as all employees will receive bonuses for 2012 according to the Performance and Share based Remuneration Program adopted by Swedbank Group.

Committees

With a view to increase the efficiency of the processes and ensure bigger focus on the core areas, the Council and the Board have the right to form committees. The obligation to form some committees arises from law (e.g., credit committee, remuneration committee, audit committee).

Swedbank Estonia has no local Audit Committee and Remuneration Committee as these committees are established on Swedbank Group level by the parent bank.

The Board had formed Committees for making credit decisions (Board Credit Committee), enhancing risk management (Business Continuity Committee), developing product-related internal rules and solving ethic-related issues. The competencies, members and rules of procedure of the Committees shall be determined by individual resolutions of the Board.

Financial statements and notes

Consolidated income statement

EURm	Note	2012	2011
CONTINUING OPERATIONS			
Interest income		276.9	319.9
Interest expenses		-70.9	-100.0
Net interest income	6	**206.0**	**219.9**
Commission income		88.7	89.1
Commission expenses		-24.8	-24.8
Net commissions	7	**63.9**	**64.3**
Net gains and losses on financial items at fair value	8	11.7	-22.4
Insurance premiums		73.7	72.5
Insurance provisions		-40.4	-38.8
Net insurance	9	**33.3**	**33.7**
Other income	10	27.1	16.4
Total income		**342.0**	**311.9**
Staff costs	11	67.9	68.6
Other general administrative expenses	12	56.5	50.9
Total general administrative expenses		**124.4**	**119.5**
Depreciation/amortisation	14	8.5	9.4
Total expenses		**132.9**	**128.9**
Profit before impairments		**209.1**	**183.0**
Impairment of tangible assets	15	0.0	1.6
Credit impairments	16	-39.5	-1.3
Operating profit		**248.6**	**182.7**
Tax expense	17	5.0	2.1
Profit for the year from continuing operations		**243.6**	**180.6**
DISCONTINUED OPERATIONS			
Profit for the year from discontinued operations		0.0	262.1
Profit for the year		**243.6**	**442.7**
Profit for the year attributable to:			
Shareholders of Swedbank AS		**235.1**	**440.4**
Non-controlling interests		8.5	2.3

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Consolidated statement of comprehensive income

EURm	2012	2011
Profit for the period reported via income statement	243.6	442.7
Exchange differences, foreign operations	0.0	39.2
Other comprehensive income for the period, net of tax	0.0	39.2
Total comprehensive income attributable to shareholders of Swedbank AS	243.6	481.9

Consolidated balance sheet

EURm	Note	2012	2011
Assets			
Cash and balances with central banks		1 089	228
Treasury bills and other bills eligible for refinancing with central banks, etc.	18	197	320
Loans to credit institutions	19	931	1 846
Loans to the public	20	6 020	5 957
Bonds and other interest-bearing securities	22	224	166
Fund shares for which customers bear the investment risk	23	205	176
Shares and participating interests	24	12	12
Derivatives	26	43	24
Intangible fixed assets	27	5	7
Tangible assets	28	27	28
Other assets	29	170	33
Prepaid expenses and accrued income	30	38	43
Total assets		**8 961**	**8 840**
Liabilities and equity			
Liabilities			
Amounts owed to credit institutions	31	787	1 359
Deposits and borrowings from the public	32	5 589	5 338
Debt securities in issue, etc.	33	4	15
Financial liabilities in insurance operations	34	239	210
Derivatives	26	50	23
Deferred tax liabilities	17	4	0
Other liabilities	35	256	79
Accrued expenses and prepaid income	36	44	48
Provisions	37	156	180
Total liabilities		7 129	7 252
Equity			
Non-controlling interests		57	48
Equity attributable to shareholders of the parent company		1 775	1 540
Share capital		85	85
Other equity		75	75
Retained earnings		1 615	1 380
Total equity		**1 832**	**1 588**
Total liabilities and equity		**8 961**	**8 840**

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Consolidated statement of cash flow

EURm	Note	2012	2011
Operating activities			
Operating profit		249	469
Loan losses		-109	-1 253
Interest income	6	-277	-519
Interest expense	6	71	180
Depreciation,amortisation and impairment	14, 15	8	14
Profit from sales of subsidiaries			-110
Profit from sales of tangible assets			-1
Book value of tangible assets written-off			2
Total adjustments to operating activities		**-307**	**-1 687**
Changes in operating assets and liabilities			
Net change in prepayments		-2	46
Net change in accrued liabilities		3	-43
Net change in deposits placed with other banks		404	370
Net change in trading securities		-31	-838
Net change in loans to financial institutions		278	-1 559
Net change in compulsory reserve in CB		45	-169
Net change in loans		38	2 111
Net change in other assets		-134	-141
Net change in short-term liabilities due to other banks		107	-584
Net change in demand deposits		686	389
Net change in time deposits		-431	165
Net change in other liabilities		201	181
Total adjustments to operating assets and liabilities		**1 164**	**-72**
Interest received		285	535
Interest paid		-76	-141
Income tax reverse			29
Cash flow from operating activities		**1 315**	**-867**
Investing activities			
Disposal of subsidiaries		0	1 351
Net change in securities held for investment		23	36
Acquisition of tangible assets	28	-5	-13
Sale of tangible assets			8
Acquisition of intangible assets	27	-1	-6
Proceeds from sale of intangible assets			13
Cash flow from investing activities		**17**	**1 389**
Financing activities			
Credit lines of Central Bank and government received		5	
Credit lines of Central Bank and government paid		-9	-15
Long-term loans received from other banks		215	
Long-term loans paid back to other banks		-893	-1 197
Issue of securities		-12	-61
Capital reduction			-518
Dividends paid			-242
Net change in minority		9	48
Net change in subordinated loans			-246
Cash flow from financing activities		**-685**	**-2 231**
Cash flow for the year		**647**	**-1 709**
Effect of the change in exchange rate from foreign subsidiaries		**0**	**39**
Net increase in cash and cash equivalents		**647**	**-1 670**
Cash and cash equivalents at the beginning of the year		1 356	3 026
Cash flow for the year		647	-1 709
Effect of the change in exchange rate from foreign subsidiaries		0	39
Cash and cash equivalents at the end of the period		2 003	1 356

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Comments on the consolidated cash flow statement
The cash flow statement shows receipts and payments during the year as well as cash and cash equivalents at the beginning and end of the year. The cash flow statement is prepared using the indirect method and is divided into receipts and payments from operating activities, investing activities and financing activities.

Operating activities
Cash flow from operating activities is based on operating result for the year. Adjustments are made for items not included in cash flow from operating activities. Changes in assets and liabilities from operating activities consist of items which is part of normal business activities, such as loans to and deposits and borrowings from the public and credit institutions, and which are not attributable to investing and financing activities.

Investing activities
Investing activities consist of the purchase and sale of fixed assets and strategic financial assets. When a business is acquired or divested, its cash and cash equivalents are reported as separate items.

Financing activities
Issuance and redemption of loans with maturities exceeding one year are reported gross. Change in other borrowing includes the net change in borrowings with shorter terms and high turnover.

Cash and cash equivalents
Cash and cash equivalents comprise cash, balances with the Central Bank (excluding the minimum reserve), correspondent accounts and overnight deposits in other banks and liquidity securities.

Specification of cash and cash equivalents	2012	2011
Cash	85	82
Balances with Central Bank	947	44
Placements with other banks	727	960
Liquidity bonds	244	270
Cash and cash equivalents at the end of the period	2 003	1 356

Consolidated statement of changes in equity

EURm	Equity attributable to the shareholders of the parent company						Non-controlling interests	Total equity
	Share capital	Share premium	Reserves	Translation of foreign operations	Retained earnings	Total		
Opening balance 1 January 2011	603	32	57	-39	1 167	1 820	0	1 820
Capital reduction	-518					-518		-518
Dividends paid					-242	-242		-242
Changes in ownership interest in subsidiary						0	46	46
Appropriations from reserves			-14		14	0		0
Total comprehensive income for the period				39	441	480	2	482
Closing balance 31 December 2011	85	32	43	0	1 380	1 540	48	1 588
Opening balance 1 January 2012	85	32	43	0	1 380	1 540	48	1 588
Total comprehensive income for the period					235	235	9	244
Closing balance 31 December 2012	85	32	43	0	1 615	1 775	57	1 832

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Notes

1 Corporate information

Swedbank AS (hereinafter referred to as "the Bank") is a financial institution in the form of a public liability company (AS) domiciled in Estonia. The consolidated financial statements of the Bank for the year ended 31 December 2012 comprise Swedbank AS and its subsidiaries (together referred to as the "Swedbank" or "Swedbank Estonia").

Swedbank AB (publ) owns 100% of the Bank shares as of 31 December 2012; it is also the ultimate parent entity of the Bank. The Bank's consolidated financial statements are therefore consolidated into Swedbank AB annual financial statements.

The consolidated financial statements of Swedbank are approved by the Council and the Board and are presented for final approval to the shareholder. Bank and insurance companies in Estonia are subject to the regulatory requirements of Estonian Central Bank. These regulations include those pertaining to minimum capital adequacy requirements, classification of loans and off-balance sheet commitments, credit risk connected with clients of the bank, liquidity, interest rate risk and foreign currency position. Similarly, certain other Swedbank entities are subject to regulatory requirements, specifically in relation to insurance and collective investment.

2 Accounting policies

BASIS OF ACCOUNTING

The financial reports and the consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and interpretations of them. The standards are issued by the International Accounting Standards Board (IASB) and the interpretations by the IFRS Interpretations Committee (IFRIC). . Complete financial reports refer to:

- balance sheet at the conclusion of the period,
- statement of comprehensive income for the period,
- statement of changes in equity for the period,
- cash flow statement for the period, and
- notes, comprising a summary of significant accounting policies and other explanatory information

The financial statements are presented in euros and all figures are rounded to millions of euros (EUR m) unless indicated otherwise.

NEW STANDARDS AND INTERPRETATIONS

IASB

As of the financial year 2012 the following revisions and interpretations apply.

• Amendment to Deferred Tax: Recovery of Underlying Assets (amendment of IAS 12), which describes how deferred taxes are measured when investment properties are measured at fair value.

• Amendment on disclosures of Transfers of Financial Assets (IFRS 7), which entails additional requirements on quantitative and qualitative disclosures on the removal of financial assets from the balance sheet when the company retains an obligation in the removed financial asset. If a transfer of financial assets does not result in its removal in its entirety, it must be disclosed.

Neither of the above amendments have had a significant effect on the Group's financial statements.

SIGNIFICANT ACCOUNTING POLICIES

Presentation of financial statements (IAS 1)

Financial statements provide a structured representation of a company's financial position and financial results. The purpose is to provide information on the company's financial position, financial results and cash flows useful in connection with financial decisions. The financial statements also indicate the results of management's administration of the resources entrusted to them. Complete financial statements consist of a balance sheet, statement of comprehensive income, statement of changes in equity, cash flow statement and notes. Swedbank presents the statement of comprehensive income in the form of two statements. A separate income statement contains all revenue and expense items in profit provided that a special IFRS does not require or allow otherwise. Such other revenue and expense items are recognised in other total comprehensive income. The statement of comprehensive income contains the profit recognised in the income statement as well as the components included in other total comprehensive income.

Consolidated financial statements (IFRS 3, IAS 27)

The consolidated financial statements comprise the Parent Company and those entities (including special purpose vehicles) in which the Parent Company has control, i.e., the power to govern a company's financial and operating strategies to obtain economic benefits. These entities, subsidiaries, are included in the consolidated financial statements in accordance with the purchase method from the day that control is obtained and are excluded from the day that control ceases. According to the purchase method, the acquired unit's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria are recognised and valued at fair value upon acquisition. The surplus between the cost of the business combination, transferred consideration measured at fair value on the acquisition date, and the fair value of the acquired share of identifiable assets, liabilities and reported contingent liabilities is recognised as goodwill. If the amount is less than the fair value of the acquired company's net assets, the difference is recognised directly through profit or loss. The transferred consideration (purchase price) includes the fair value of transferred assets, liabilities and shares which, in applicable cases, have been issued by the Group as well as the fair value of all assets or liabilities that are the result of an agreement on contingent consideration. Acquisition-related costs are recognised when they arise. For each acquisition, the Group determines whether all non-controlling holdings in the acquired company should be recognised at fair value or at the holding's proportionate share of the acquired subsidiary's net assets. A subsidiary's contribution to equity includes only the equity that arises between acquisition and disposal. All intra-Group transactions and intra-Group gains are eliminated. Transactions with non-controlling owners are recognised as equity transactions with the Group's owners. In the case of acquisitions of interests from non-controlling owners, the difference between the price paid for the interests and the acquired share of the carrying amount of the subsidiary's net assets is recognised in equity attributable to the Parent Company's shareholders as retained earnings. The carrying amounts of holdings with and without control are adjusted to reflect the changes in their relative holdings. Gains and losses on the sale of interests to non-controlling owners are also recognized in equity. If, following a sale of its interests, the Group no longer has control, its remaining holding is revalued at fair value and the change is recognised in its entirety through profit or loss. This fair value subsequently serves as the cost of the remaining holding in the former subsidiary for reporting purposes. All amounts related to the divested unit that were previously recognised in other comprehensive income are recognised as if the Group directly divested the related assets or liabilities, due to which amounts previously recognised in other comprehensive income may be reclassified as profit or loss. If the interest in an associate is reduced but control is retained, only a proportionate share of the amount previously recognised in other comprehensive income is reclassified as profit or loss.

Assets and liabilities in foreign currency (IAS 21)

The consolidated financial statements are presented in EUR, which is also the Parent Company's functional currency and presentation currency. Functional currency refers to the main currency used in an entity's cash flows. Transactions in a currency other than the functional currency (foreign currency) are initially recorded at the ECB reference rate at the transaction day. Monetary assets and liabilities in foreign currency and non-monetary assets in foreign currency measured at fair value are translated at the rates prevailing at the closing day. Outstanding forward exchange contracts are translated at closing day forward rates. Holdings of foreign bank notes are translated at the buying rates for the notes as of the closing day. All gains and losses on the translation of monetary items, including the currency component in forward exchange contracts, and non-monetary items measured at fair value are recognised through profit or loss as changes in exchange rates in net gains and losses on financial items at fair value. Assets and liabilities in subsidiaries and associates with a functional currency other than EUR are translated to the presentation currency at the closing day exchange rate. The income statement is translated at the exchange rate for each transaction. For practical purposes, the average rate for the financial year is generally used. Exchange rate differences that arise are recognised in other total comprehensive income. When subsidiaries and associates are divested, cumulative translation differences and exchange rate differences are recognised through profit or loss.

Financial instruments (IAS 32, IAS 39)

The large part of the Group's balance sheet items refers to financial instruments. A financial instrument is any form of agreement which gives rise to a financial asset in one company and a financial liability or equity instrument in another. Cash is an example of a financial asset, while financial liabilities might include an agreement to pay or receive cash or other financial assets. Financial instruments are classified on various lines of the balance sheet such as loans to the public or credit institutions depending on the counterparty. If the financial instrument does not have a specific counterparty when it is listed on the market, it is classified on the balance sheet among various types of securities. Financial liabilities where the creditor has a lower priority than others are classified on the balance sheet as Subordinated liabilities. A derivative is a financial instrument that is distinguished by the fact that its value changes, for example, due to exchange rates, interest rates or share prices, at the same time that little or no initial net investment is required. The agreement is settled on a future date. Derivatives are reported on separate lines of the balance sheet, either as assets or liabilities depending on whether the contract has a positive or negative fair value. Contractually accrued interest is recognised among prepaid or accrued income or expenses in the balance sheet. Financial assets are recognised on the balance sheet on the trade day when an acquisition agreement has been entered into, with the exception of loans and receivables, which are recognised on the settlement day. Financial assets are derecognised when the right to obtain the cash flows from a financial instrument has expired or essentially been transferred to another party. Financial liabilities are removed from the balance sheet when the obligation in the agreement has been discharged, cancelled or expired.

Repos

A genuine repurchase transaction (repo) is defined as a contract where the parties have agreed on the sale of securities and the subsequent repurchase of corresponding assets at a predetermined price. In a repo, the sold security remains on the balance sheet, since the Group is exposed to the risk that the security will fluctuate in value before the repo expires. The payment received is recognised as a financial liability on the balance sheet based on who the counterparty is. Sold securities are also recognised as a pledged asset. The proceeds received for acquired securities, so-called reverse repos, are recognised on the balance sheet as a loan to the selling party.

Financial instruments, recognition (IAS 39)

The Group's financial instruments are divided into the following valuation categories:

- financial instruments at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments,
available for sale financial assets, and
- other financial liabilities.

A few individual holdings of insignificant value have been categorised as available-for-sale financial assets in the valuation category available-for-sale. All financial instruments are initially recognised at fair value. The best evidence for fair value at initial recognition is the transaction price. For financial instruments that subsequently are not measured at fair value through profit or loss, supplementary entries are also made for additions or deductions of direct transaction expenses to acquire or issue the financial instrument. Subsequent measurements depend on the valuation category to which the financial instrument is attributed. Notes to items in the balance sheet with financial instruments indicate how the carrying amount is divided between valuation categories.

Valuation category at fair value through profit or loss

Financial instruments at fair value through profit or loss comprise instruments held for trading and all derivatives, excluding those designated for hedge accounting. Financial instruments held for trading have been acquired for the purpose of selling or repurchasing in the near term or are part of a portfolio for which there is evidence of a pattern of short-term profit-taking. In the notes to the balance sheet, these financial instruments are classified at fair value through profit or loss, trading. This category also includes other financial instruments that upon initial recognition have irrevocably been designated as at fair value, the so-called fair value option. The option to irrevocably measure financial instruments at fair value is used in the Group for individual portfolios of loans, securities in issue and deposits, when they together with derivatives essentially eliminate the portfolio's aggregate interest rate risk. Typical of these financial instruments is that they have a fixed contractual interest rate. The option is used to eliminate the accounting volatility that would otherwise arise because different measurement principles are normally used for derivatives and other financial instruments. Financial liabilities in insurance operations, where the customer bears the investment risk, are categorised in the same way when corresponding assets are also measured at fair value. The Group has chosen to categorise holdings of shares and participating interests that are not associates or intended for trading at fair value through profit or loss since they are managed and evaluated based on fair value. In the notes to the balance sheet, these financial instruments are classified at fair value through profit or loss, other. The fair value of financial instruments is determined based on quoted prices on active markets. When such market prices are not available, generally accepted valuation models such as discounting of future cash flows are used. The valuation models are based on observable market data, such as quoted prices on active markets for similar instruments or quoted prices for identical instruments on inactive markets i.e.Black-Scholes valuation model is used for options accounting. Differences that arise at initial recognition between transaction price and fair value according to a valuation model, so called day 1-profits or losses, are recognised in the income statement only when the valuation model entirely has been based on observable market data. In all other cases the difference is amortised during the financial instrument's remaining maturity. For loans measured at fair value where observable market data on the credit margin are not available at the time of measurement, the credit margin for the most recent transaction with the same counterparty is used. Changes in value are recognised through profit or loss in net gains and losses on financial items at fair value. For financial instruments in trading operations, the Group's profit or loss item also includes share dividends. Changes in value owing to changes in exchange rates are recognised as changes in exchange rates in the same profit or loss item. Changes in the value of financial liabilities owing to changes in the Group's credit worthiness are also recognised separately when they arise. Decreases in value attributable to debtor insolvency are attributed to credit impairments.

Valuation category loans and receivables

Loans to credit institutions and the public, categorised as loans and receivables, are recognised on the balance sheet on the settlement day. These loans are measured at amortised cost as long as there is no objective evidence indicating that a loan or Group of loans is impaired. Loans are initially recognised at cost, which consists of the loan amount paid out less fees received and any costs that constitute an integral part of the return. The interest rate that produces the loan's cost as a result of the calculation of the present value of future payments is considered the effective interest rate. The loan's amortised cost is calculated by discounting the remaining future payments by the effective interest rate. Interest income includes interest payments received and the change in the loan's amortised cost during the period, which produces a consistent return. On the closing day, it is determined whether there is objective evidence to indicate an impairment need for a loan or Group of loans. If, after the loan is initially recognised, one or more events have occurred that negatively impact estimated future cash flows, and the impact can be estimated reliably, impairment is made. The impairment is calculated as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted by the loan's original effective interest rate. The Group determines first whether there is objective evidence for impairment of each individual loan. Loans for which such evidence is lacking are included in portfolios with similar credit risk characteristics. These portfolios are subsequently measured collectively in the event objective evidence of impairment exists. Any impairment is then calculated for the portfolio as a whole. Homogenous groups of loans with limited value and similar credit risk that have been individually identified as having objective evidence of impairment are measured individually based on the loss risk in the portfolio as a whole. If the impairment decreases in subsequent periods, previously recognised impairment losses are reversed. Loans are never recognised at a value higher than what the amortised cost would have been if the write-down had not occurred, however. Loan impairments are recognised through profit or loss as credit impairments, which are done either as provisions for individually impaired loans, portfolio provisions or write-offs of impaired loans. Repayments of write-offs and recovery of provisions are recognised within credit impairments. The carrying amount of loans is amortised cost less write-offs and provisions. Provisions for assumed losses on guarantees and other contingent liabilities are recognised on the liability side. Impaired loans are those for which it is likely that payment will not be received in accordance with the contract terms. A loan is not impaired if there is collateral that covers the principal, unpaid interest and any late fees by a satisfactory margin.

Valuation category held-to-maturity

Certain financial assets acquired to hold to maturity have been categorised as held-to-maturity investments. They have fixed maturities, are not derivatives and are quoted on an active market. These investments are initially recognised on their trade day at cost and subsequently at amortised cost less any impairment. Measurements are made in the same way as for loans and receivables.

Reclassification of financial assets

Financial assets, excluding derivatives, which no longer meet the criteria for trading, may be reclassified from the valuation category Financial instruments at fair value, provided extraordinary circumstances exist. A reclassification to the valuation category Held-to-maturity investments also requires an intention and ability to hold the investment until maturity. The fair value of the assets at the time of reclassification is still considered to be their acquisition cost.

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Valuation category other financial liabilities

Financial liabilities that are not recognised as financial instruments at fair value through profit or loss are initially recognised on the trade day at cost and subsequently at amortised cost. Amortised cost is calculated in the same way as for loans and receivables.

Accounting for fair value hedges

Accounting for fair value hedges is applied in certain cases when the interest rate exposure in a recognised financial asset or financial liability is hedged with derivatives. With hedge accounting, the hedged risk in the hedged instrument is also measured at fair value. Both the change in the value of the hedging instrument, the derivative, and the change in the value of the hedged risk are recognised through profit or loss in net gains and losses on financial items at fair value. One requirement to apply hedge accounting is that the hedge has been formally identified and documented. The hedge's efficiency must be measurable in a reliable way and must be expected to be and during reported periods have been very effective in offsetting changes in value.

Leases (IAS 17)

The Group's leasing operations consist of finance leases and are therefore recognized as loans and receivables. The carrying amount corresponds to the present value of future leasing payments. The difference between all future leasing payments, the gross receivable, and the present value of future leasing payments constitutes unearned income. This means that lease payments received are recognised in part through profit or loss as interest income and in part in the balance sheet as instalments, so that the financial income corresponds to an even return on the net investment. In a finance lease, the economic risks and benefits associated with ownership of an asset are essentially transferred from the lessor to the lessee. When the lessor bears the economic risks and benefits, the lease is classified as operating. The Group is the lessee in operating leases. Lease payments for these agreements are expensed linearly over the lease term. The Group is also the lessor in a few operating leases of insignificant amount.

Investment in associates (IAS 28)

Investments in associates, entities where the owner has significant influence but not control, are consolidated according to the equity method. The equity method means that the participating interests in an entity are recognised at cost at the time of acquisition and subsequently adjusted for the owned share of the change in the associate's net assets. Goodwill attributable to the associate is included in the carrying amount of the participating interests and is not amortised. The carrying amount of the participating interests is subsequently compared with the recoverable amount of the net investment in the associate to determine whether an impairment need exists. The owned share of the associate's profit according to the associate's income statement, together with any impairment, is recognised on a separate line. The associates' reporting dates and accounting policies conform to the Group's.

Intangible fixed assets (IAS 38)

Goodwill

Goodwill acquired through a business combination is initially measured at cost and subsequently at cost less accumulated impairment. Goodwill is tested annually for impairment or if events or circumstances indicate a decrease in value. In order to test goodwill from business combinations for impairment, it is allocated upon acquisition to the cash-generating unit or units that are expected to benefit from the acquisition. Identified cash-generating units correspond to the lowest level in the entity for which the goodwill is monitored in the internal control of the entity. A cash-generating unit is not larger than a business segment in the segment reporting. Impairment needs are determined by estimating the recoverable amount of the cash-generating unit to which the goodwill is allocated. When the recoverable amount is lower than carrying amount, impairment is recognised. Recognised impairment is not reversed.

Other intangible assets

Intangible assets are initially measured at cost. The cost of intangible assets in a business combination corresponds to fair value upon acquisition. They are subsequently measured at cost less accumulated amortisation and accumulated impairment. The useful life of an intangible asset is considered either finite or indefinite. Intangible assets with a finite useful life are amortised over their useful life and tested for impairment when impairment needs are indicated. Useful life and amortisation methods are reassessed and adapted when needed in connection with each closing day. Development expenses whose cost can be calculated in a reliable way and for which it is likely that future economic benefits attributable to the assets will accrue to the Group are recognized in the balance sheet. In other cases, development is expensed when it arises.

Investment properties (IAS 40)

For protection of claims

Investment properties are properties held to generate rental income or appreciation in value, or a combination of the two, rather than being held for the Group's own use or for sale in day-to-day operations. The majority of investment properties have been taken over to protect claims. Investment properties are initially recognised at cost. Cost consists of the purchase price, or fair value if a purchase price is unavailable, as well as expenses directly attributable to the purchase. The properties are subsequently measured at cost less accumulated depreciation and impairments. Depreciation begins when an asset is ready for use and is reported systematically over each component's useful life down to its estimated residual value. The depreciation method reflects how the asset's value is gradually consumed. Useful life, residual value and depreciation method are reassessed and changed when necessary in connection with each closing day. The carrying amount is tested for impairment when events or circumstances indicate a lower recoverable amount. Recoverable amount refers to the higher of the asset's sales value less selling expenses and its value in use. If its carrying amount exceeds the recoverable amount, the asset is reduced to its recoverable amount. See also the section Impairment of Assets (IAS 36).

Tangible assets (IAS 2, 16)

For protection of claims

Tangible assets acquired or recovered to protect claims are recognised as inventory, provided they do not relate to investment properties. Inventories are measured at the lower of cost and net realisable value. Cost includes all expenses for purchasing, manufacturing and to otherwise bring the goods to their current location and condition. Net realisable value refers to the amount that is expected to be realised from a sale.

For own use

Tangible fixed assets such as equipment and owner-occupied properties are initially recognized at cost. They are subsequently measured at cost less accumulated depreciation and impairments in the same way as investment properties. Owner-occupied properties are reclassified as investment properties when no longer used by the Group.

Provisions (IAS 37)

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation arising from past events and it is likely that an outflow of resources will be required to settle the obligation. In addition, a reliable estimation of the amount must be made. Estimated outflows are calculated at present value. Provisions are tested on each closing day and adjusted when needed, so that they correspond to the current estimate of the value of the obligations. Provisions are recognised for restructurings. Restructuring refers to extensive organisational changes, e.g., when employees receive severance for early termination or branches are shut down. For a provision to be recognised, a restructuring plan must be in place and announced, so that it has created a reasonable expectation among those affected that the company will implement a restructuring. A provision for restructuring includes only direct expenses related to the restructuring and not to future operations such as of the cost of severance.

Insurance contracts (IFRS 4)

In the financial statements, insurance policies refer to policies where significant insurance risk is transferred from insured to insurer. The majority of the Group's insurance policies do not transfer significant insurance risk, due to which they are instead recognized as financial instruments. For insurance policies with significant insurance risk, actuarial provisions are allocated corresponding to pledged obligations. In the income statement, premiums received and provisions are reported on separate lines.

Revenue (IAS 18)

The principles of revenue recognition for financial instruments are described in a separate section, Financial instruments, recognition (IAS 39). Interest income and interest expenses for financial instruments calculated according to the effective interest method are recognised as Net interest income. Changes in value and dividends on shares in the valuation category Financial instruments at fair value through profit or loss as well as all changes in exchange rates between functional and other currencies are recognized in Net gains and losses on financial items at fair value. Service fees are recognised as income when the services are rendered. Such income is recognised in both Commission income and Other income. Commission income includes payment processing, asset management and brokerage commissions. Commission expenses are transaction-dependent and are directly related to income in Commission income. Other income includes capital gains and losses on the sale of ownership interests in subsidiaries and associates to the extent they do not represent an independent service line or a significant business conducted within a geographical area. Other income also includes capital gains and losses on the sale of tangible assets.

Share-based payments (IFRS 2)

Since the Group receives services from its employees and assumes an obligation to settle the transactions with equity instruments, this is recognised as share based payment. This means that the fair value of the services that entitle the employees to an allotment of equity instruments is expensed at the time the services are rendered. At the same time a corresponding increase in liabilities is recognised. For share-based payment to employees settled with equity instruments, the services rendered are valued with reference to the fair value of the allotted equity instruments. The fair value of the equity instruments is calculated as per the allotment date for accounting purposes, i.e., the valuation date. The valuation date refers to the date when a contract was entered into and the parties agreed on the terms of the share-based payment. On the allotment date, the employees are allotted rights to share-based payment. Since the allotted equity instruments are not vested until the employees have fulfilled a period of service, it is assumed that the services are rendered during the vesting period. This means that the cost and corresponding increase in liabilities are recognised over the entire vesting period. Non market based vesting terms, such as a requirement that a person remain employed, are taken into account in the assumption of how many equity instruments are expected to be vested. At the end of each report period the Group reassesses its judgments of how many shares it expects to be vested based on the non market based vesting terms. Any deviation from the original judgment is recognised through profit or loss and a corresponding adjustment is recognised in liabilities. Related social insurance charges are recognised as cash-settled share-based payment, i.e., as a cost during the corresponding period, but based on the fair value that at any given time serves as the basis for a payment of social insurance charges.

Impairment (IAS 36)

For assets that are not tested for impairment according to other standards, the Group periodically determines whether there are indications of diminished value. If such indications exist, the asset is tested for impairment by estimating its recoverable amount. An asset's recoverable amount is the higher of its selling price less costs to sell and its value in use. If the carrying amount exceeds the recoverable amount, the asset is reduced to its recoverable amount. When estimating value in use, estimated future cash flows are discounted using a discount rate before tax that includes the market's estimate of the time value of money and other risks associated with the specific asset. An assessment is also made on each reporting date whether there are indications that the need for previous impairments has decreased or no longer exists. If such indications exist, the recoverable amount is determined. Previous impairment losses are reversed only if there were changes in the estimates made when the impairment was recognised. Goodwill impairment is not reversed. Impairments are recognised separately through profit or loss for tangible or intangible assets.

Tax (IAS 12)

The income tax regime effective in Estonia from 1 January 2000 abolished the corporate Income tax on earnings for the period for resident corporate identities. Companies pay income tax on profit distribution (dividends) and on transactions that may be considered as indirect distribution of profits(benefits, gifts etc).Due to the changed concept of taxation the term taxation base of assets and liabilities loses its economic meaning and deferred tax liabilities and assets as defined in IAS 12-Income Tax, are not applicable. Income tax on dividends in Estonia is recognized as expense at the moment dividends are declared and recorded under "income tax" in the income statement. As a parent controls the dividend policy of its subsidiary, it is able to control the timing of the reversal of temporary differences associated with that investment. When the parent has determined that those profits will be distributed in the foreseeable future the parent recognised a deferred tax liability. Current tax assets and tax liabilities for current and previous periods are measured at the amount expected to be obtained from or paid to tax authorities. Deferred taxes refer to tax on differences between the carrying amount and the tax base, which in the future serves as the basis for current tax. Deferred tax assets represent a reduction in future tax attributable to deductible temporary differences, tax loss carry-forwards or other future taxable deductions. Deferred tax assets are tested on each closing day and recognised to the extent it is likely on each closing day that they can be utilised. As a result, a previously unrecognised deferred tax asset is recognised when it is considered likely that a sufficient surplus will be available in the future. Confirmed tax rates on the closing day are used in the calculations. All current and deferred taxes are recognised through profit or loss as Tax with the exception of tax attributable to items recognised directly in other total comprehensive income or equity.

Non-current assets held for sale and discontinued operations (IFRS 5)

A non-current asset (or a disposal group) is classified as held for sale if its carrying amount will be recovered primarily through a sale. The asset (or disposal group) must be available for immediate sale in its current condition. It must also be highly probable that a sale will take place. A finalised sale should be expected within one year. Subsidiaries acquired exclusively for resale are recognised as discontinued operations. Non-current assets held for sale are reported on a separate line in the balance sheet and measured at the lower of the carrying amount and fair value less costs to sell. Liabilities related to non-current assets are also recognised on a separate line in the balance sheet. The profit or loss from discontinued operations is recognised on a separate line in the income statement after the result for continuing operations.

Cash and cash equivalents (IAS 7)

Cash and cash equivalents consist of cash, balances with central banks (excluding the minimum reserve), correspondent accounts and overnight deposits in other banks and liquidity securities. Balances refer to funds that are available at any time. This means that all cash and cash equivalents are immediately available.

NEW STANDARDS AND INTERPRETATIONS

The International Accounting Standard Board (IASB) and IFRS Interpretations Committee (IFRIC) have issued the following standards, amendments to standards and interpretations that apply in or after 2013. The IASB permits earlier application. For Swedbank to apply them also requires that they be approved by the EU if the amendments are not consistent with previous IFRS rules. Consequently, Swedbank has not prospectively applied the following amendments in the 2012 annual report.

Financial Instruments: Disclosures (amendments to IFRS 7)

The amendment, which refers to transfers of financial assets, will apply to financial years beginning on 1 January 2013. The EU has approved the amendment, which establishes additional requirements on quantitative and qualitative disclosures of the derecognition of financial assets from the balance sheet when the company retains a continued involvement in the derecognised financial assets. If a transfer of financial assets does not result in a derecognition in its entirety, an additional disclosure is required. The amendment concerning Offsetting Financial Assets and Financial Liabilities will apply to the financial year beginning on 1 January 2013. The EU has not yet approved the amendment. New requirements have been introduced on disclosures of financial assets and financial liabilities whose carrying amounts are offset in the balance sheet. Disclosures must also be made on financial assets and financial liabilities that are subject to various netting arrangements or other risk-reducing transactions, even when they are not netted in the balance sheet.

Presentation of Items of Other Comprehensive Income (amendment to IAS 1)

The amendment will apply to the financial year beginning on or after 1 July 2012. The EU has approved the amendment, which would require companies to separate the components in the portion of the statement of comprehensive income related to other comprehensive income into two groups. The grouping will be based on whether or not the component can presumably be reclassified to the income statement in the future. Components that will not be reclassified include actuarial gains and losses attributable to defined benefit pensions. Components that could be reclassified include deferred gains and losses on cash flow hedges and translation differences through the consolidation of subsidiaries with a functional currency other than the presentation currency.

Consolidated Financial Statements (IFRS 10)

The new standard will apply to the financial year beginning on 1 January 2013. The EU has approved the standard for application on 1 January 2014 at the latest. Swedbank intends to begin applying the standard in 2014. The new standard defines when a reporting company should consolidate another company. Consolidation will be required when the reporting company has control over the other company. By control is meant that the reporting company is capable of managing the company, is exposed and entitled to a variable return, and is able to use its power over the company to affect the return. The basic principle to determine whether control exists or not remains the same, but the new standard provides additional guidance in cases that are difficult to assess. The standard replaces the rules on consolidation in IAS 27 Consolidated and Separate Financial Statements.

Joint Arrangements (IFRS 11)

The new standard will apply to the financial year beginning on 1 January 2013. The EU has approved the standard for application on 1 January 2014 at the latest. Swedbank intends to begin applying the standard in

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2014.The new standard describes how to account for shares in "joint arrangements", i.e., where two or more parties agree to contractually share control. The standard, which replaces and amends IAS 31 Joint Ventures, defines only two types of joint arrangements: joint operations and joint ventures. The classification is based on economic substance rather than legal form. Holdings in joint ventures will be consolidated according to the equity method, since the proportionate consolidation method, which was permitted according to IAS 31, is no longer permitted according to IFRS 11.

Disclosures of Interests in Other Entities (IFRS 12)

The new standard will apply to the financial year beginning on 1 January 2013. The EU has approved the standard for application on 1 January 2014 at the latest. Swedbank intends to begin applying the standard in 2014.The new standard consolidates the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated "structured entities". The latter essentially refer to what were previously defined as "special purpose entities" (SPE) in accordance with SIC 12 Consolidation - Special Purpose Entities. The new standard will, for example, increase disclosure requirements on the nature and scope of the holding, the assumptions and judgments used to classify the type of holding, the risks associated with the holding, and the holding's effect on financial position, results and cash flow.

Separate Financial Statements (amendment to IAS 27)

The amendment will apply to the financial year beginning on 1 January 2013. The EU has approved the standard for application on 1 January 2014 at the latest. Swedbank intends to begin applying the standard in 2014.The rules on consolidation have been eliminated and moved to IFRS 10 Consolidation. The amended standard refers strictly to the reporting of holdings in subsidiaries, joint arrangements and associates when a company chooses or is required by local regulations to prepare separate financial reports.

Investments in Associates and Joint Ventures (amendment to IAS 28)

The amendment will apply to the financial year beginning on 1 January 2013. The EU has approved the amendment for application on 1 January 2014 at the latest. Swedbank intends to begin applying the standard in 2014.Reporting rules for associates in separate financial reports have been taken away and moved to IAS 27 Separate Financial Statements. The amended standard also describes how shares in joint ventures are consolidated.

Fair Value Measurement (IFRS 13)

The new standard will apply to the financial year beginning on 1 January 2013. The EU has approved the standard, which replaces the guidance on measuring fair value that had been in each IFRS standard. The new standard defines fair value and disclosure requirements for measuring fair value. It does not state when fair value has to be measured, but rather how. Fair value is the price that would be received on the measurement date to sell an asset or paid to transfer a liability in a transaction between market participants under normal conditions, a so-called exit price.

Employee Benefits (amendment to IAS 19)

The amendment will apply to the financial year beginning on 1 January 2013. The EU has approved the amendment. The amended standard contains significant changes in the reporting of defined benefit pension plans as well as increased disclosure requirements for all employee benefits. The so-called corridor approach, which is used to account for defined benefit pensions, has been eliminated. Instead, actuarial gains and losses are recognised immediately in other comprehensive income. Actuarial gains and losses recognised in other comprehensive income may not be reclassified to the income statement in subsequent periods. In the income statement, services rendered are expensed. This applies to both current and previous periods when they arise in connection with a change in plan. Interest expense or interest income is calculated using a presumed discount rate on the difference between the pension debt and assets under management. The interest is recognised through profit or loss. All other revaluations of the pension debt or assets under management are recognised in other comprehensive income. The amendment also contains guidance on taxes on pension benefits.

Improvements to IFRS standards 2009-2011

Improvements to IFRS Standards (Annual improvements) are a collection of additions and amendments to current standards to remove inconsistencies between different standards, clarify formulations and to some extent make it easier for users of the financial reports. The improvements begin to apply to the financial year beginning on 1 January 2013. The annual improvements have not yet been approved by EU.

Offsetting Financial Assets and Financial Liabilities (amendment to IAS 32)

The amendment will apply to the financial year beginning on 1 January 2014. The EU has not yet approved the amendment, which concerns when and how financial assets and financial liabilities are offset.

Financial Instruments: Recognition and Measurement (IFRS 9)

The new standard on the recognition and measurement of financial instruments, together with subsequent amendments to IFRS 7 Financial Instruments: Disclosures, will apply to financial years beginning on 1 January 2015. The new standard has not been adopted by the EU, nor is there a timetable when an approval can be expected. The standard is a complete revision and will replace the current standard IAS 39, Financial Instruments: Recognition and Measurement. The standard reduces the number of valuation categories for financial assets and means that they are recognised at amortised cost or fair value through profit or loss. The rules for financial liabilities correspond to the existing rules in IAS 39 plus a supplement on how credit risk is presented when financial liabilities are measured at fair value. The change in the credit risk for financial liabilities designated at fair value according to the so-called fair value option is normally presented in other comprehensive income and not in the traditional income statement. This is provided that further inconsistencies do not arise in presentation of any eliminated changes in value. The standard will be complemented by new rules for impairment of financial assets that are categorised as financial assets at amortised cost, new rules for hedge accounting and new rules on derecognition from the balance sheet. IFRS 9 will probably be applied to financial years beginning on or after 1 January 2015.

Stripping Costs in the Production Phase of a Surface Mine (IFRIC 20)

The interpretation will apply to the financial year beginning on 1 January 2013. The EU has not yet adopted the interpretation, which clarifies the accounting for so-called stripping costs, i.e., costs which arise when production waste from a surface mine has to be removed in order to gain access to the mineral deposits.

Effect on Swedbank's financial reports

The changes that have been issued are currently being evaluated to determine how they will affect the consolidated financial reports.

The new standard IFRS 10 Consolidation Financial Statements may require the Group to consolidate investment funds in which its companies have invested. How the Group's balance sheet is affected will depend on where the level of consolidation is set. Chapter 3 Critical accounting judgments and estimates shows the value of assets in investment funds where the Group holds more than 50 per cent of the fund value. The size of an equity holding that will require consolidation may ultimately end up at another level. The standard will be applied as of 1 January 2014 at the earliest.

The new disclosure requirements in the new standard IFRS 12 Disclosures of Interests in Other Entities may require the Group will have to provide significantly more disclosures. Since the requirements also cover unconsolidated structured entities, disclosures will probably have to be made for all investment funds the Group has started. The standard will be applied as of 1 January 2014 at the earliest.

IFRS 13 Fair Value Measurement describes how fair value is determined. Since it measures financial instruments at fair value, the standard is important to the Group.

The new standard IFRS 9 Financial Instruments will affect Swedbank's financial reporting. The scope of the effect cannot be determined at present, since the valuation of Swedbank's financial assets is largely dependent on how the rules on hedge accounting and on the impairment of financial assets in the valuation category amortised cost are eventually worded. A judgment cannot be made until the remaining sections are issued.

The other changes that have been issued and which apply to financial years beginning on or after 1 July 2012 are not expected to have a significant effect on Swedbank's financial statements.

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3 Critical accounting judgments and estimates

Presentation of consolidated financial statements in conformity with IFRS requires management to make judgments and estimates that affect the recognised amounts for assets, liabilities and disclosures of contingent assets and liabilities as of the closing day as well as recognised income and expenses during the report period. Management continuously evaluates these judgments and estimates, including those that affect the fair value of financial instruments, provisions for impaired loans, impairments of intangible and tangible assets, deferred taxes, pension provisions and shared-based payment. Management bases its judgments and assumptions on previous experience and several other factors that are considered reasonable under the circumstances. Actual results may deviate from judgments and estimates.

Judgments

Financial instruments

When financial instruments are valued at fair value, quoted prices on active markets are primarily used. When financial assets and financial liabilities on active markets have offsetting market risks, the average of bid and sell prices is used as a basis for determining the fair value of the offsetting risk positions. For any open net positions, bid or sell prices are applied as appropriate, i.e., bid prices for long positions and sell prices for short positions. The executive management has determined the method for which market risks offset each other and how the net positions are calculated. When quoted prices on active markets are not available, various valuation models are used instead. Management determines when the markets are considered inactive and when quoted prices no longer correspond to fair value, requiring valuation models to be used. The markets are considered inactive when the number of completed transactions is too few and when the amounts of the transactions are too small. Management determines which valuation model and which pricing parameters are most appropriate for the individual instrument. All the valuation models Swedbank uses are generally accepted and are subject to independent risk control.

Management has determined that the option to measure financial instruments at fair value provides the fairest account for certain portions of the Group's loan portfolios with fixed interest rates, since the interest rate risk is hedged with the help of securities in issue and derivatives. A determination is also made for which financial instruments hedge accounting will be used. In both cases the determination is made to avoid accounting volatility as far as possible. Accounting volatility lacks economic relevance and arises when financial instruments are measured with different measurement principles despite that they financially hedge each other.

Tax

For Estonian companies income taxation is triggered only if dividends are paid. Because the Parent Company controls when dividends are paid and it has determined a certain amount of dividends will be paid in 2013, a provision in the amount of EUR 4 million has been allocated for deferred tax. If the largest possible dividend is approved the company would face an estimated tax charge of EUR 414 million.

Estimates

The Group uses various estimates and assumptions about the future to determine the value of certain assets and liabilities.

Provisions for credit impairments

Receivables measured at amortised cost are tested if loss events have occurred. Individual loans are tested initially, followed by groups of loans with similar credit terms and which are not identified individually. A loss event refers to an event that occurred after the loan was paid out and which has a negative effect on projected future cash flows. Determining loss events for a group of loans carries greater uncertainty, since a number of different events, such as macroeconomic factors, may have had an impact. Loss events include late or non-payments, concessions granted due to the borrower's financial difficulties, bankruptcy or other financial reconstructions, and local economic developments tied to non-payments, such as an increase in unemployment or decreases in real estate or commodity prices.

Where a loss event has occurred, individual loans are classified as impaired loans. Management feels that loans whose terms have been significantly changed due to the borrower's economic difficulties and loans that have been non-performing for more than 60-90 days should automatically be treated as impaired. Such a loan is not considered impaired if there is collateral which covers the capital, accrued and future interest and fees by a satisfactory margin. When a loss event has occurred, a determination is made when in the future the loan's cash flows will be received and its probable size. For impaired loans, interest is not considered to be received, only capital or portions thereof. For groups of loans, estimates are based on historical values and experience-based adjustments to the current situation. Provisions for impaired loans are made on the difference between estimated value, i.e., estimated future cash flows discounted by the loan's original effective interest rate, and amortised cost. Amortised cost refers to contractual cash flows discounted by the loan's original effective interest rate.

Assumptions about when in time a cash flow will be received as well as its size determine the size of the provisions. Decisions on provisions are therefore based on various calculations and management's assumptions of current market conditions. Management is of the opinion that provision estimates are important because of their significant size as well as the complexity of making these estimates.

Impairment testing of investment properties and owner-occupied properties

Investment properties and owner-occupied properties are measured at cost less depreciation. When there is an indication of diminished value, impairment is tested. The test is done by calculating the recoverable amount, i.e., the higher of value in use and fair value less costs to sale. The value in use of investment properties and owner-occupied properties has been determined by internal appraisers with extensive knowledge of the properties and the relevant market. The measurement is based on cash flow analyses.

Net realisable value of properties recognised as inventory

Properties recognised as inventory are measured at the lower of cost and net realizable value. The net realisable value has been determined by internal appraisers.

Financial instruments at fair value

When financial instruments are measured at fair value according to valuation models, a determination is made which observable market data should be used in those models. The assumption is that quoted prices for financial instruments with similar turnover will be used. When such prices or components of prices cannot be identified, management must make its own assumptions.

Share-based payment

In calculating the cost which is recognised as employee benefits ultimately settled in the form of common shares in Swedbank AB, management estimates how many common shares will be settled. Employees are allotted contingent rights to receive common shares, which require, for example, that they remain employed on the settlement date; otherwise the rights expire. Management also estimates the fair value of the rights allotted to employees and which gives them the conditional right to receive common shares in Swedbank AB at no cost. The estimation is based on the quoted price of the common share, since the right essentially has the same terms as a common share. The estimated costs associated with Programme 2012 total EUR 9.6m, of which EUR 2.7m was recognised in 2012. The recognized expense for all outstanding programmes amounted to EUR 4.3m. This is in addition to social insurance charges, any other payroll expenses and income tax, which will be calculated based on the estimated number of settled shares and their estimated fair value.

4 Risk and risk control

Taking the right risks and pricing risk correctly are central to Swedbank's operations. Risk management begins with our business operations – in meetings with customers, for example – and includes every employee.

All financial operations entail risks, and managing them well is crucial to the bank's operations. A strong common risk culture with decision-making and responsibility close to the customer, serves as the foundation for efficient risk management at the bank and, by extension, a strong risk-adjusted return.

Swedbank shall maintain a low risk profile from both a capital and liquidity perspective. The long-term risk profile will be managed so that the effect of an extremely negative but possible scenario, as determined in Swedbank's internal capital assessment process, does not significantly reduce the Common Equity Tier 1 capital ratio. If the assessment process indicates an excessively large impact on the Group's capitalisation, measures will be taken to mitigate the risks.

The vast majority of the bank's credit risk exposure shall be in the form of low-risk mortgages. A favourable risk distribution is achieved through a broad customer base among private individuals and companies in many different industries.

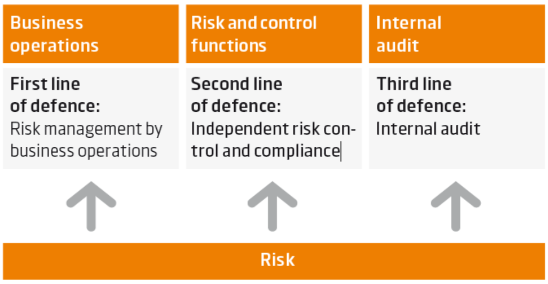
Swedbank's market funding is designed, as far as possible, to match assets of corresponding maturity and to maintain a sustainable balance between lending and deposits in all markets where the bank is active.

To remain resilient to both short- and long-term disruptions in the capital market, Swedbank shall consistently maintain a robust liquidity buffer comprising high-quality liquid assets.

RISK MANAGEMENT

Swedbank's risk management is built on three lines of defence and a sophisticated risk process. Group policy on Enterprise Risk Management (the ERM policy) details the risk framework, as well as risk management roles and responsibilities. In addition, the ERM policy contains guidelines on the size of the capital buffer that the Group maintains as protection against major economic downturns.

Three levels of risk management



First line of defence – risk management by operations

Swedbank's business units and subsidiaries bear full responsibility for the risks that arise in their operations. Branch employees are the closest to customers and therefore know the customer and specific market best. Personal interaction creates an opportunity to provide advice on the customer's overall financial situation. As a responsible financial partner, it is in Swedbank's interest that our customers do not take unnecessarily high risks. Their cash flow, solidity and collateral are always the decisive factors in the loan approval process.

By delegating responsibility, the organisation can respond faster if problems arise. Clear procedures and processes are in place to approve, review and manage credit if a borrower incurs payment problems.

Risk management is based on clear targets, strategies, policies and guidelines that explain how the bank operates in various respects, an efficient operating structure and a simple, clear reporting structure. Standardised risk classification tools are in place to support the lending process.

Second line of defence – Independent risk control

The risk organisation is responsible for identification, quantification, analysis and reporting of all risks. It also conducts independent analyses and stress tests of how events in the market and economy might impact Swedbank, in addition to contributing expert advice on various types of risk. The risk organisation also serves as an advisor in the executive management's decision- making to ensure that the decisions taken are aligned with the Group's risk appetite and risk tolerance.

The risk functions are independent of the business operations. They uphold principles and frameworks for risk management to facilitate risk assessments. The credit risk function also issues internal lending guidelines, such as cash flow and collateral requirements for customers as well as mandate structures for credit decisions within the organisation. For loans that exceed certain levels, the decisions are taken in credit committees to create a duality with the business operations. The committees also promote a sound risk culture by supporting and training employees in the business areas.

Each large business unit has a credit risk function as well as compliance and operational risk functions. The latter identify, monitor and report operational and compliance risks. In addition, they provide management with expertise in risk management issues. The compliance functions in the business operations are also a support function on compliance-related issues. Special areas of responsibility include protection for customers, market conduct and prevention of money laundering and financing of terrorism. The Group's risk function has special units for problem loans, which work with companies that had incurred, or are expected to incur, financial problems to find a solution as early as possible that helps the customer and reduces Swedbank's risk.

Third line of defence – Internal audit

Internal Audit, an independent review function directly subordinate to the Board of Directors, conducts reviews of the first and second lines of defence. The purpose of its work is to create operating improvements by evaluating risk management, governance and internal control. Internal Audit has also been tasked with identifying and helping to minimise activities that do not create value.

When flaws have been identified, the operations in question, in consultation with Internal Audit, formulate an action plan that clearly defines responsibilities and sets a timetable. The agreed-upon actions are followed up, and Internal Audit reports on their status to the Board of Directors and executive management on a quarterly basis until the work is completed.

RISK TYPES

Swedbank defines risk as a potentially negative impact on a company that can arise due to current internal processes or future internal or external events. The concept of risk comprises the probability that an event will occur and the impact it would have on the Group's earnings, equity or value.

The risk management process includes eight steps: prevent risks, identify risks, quantify risks, analyse risks, suggest measures, control and monitor, report risks, and, lastly, follow-up risk management. The process encompasses all types of risk and results in a description of Swedbank's risk profile, which in turn serves as the basis of the internal capital adequacy assessment process.

Risk	Description
Credit risks	The risk that counterparty will not meet its financial obligations to the Group, and the Risk that pledged collateral will not cover the claims of the Group. The credit risk includes counterparty risk, concentration risk and settlement risk.
Market risks	The risk that the Group's results, equity or value will decease due to changes in risk factors in financial markets. Market risks include interest rate risk, currency risk, share price risk, commodity risk and risks from changes in volatilities or correlations.
Liquidity risks	The risk that Swedbank cannot fulfil its payment commitments at maturity or when they fall due.
Operational risks	The risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events. The definition of operational risk includes legal risk and compliance risk.
Insurance risks	The risk of a change in value due to deviation between actual insurance costs and anticipated insurance costs.
Other risks	Includes business risk, pension risk, strategic risk, and reputational risk.

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CREDIT RISK

DEFINITION

Credit risk refers to the risk that a counterparty or borrower fails to meet their contractual obligations towards Swedbank and the risk that pledged collateral will not cover the claim. Credit risk also includes counterparty risk, concentration risk and settlement risk.

Counterparty risk is the risk that a counterparty in a trading transaction fails to meet its financial obligations towards Swedbank and that the collateral which has been received is insufficient to cover the claim against the counterparty. Trading transactions refer here to repos, derivates, security financing transactions and money market transactions.

Concentration risk comprises, among other things, large exposures or concentrations in the credit portfolio to specific counterparties, sectors or geographies.

Settlement risk is the risk that a counterparty fails to meet their obligations before Swedbank fulfils its when a transaction is executed (delivery/payment).

HIGHLIGHTS 2012

Swedbank credit and asset quality continued to improve in 2012, mainly driven by a continued decrease in problem loans on recovering market. Decrease in gross lending portfolio has slowed down during 2012 (annual decline less than 1%), while during the second half of 2012 the lending volumes increased. The corporate portfolio has grown on annual basis 2% while risk ratings improved for substantial part of customers. The financial strength of companies improved together with preceding strong export numbers, which have increased employment, incomes and consumption on the domestic market. Private persons lending portfolio decreased by 3% during 2012, however, at year end also private lending volumes started to recover. As a result of slow but stable real estate market recovery the average loan-to-value ratio of mortgage portfolio was 68% by 31 December 2012 (75).

RISK MANAGEMENT

A central principle in Swedbank's lending is that each business unit has full responsibility for its credit risks, and that credit decisions adhere to the credit process, are made in accordance with applicable rules, and are in line with the bank's business and credit strategies. Depending on the size and nature of each credit, a lending decision can be made, for example, by an officer with help from system support or by a credit committee. The business unit has full commercial responsibility regardless of who makes the ultimate decision, including responsibility for internal credit control.

The duality principle provides guidance for all credit and credit risk management within the Group. The principle is reflected in the independent credit organisation, decision making bodies and credit processes. Each business unit is responsible for ensuring that internal control is integrated in all lending and monitoring.

The risk classification system is a key part of the credit process; it comprises work and decision-making processes for lending, credit monitoring, and quantification of credit risk. The decision to grant credit requires that there are good grounds to expect that the borrower can fulfil his or her commitment to the Group. In addition, adequate and sufficient collateral must be pledged for the credit.

MEASUREMENT OF CREDIT RISKS

The vast majority of Swedbank's lending to the public has been rated according to Swedbank's internal rating system. The rating aims at forecasting the probability of default within a 12-months period.

Swedbank has received approval from the Swedish Financial Supervisory Authority for the so-called IRB approach, and it is consequently the method used to calculate most of the capital requirement for credit risk. Approval for Baltic portfolios was permitted in beginning of 2009. The IRB approach is used for the absolute majority of credit exposures, with sovereign credit exposures being the main exception.

Swedbank's internal risk classification system is the basis for:

- Risk assessment and credit decisions
- Calculating risk-adjusted returns (including RAROC)
- Calculating portfolio provisions
- Monitoring and managing credit risks (including migrations)
- Reporting credit risks to the senior management
- Developing credit strategies and associated risk management activities
- Calculating capital requirements and capital allocation.

The risk class is assessed and decided on as part of credit decisions. The class also affects requirements on the scope of the analysis and the documentation and governs how customers are monitored. In this way, low-risk transactions can be approved through a simpler and faster credit process. Risk classification is also a key element in monitoring individual credit exposures. The system governs the monitoring processes in ensuring, for example, that a weak risk class will be tested separately, followed by a decision on possible measures.

The goal of the risk classification is to predict defaults within 12 months; it is expressed on a scale of 23 classes, where 0 represents the greatest risk and 21 represents the lowest risk of default, with one class for defaulted loans. The table below describes the risk classification and how it relates to the probability of default within 12 months (PD), as well as an indicative rating from Standard & Poor's. Of the bank's total IRB assessed exposures, 24 per cent fall in the risk classes of 13–21, investment grade, where the risk of default is considered low.

RISK GRADE ACCORDING TO THE IRB METHODOLOGY

Internal rating		PD (%)	Indicative rating Standard & Poor's
Default	Default	100	D
High risk	0–5	>5.7	C to B
Augmented risk	6–8	2.0–5.7	B+
Normal risk	9–12	0.5–2.0	BB– to BB+
Low risk	13–21	<0.5	BBB– to AAA

To achieve maximum precision in measurement, the bank has developed a number of different risk classification models. There are primarily two types of models; one is based on a statistical method, which requires access to a large amount of information on counterparties, and enough information on those counterparties who have defaulted. In cases where the statistical method is not applied, models are created where evaluation criteria is based on expert opinions.

The models are validated when introduced, in connection with significant changes and periodically (at least annually). The validation is designed to ensure that each model measures risk satisfactorily. In addition, the models are monitored to assure they function well in daily credit operations. The models indicate the likelihood of default normally on a one-year horizon. Considering that credit commitments usually involve a longer period, the models are also evaluated for a more extended period. In summary, the validations performed to date have shown that the models are statistically highly reliable.

RISK CLASSIFICATION SYSTEM

Customer segment	Definition	PD dimension: Application	PD dimension: Portfolio	LGD dimension	CCF dimension
Credit institutions	All	Risk Classification System for Countries, Bank Systems and Banks		-	-
Large corporate clients	Exposure > 0.8 EURm	Corporate Rating System		-	-
Corporate SMEs (SMEs)	Exposure 0.2-0.8 EURm	SME Application Scoring System	SME/SSE Portfolio Scoring System	-	-
Retail SMEs (SSEs)	Exposure < 0.2 EURm	SSE Application Scoring System	SME/SSE Portfolio Scoring System	Retail LGD Models	Retail CCF Models
Private individuals	All	Application Scoring System for Private Persons	Portfolio Scoring System for Private Persons	Retail LGD Models	Retail CCF Models

Risk classification system for countries, bank systems and banks
The Swedbank Group Risk Classification System for countries, bank systems and banks is used to rate credit institutions on their default risk. The system was implemented in the Estonian portfolio in 2006. The rating process is based on expert models, and the ratings it produces comply with the TTC (through-the-cycle) concept.

Risk rating system for large corporate clients
The Corporate Rating System was implemented in Estonia in 2001. The rating process is based on expert models (combining assessments of quantitative and qualitative factors), where separate models are developed to rate different types of corporate borrowers (such as industrial and real estate companies). The ratings it assigns comply with the TTC (through-the-cycle) concept.

Application scoring system for medium-sized companies
The SME Application Scoring System is designed to be applied primarily in the credit origination phase to assess the default risk of medium-sized companies. The system was implemented in Estonia in 2003. It was upgraded from an expert model to hybrid models in 2007. The system enables the assignment of both point-in-time and through-the-cycle estimates of default risk.

Application scoring system for small companies
The SSE Application Scoring System is designed to be applied primarily in the credit origination phase to assess the default risk of small companies. The system is based on statistical models and has been integrated into the credit decision-making process since early 2007. The system enables the assignment of both point-in-time and through-the-cycle estimates of default risk.

Portfolio scoring system for small and medium-sized companies
The SME/SSE Portfolio Scoring System is designed to assess the default risk of existing exposures to small and medium-sized companies (SSE and SME customers). The system is based on statistical models that are run on a monthly basis as an automated process by Enterprise Data Warehouse and was first deployed in 2006. It enables the assignment of both point-in-time and through-the-cycle PD estimates.

Application scoring system for private individuals
The Application Scoring System for private individuals is designed to be applied primarily in the credit origination phase to assess the default risk of credit applications received from private individuals. The system is based on statistical models and was first deployed in early 2007. The system enables the assignment of both point-in-time and through-the-cycle estimates of default risk.

Portfolio scoring system for private individuals
The Portfolio Scoring System for private individuals is designed to assess the default risk of existing exposures to private individuals. The system is based on statistical models that are run on a monthly basis as an automated process by Enterprise Data Warehouse. The system was first deployed in 2006. It enables the assignment of both point-in-time and through-the-cycle PD estimates.

Retail LGD models
Retail LGD models are designed to produce LGD estimates for retail exposures to private individuals and SSE customers. The system is based on statistical models that are run on a monthly basis as an automated process by Enterprise Data Warehouse. The system was first deployed in 2006. The LGDs assigned on the basis of retail LGD models present downturn estimates of loss given default (i.e. reflect downturn conditions).

Retail CCF models
Retail CCF models are designed to produce CCF estimates for retail exposures with undrawn limits to private individuals and SSE customers. The system is based on statistical models that are run on a monthly basis as an automated process by Enterprise Data Warehouse. The system was first deployed in 2006.

IMPAIRMENT POLICY
Credit is impaired and losses are incurred if there is evidence of impairment resulting from one or more events that occurred after the initial recognition of a loss event, and the loss event(s) affect the estimated future cash flows of credit that can be reliably estimated. Losses expected as a result of future events are not recognised. Evidence that credit is impaired includes the following loss events:

- Significant financial difficulty of the issuer or obligor
- A breach of contract, such as delinquency in interest or principal payments
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider
- It is becoming evident that the borrower will go bankrupt or undergo other financial reorganisation and
- The disappearance of an active market for the financial asset because of financial difficulties

Portfolio provisions can be used if there is data which indicates that there is a decrease in the estimated future cash flows of credit since the initial recognition of the assets, but the decrease cannot be identified with the individual credits in the portfolio, including:

- Adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount) or
- Economic conditions that correlate with defaults on the credit (e.g. an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, adverse changes in industry conditions that affect the borrowers in the group etc.)

In individual assessment, experienced judgement may be used to estimate the amount of any impairment loss. The bank uses its judgement to adjust data for credit to reflect current circumstances. In some cases the data required to estimate the amount of loss on credit may be limited or no longer relevant to the circumstances. For example, this may be the case when a borrower is in financial difficulties and there is little available data relating to similar borrowers.

Credit impairments recognised on a group basis represent an intermediate step before impairment losses on individual credits in the group are identified. As soon as information is available which specifically identifies losses on individually impaired credit, this credit is removed from the group.

Future cash flows in a group of credits evaluated for impairment are estimated on the basis of historical loss experience for credit with similar characteristics. If there is no specific loss experience or insufficient experience, peer group experience or expert judgment is used. Historical loss experience is adjusted on the basis of current data to reflect the effects of the current conditions, which did not affect the period on which the historical loss experience is based, and to eliminate the effects of conditions that no longer exist.

For significant exposures in the corporate segment, individual provisions are made for ratings that imply non-performing loans. In such cases, the provisions are based on calculations of net present value.

In the SME segment, provisions are set at a fixed percentage based on past experience of historical losses in a similar environment. In the private individual segment, provisions are based on product-specific LGDs based on past historical losses in a similar environment. The private individual product portfolio must bear similar risk characteristics and take into account product characteristics accounting for possible changes over time.

2012 EAD	Risk grades	PD	Total
IRB methodology			
Defaults	Default	100.0	205
High risk	0-5	>5.7	544
Augmented risk	6-8	2.0-5.7	1 510
Normal risk	9-12	0.5-2.0	2 250
Low risk	13-21	<0.5	1 534
Total rated exposures			6 043
Total non-rated exposures			242
Total IRB methodology			6 285
Standardised methodology			
Total standardised methodology			2 689
Total IRB and standardised methodology			8 974

2012 EAD distribution, per cent	Risk grades	PD	Total
IRB methodology			
Defaults	Default	100.0	2.3
High risk	0-5	>5.7	6.1
Augmented risk	6-8	2.0-5.7	16.8
Normal risk	9-12	0.5-2.0	25.1
Low risk	13-21	<0.5	17.1
Total rated exposures			67.3
Total non-rated exposures			2.7
Total IRB methodology			70.0
Standardised methodology			
Total standardised methodology			30.0
Total IRB and standardisedmethodology			100.0

2011

EAD	Risk grades	PD	Total
IRB methodology			
Defaults	Default	100.0	356
High risk	0-5	>5.7	611
Augmented risk	6-8	2.0-5.7	1 622
Normal risk	9-12	0.5-2.0	1 556
Low risk	13-21	<0.5	1 806
Total rated exposures			5 951
Total non-rated exposures			341
Total IRB methodology			6 292
Standardised methodology			
Total standardised methodology			2 561
Total IRB and standardised methodology			8 853

2011

EAD distribution, per cent	Risk grades	PD	Total
IRB methodology			
Defaults	Default	100.0	4.0
High risk	0-5	>5.7	6.9
Augmented risk	6-8	2.0-5.7	18.3
Normal risk	9-12	0.5-2.0	17.6
Low risk	13-21	<0.5	20.4
Total rated exposures			67.2
Total non-rated exposures			3.9
Total IRB methodology			71.1
Standardised methodology			
Total standardised methodology			28.9
Total IRB and standardisedmethodology			100.0

The tables distribute credit risks by Exposure at Default (EAD). EAD includes items on and outside the balance sheet, e.g., guarantees, loans, repos and derivatives. The amounts also include EAD from institutions in the Swedbank Financial Companies Group, but not in the Group, i.e., associates that are not fully consolidated. Insurance companies are not included in the Swedbank Financial Companies Group.

Maximum credit risk exposure	2012	2011
Loans, net including repurchase agreements	6 951	7 803
Derivatives	43	24
Investments (bond)	421	486
Financial guarantees	275	258
Commitments	1 154	975
Total	**9 116**	**9 546**
of which credit institutions	931	1 846
% of total	10.2	19.3

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Collateral held as security	2012	2011
Residential properties	2 737	2 792
Other real estate	1 377	1 375
Municipalities etc.	56	55
Guarantees	391	320
Unsecured	434	364
Other collateral	1 025	1 051
Lending to the public (excluding repurchase agreements)	6 020	5 957
Credit institutions	931	1 846
Total loans to the public and credit institutions net	6 951	7 803

2012 Sector/Industry	Carrying amount before provisions	Provisions for individually assessed impaired loans	Portfolio provisions	Carrying amount for loans after provisions	Carrying amount for impaired loans	Im-paired loans gross
Private customers	3 164	23	8	3 133	84	107
Real estate management	828	29		799	23	52
Retail, hotels, restaurants	427	2	4	421	4	6
Construction	94	7	2	85	6	13
Manufacturing	313	2	2	309	2	4
Transportation	328	7	1	320	8	15
Forestry and agriculture	139	1	1	137	1	2
Other corporate lending	482	19	7	456	36	55
Public sector and utilities	360			360		
Lending to the public excluding repurchase agreements	6 135	90	25	6 020	164	254
Credit institutions	931			931		
Total loans to the public and credit institutions	7 066	90	25	6 951	164	254

2011 Sector/Industry	Carrying amount before provisions	Provisions for individually assessed impaired loans	Portfolio provisions	Carrying amount for loans after provisions	Carrying amount for impaired loans	Im-paired loans gross
Private customers	3 256	51	8	3 197	115	166
Real estate management	854	37	8	809	25	62
Retail, hotels, restaurants	449	15	2	432	6	21
Construction	118	12	5	101	13	25
Manufacturing	315	6	4	305	12	18
Transportation	263	19	3	241	10	29
Forestry and agriculture	135	5	1	129	4	9
Other corporate lending	581	39	6	536	37	76
Public sector and utilities	208		1	207		
Lending to the public excluding repurchase agreements	6 179	184	38	5 957	222	406
Credit institutions	1 846			1 846		
Total loans to the public and credit institutions	8 025	184	38	7 803	222	406

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2012 Geographical areas	Carrying amount for loans excluding impaired and past due loans	Carrying amount for impaired loans	Carrying amount for past due loans that are not impaired	Impair-ments	Carrying amount for loans after impairments
Estonia	5 689	254	130	- 114	5 959
Latvia	42			- 1	41
Lithuania					
OECD	20				20
Other					
Lending to the public excluding repurchase agreements	5 751	254	130	- 115	6 020
Credit institutions	931				931
Total loans to the public and credit institutions	6 682	254	130	- 115	6 951

2011 Geographical areas	Carrying amount for loans excluding impaired and past due loans	Carrying amount for impaired loans	Carrying amount for past due loans that are not impaired	Impair-ments	Carrying amount for loans after impairments
Estonia	5 527	406	160	- 206	5 887
Latvia	58			- 14	44
Lithuania	1				1
OECD	27			- 2	25
Other					
Lending to the public excluding repurchase agreements	5 613	406	160	- 222	5 957
Credit institutions	1 846				1 846
Total loans to the public and credit institutions	7 459	406	160	- 222	7 803

Impaired loans are those for which it is likely that payments will not be fulfilled in accordance with the terms of the contract. A loan is not impaired if there is collateral which covers capital, interest and payment for any delays by a satisfactory margin. Provisions for impaired loans as well as other elements of lending where losses have occurred but individual claims have not yet been identified are specified below. Loss events include non-payments or delayed payments where it is likely the borrower will go into bankruptcy and domestic or local economic conditions that are tied to non-payments, such as declines in asset values. The carrying amount of impaired loans largely corresponds to the value of collateral in cases where collateral exists. Restructured loans refer to loans where a change has been made to the terms of the contract as a result of the client's reduced ability to pay.

	2012	2011
Credit impairments		
Opening balance	237	1475
Impairments release	-3	-33
Recoveries of previous impairments	-13	-22
Impairments for homogenous groups of impaired loans, net	-39	-22
Portfolio impairments for loans that are not individually impaired	-18	-26
Reversal of previous impairments	-38	-2
Decrease in impairments balance due to sale of LV and LT operations		-1133
Closing balance	126	237
Provision ratio for individually identified impaired loans, %	56.7	64.7
Impaired loans		
Impaired loans, gross	254	406
Impaired loans, net, %	2.67%	3.59%
Impaired loans, gross, %	4.14%	6.57%
Past due loans that are not impaired		
Valuation category, loans and receivables		
Loans past due 5–30 days	96	117
Loans past due 31–60 days	28	38
Loans past due more than 60 days	6	5
Total	130	160

Reposessed assets 2012	Operating expenses	Depreciation	Impairment	Gains/losses at disposal	Net profit
Cancelled leasing agreements	-0.1		0.0		-0.1
Total	-0.1	0.0	0.0	0.0	-0.1

Reposessed assets 2011	Operating expenses	Depreciation	Impairment	Gains/losses at disposal	Net profit
Cancelled leasing agreements	-1.0		-3.0		-4.0
Total	-1.0	0.0	-3.0	0.0	-4.0

	2012			2011		
Reposessed assets	Number	Carrying amount	Fair value	Number	Carrying amount	Fair value
Land and buildings	1	0.1	0.1			
Vehicles	75	0.5	0.5	96	0.6	0.6
Other	3	0.7	0.7	11	0.3	0.3
Total	79	1.3	1.3	107	0.9	0.9

Swedbank Estonia takes over property to minimise credit impairment. Repossessed properties are either divested immediately or held long-term to generate rental income and appreciate in value.

MARKET RISK

Market risk refers to the risk that changes in risk factors (e.g., interest rates, exchange rates or share prices) in financial markets will adversely affect the Group's results, equity or value.

RISK MANAGEMENT

Market risks arise in Swedbank's trading operations (in conjunction with trading on financial markets) as well as structurally in its other operations. Consequently, the management of market risks can be divided into these two main areas. Swedbank's total risk-taking is governed by limits set by the Group Board on the nature and size of the risk-taking.

The dominant market risks within Swedbank are of a structural or strategic nature and are coordinated centrally by Group Treasury, which is responsible for minimising possible negative impacts on Swedbank's net income and equity.

Main structural risk is the interest rate risk that arises from mismatches in interest-fixing periods between Swedbank's lending and funding, another is the foreign exchange risk but the open positions are insignificant to Swedbank operations.

Market risks in Swedbank's trading operations are extremely low in relation to the other risks as illustrated by the fact that their share of the total risk-weighted amount in the capital adequacy is only 0.6% as of 31 December 2012.

RISK MEASUREMENT

Market risks in Swedbank are measured with the help of VaR, a model-based risk measure that serves as an international standard, and with traditional sensitivity measures and stress tests.

Swedbank uses 99 per cent VaR, which means that the potential loss will exceed the VaR amount with 1 per cent likelihood during the chosen time horizon. Since the model's scenarios are based on historical data, covariations that regularly arise between market prices, e.g., how different interest rates historically move in relation to each other, are taken into account when calculating VaR. Advantage of VaR is also that various types of market risks can be compared as well aggregated into a single measure.

The Group VaR model is evaluated continuously through hypothetical backtesting, a systematic method to evaluate after the fact whether the probability distribution of possible portfolio returns generated by the model was correct. The backtesting results are then compared with VaR. If this is done for a large number of days, the reliability of the model can be evaluated. The results of actual and hypothetical backtesting indicate that the model serves its purpose very well.

Swedbank VaR exposure during 2012 was between 1.5M and 0.2M EUR.

INTEREST RATE RISK

Interest rate risk refers to the risk that the value of the Group's assets, liabilities and interest-related derivatives will be negatively affected by changes in interest rates or other relevant risk factors.

The interest rate risks arise when interest fixing periods for assets and liabilities, including derivatives, do not coincide. Large part of Swedbank fixed interest rate loans has credit agreements that do not permit prepayment without compensating Swedbank for any losses that may arise due to changes in the interest rates since the loan was paid out, so-called prepayment fee.

CURRENCY RISKS

Currency risk refers to the risk that the value of the Swedbank assets and liabilities, including derivatives, may fluctuate due to changes in exchange rates or other relevant risk factors. Currency risks in Swedbank operations are very limited in nature and total open position has not exceeded 0.5 M EUR during the 2012.

SHARE PRICE RISKS

Share price risk refers to the risk that the value of the Swedbank's holdings of shares and share-related derivatives may be affected negatively by changes in share prices or other relevant risk factors.

Swedbank's equity trading is primarily customer-related and managed by Swedbank Markets. Share price risks in our books are very limited in its nature.

Share price risk is measured and limited in the Group with respect to the worst possible outcomes in 63 different scenarios where share prices and implicit volatilities change. In these scenarios, the share prices change by a maximum of +/– 20 per cent and the implicit volatilities by a maximum of +/– 30 per cent. The outcomes for the various combinations form a risk matrix for the share price risk, and the worst-case scenario is limited. As of year-end the worst-case scenario conceivably would have reduced the value of the trading operations' positions by -0.2M EUR.

LIQUIDITY RISK

Liquidity risk refers to the risk of the Group not being able to meet payment obligations at maturity without a significant increase in the cost to obtain the means of payment due to high borrowing costs or unfavourable prices when divesting assets.

FINANCING AND LIQUIDITY STRATEGY

Group Treasury has overarching responsibility for managing the Group's liquidity within the framework for the mandates established by the Group Board of Directors and the Group CEO. The Group's financing strategy and liquidity buffer are significant factors in liquidity risk management.

Managing liquidity risks is a significant aspect of Swedbank's operations. Liquidity risk is continuously measured, controlled, forecasted and analysed based on various time periods with the purpose of ensuring that Swedbank can always meet its payment obligations on time and without being forced to quickly sell assets on unfavourable terms.

RISK MEASUREMENT

Aside from Group Treasury's overarching responsibility, Group Risk identifies all relevant aspects of liquidity risk and measures, monitors and reports liquidity risks on a daily basis. Analyses are done for all foreign currencies. Moreover, Swedbank uses a number of methods and systems to ensure it can meet its payment obligations and commitments every day, under normal as well as stressed conditions. Managing intra-day payments includes monitoring and verifying that payment obligations are executed punctually and that any financing needs are identified.

The calculation of Swedbank's liquidity risk is based on the future net cash flows, which are accumulated over time. The analyses of the future liquidity flows provide important information for the liquidity risk management, not least with respect to the planning of the future liquidity needs. Swedbank has defined the minimum levels of accumulated liquidity cash flows for 7 and 30 upcoming calendar days.

Besides the limits on future net cash flows, Swedbank has to maintain at least 20% highly liquid reserves (assets which can be converted into cash within 3 days with a minimal cost) in relation to short-term liabilities (total deposits + unutilised credit lines) and during 2012 the ratio has been in the range of 25-35% for majority of time.

CAPITAL REQUIREMENT FOR LIQUIDITY RISK

Today banks and financial institutions do not face any capital requirements for liquidity risk. However, disruptions to liquidity can arise due to an imbalance between risk and capital. The purpose of the internal capital adequacy assessment process is to prevent this type of imbalance.

Currency distribution 2012	EUR	USD	LVL	LTL	Other	Total
Assets						
Loans to credit institutions	471	318	15	12	115	931
Loans to the public	5 897	123		0		6 020
Interest-bearing securities	397	2		22		421
Other assets, not distributed	1 547	27	2	2	11	1 589
Total	**8 312**	**470**	**17**	**36**	**126**	**8 961**
Liabilities and equity						
Amounts owed to credit institutions	755	7	13	4	8	787
Deposits and borrowings from the public	4 890	600	2	2	95	5 589
Debt securities in issue	4					4
Other liabilities, not distributed	629	38	12	57	13	749
Equity	1 832					1 832
Total	**8 110**	**645**	**27**	**63**	**116**	**8 961**
Off BS net notional position	- 210	176		34	- 9	**- 9**
Net position in currency	- 8	1	- 10	7	1	**- 9**

Currency distribution 2011	EUR	USD	LVL	LTL	Other	Total
Assets						
Loans to credit institutions	1 425	312	10	12	87	1 846
Loans to the public	5 813	144		0		5 957
Interest-bearing securities	451	6	4	25		486
Other assets, not distributed	508	31	2	2	8	551
Total	**8 197**	**493**	**16**	**39**	**95**	**8 840**
Liabilities and equity						
Amounts owed to credit institutions	1 337	4	7	4	7	1 359
Deposits and borrowings from the public	4 651	602	2	2	81	5 338
Debt securities in issue	13			2		15
Other liabilities, not distributed	316	58	90	70	6	540
Equity	1 588					1 588
Total	**7 905**	**664**	**99**	**78**	**94**	**8 840**
Off BS net notional position	- 206	174		30		- 2
Net position in currency	86	3	- 83	- 9	1	- 2

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Change in value if the market interest rate rises by one percentage point
The impact on the value of assets and liabilities, including derivatives, when market interest rates rise by one percentage point (+1%).

2012	< 3 mths.	3-6 mths.	6-12 mths.	1-2 yrs.	2-3 yrs.	3-4 yrs.	4-5 yrs.	5-10 yrs.	> 10 yrs.	Total
EUR	-6,1	-4,6	0,9	-0,3	-0,6	0,6	-0,1	0,0	-0,4	-10,6
OTHER	-0,1	0,1	0,2	0,0	0,0	0,0	0,0	0,0	0,0	0,2
Total	-6,2	-4,5	1,1	-0,2	-0,6	0,6	-0,1	0,0	-0,4	-10,3
of which financial instruments measured at fair value through profit or loss										
EUR	-0,2	0,0	-1,1	-0,5	0,2	1,0	0,4	0,2	0,0	0,0
OTHER	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Total	-0,2	0,0	-1,1	-0,5	0,2	1,0	0,4	0,2	0,0	0,0

2011	< 3 mths.	3-6 mths.	6-12 mths.	1-2 yrs.	2-3 yrs.	3-4 yrs.	4-5 yrs.	5-10 yrs.	> 10 yrs.	Total
EUR	-1.1	-4.7	-2.0	-0.4	-0.1	0.2	-1.0	-2.0	-0.1	-11.2
OTHER	0.0	0.1	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.6
Total	-1.1	-4.6	-1.6	-0.3	-0.1	0.2	-1.0	-2.0	-0.1	-10.6

of which financial instruments measured at fair value through profit or loss										
EUR	0.0	-0.3	-0.5	-0.0	-0.1	-0.2	0.4	0.5	0.0	-0.2
OTHER	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1
Total	-0.1	-0.3	-0.5	-0.0	-0.1	-0.2	0.4	0.5	0.0	-0.3

Summary of maturities

In the summary of maturities, contractual cash flows are distributed on the basis of remaining maturities until the agreed time of maturity. For lending to the public amortising loans are distributed based on the amortisation schedule. Liabilities, whose repayment date may depend on various options, have been distributed based on the earliest date on which repayment could be demanded.

	Contractual cash flows							
Remaining maturity 2012	On demand	< 3 mths.	3 mths.- 1yr.	1- 5 yrs.	5 - 10 yrs.	> 10 yrs.	No maturity	Total
Assets								
Cash and balances with central banks	1 089							1 089
Treasury bills and other bills eligible for refinancing with central banks, etc.		36	56	63	28	14		197
Loans to credit institutions	729	112	36	54				931
Loans to the public		492	839	2 393	1 005	1 291		6 020
Bonds and other interest-bearing securities		6	60	148	10			224
Fund shares where customers bear the investment risk							205	205
Shares and participating interests							13	13
Derivatives		10	19	6	8			43
Intangible fixed assets							5	5
Tangible assets							26	26
Other assets		190	5	7	4		2	208
Total	**1 818**	**846**	**1 015**	**2 671**	**1 055**	**1 305**	**251**	**8 961**
Liabilities								
Amounts owed to credit institutions	64	140	161	397	25			787
Deposits and borrowings from the public	3 739	966	806	57	12	9		5 589
Debt securities in issue, etc.		1	1			2		4
Financial liabilities in insurance operations		4	5	31	28	62	109	239
Derivatives		9	18	10	13			50
Other liabilities		292	47	69	32	20		460
Equity							1 832	1 832
Total	**3 803**	**1 412**	**1 038**	**564**	**110**	**93**	**1 941**	**8 961**

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	Contractual cash flows							
Remaining maturity 2011	On demand	< 3 mths.	3 mths.- 1yr.	1- 5 yrs.	5 - 10 yrs.	> 10 yrs.	No maturity	Total
Assets								
Cash and balances with central banks	228							228
Treasury bills and other bills eligible for refinancing with central banks, etc.		120	106	49	27	18		320
Loans to credit institutions	962	495	66	90	233			1 846
Loans to the public		499	803	2253	1 024	1 378		5 957
Bonds and other interest-bearing securities		34	40	82	10			166
Fund shares where customers bear the investment risk							176	176
Shares and participating interests							12	12
Derivatives		13	4	5	2			24
Intangible fixed assets							7	7
Tangible assets							28	28
Other assets		52	9	6	7		2	76
Total	**1 190**	**1 213**	**1 028**	**2 485**	**1 303**	**1 396**	**225**	**8 840**
Liabilities and equity								
Amounts owed to credit institutions	28	38	861	399	33			1 359
Deposits and borrowings from the public	3 053	1 375	817	64	20	9		5 338
Debt securities in issue, etc.		2	11			2		15
Financial liabilities where customers bear the investment risk		1	6	14	21	42	95	179
Derivatives		12	3	3	5			23
Other liabilities		128	55	79	44	32		338
Equity							1 588	1 588
Total	**3 081**	**1 556**	**1 753**	**559**	**123**	**85**	**1 683**	**8 840**

Sensitivity analysis	Change	2012	2011
Net interest income, 12 months			
Increased interest rates	+1%-p.p.	19.7	10.6
Decreased interest rates	-1%-p.p.	-22.2	-14.7
Change in value			
Market interest rate	+1%-p.p.	0.02	-0.2
	-1%-p.p.	-0.02	0.2
Stock prices	+10 %	0.1	0.1
	-10 %	-0.1	-0.1
Exchange rates	+5 %	-0.03	-0.4
	-5 %	0.03	0.4

Sensitivity analysis for Net Interest income captures estimation of P/L sensitivity when market rates move by 1% up or down. As demand deposits, carry very small interest rates then Swedbank is comparatively more sensitive to downward movements of rates.

Changes in value measure impact on the trading book items when interest rates move by +/-1% and stock prices sensitivity estimates the P/L from equities and equity options trading portfolio, when underlying instruments prices change by +/-10%. For FX the sensitivity captures potential P/L from open currency positions.

OPERATIONAL RISK AND COMPLIANCE

DEFINITION

Operational risk refers to the risk of losses resulting from inadequate or failed internal processes or routines, human error, faulty systems or external events. The definition includes legal risk and compliance risk.

Risk Management

Swedbank Group Risk Control is responsible for a uniform Group-wide operational risk measurement and reporting. An analysis of the risk level in business units is performed quarterly and reported to each local management as well as to the Board of Directors, the CEO and the Group Executive Committee.

Swedbank constantly strives to improve and develop the methods to manage operational risk. In 2012 Swedbank Group launched a project to implement the internal measurement method to operational risk.

Incident management

Swedbank has established procedures and systems which support managing, reporting and following up incidents. Incidents are continuously analysed and action plans implemented to ensure that risk drivers are identified and properly managed. Operational risk incidents and losses are reported to central database for aggregation and further analysis.

Self Assessments

Swedbank has implemented a common Risk and Control Self Assessment (RCSA) method for identifying, assessing and mitigating operational risks in all business areas and key processes.

New Product Approval

Swedbank has implemented a New Product Approval Process (NPAP) covering all new and amended products, services, processes and systems. The purpose of NPAP is to ensure that risks arising from new or amended products, activities, processes and systems are identified and managed during the development and implementation process.

Security and continuity

The principles for security, continuity, incident and crisis management are defined in Group-level framework.

Swedbank works proactively with security management to protect all types of assets, including personnel, tangible and intangible assets, by utilising technical, organizational and administrative measures. Swedbank's security management model is derived from the international standard ISO/IEC 27002:2005 Code of Practice for Information Security Management

Swedbank coordinates efforts to prevent and strengthen its ability to manage serious incidents, such as IT disruptions, natural disasters, financial disturbances and pandemics, which may affect the bank's ability to maintain services and offerings. Regular crisis management exercises are conducted. Continuity plans are in place for business-critical operations and services that are critical for nation and society. The plans describe how Swedbank will operate in the event of a serious disruption.

As a vital service provider Swedbank actively participates in the vital services workgroup organized by the Bank of Estonia.

Operational risk control supports the business areas in implementing risk management tools and assessing business risks, provides trainings, monitors the operational risk level and is responsible for regular reporting.

Swedbank participates in several comprehensive and Swedbank Group-wide insurance programs to mitigate operational as well as other types of risk.

Compliance

Compliance risk refers to the risk that the bank, by breaching laws, regulations and policies (external and/or internal), will fail to meet the standards and behaviour expected by external counterparties.

Swedbank's internal regulation comprises rules for managing compliance risk. The central component of the internal regulation is the compliance instruction issued by the CEO. The aim of the internal rules is to ensure that the Swedbank always meets the quality requirements and standards of behaviour expected by customers and financial regulators.

Compliance team monitors and concludes regular and ad hoc controls of business activities, provides training and advice, manages crises, is involved in assessing business risks and development of new products and services, participates in legislative procedure on country and EU level and liaises with regulative authorities.

Swedbank adheres to the definitions of money laundering and terrorist financing stated in EU legislation. AML function is regulated by internal Policy on Anti Money Laundering and Countering Terrorist Financing. For combating money laundering and financing of terrorism, also for complying with international sanctions, Swedbank has professional staff, necessary screening and monitoring systems and internal procedures corresponding to international standards.

INSURANCE RISK

DEFINITION

Insurance risk refers to life insurance risks, P&C insurance risks and operating cost risks.

Life insurance risks consist of mortality risk, morbidity risk, longevity risk and cancellation risk i.e. the risk that the contract will be terminated in advance or diminish in future value.

P&C insurance risk comprises the risk that the insurance result will be unusually unfavourable in the year ahead and that the final payment for past claims will be more expensive than anticipated. Operating cost risk refers to the risk that the insurance company's fixed costs will increase in the year ahead.

Risk management

Before a life insurance policy is approved, the insured must pass a risk assessment. The purpose is to determine whether the insured can be approved for insurance based on his or her health. The desired insurance must also meet the policyholder's insurance needs. To further limit risk exposure, the company reinsures parts of its insurance risk.

Concentration risk is managed through Swedbank's insurance operations, which offer a broad range of products and are active in the three Baltic countries, thereby diversifying insurance risk by market, industry, age and gender.

Insurance contracts are designed so that the premium and assumptions can be changed annually, which means that the company can quickly balance its premiums and terms to rapid changes in morbidity, for example.

The pricing of premiums is based on assumptions about future costs for insurance events, such as projected longevity, mortality, morbidity and claim frequency, as well as the estimated cost of insurance events. Experience in the form of statistical material and expectations about the market's future development are critical factors in the choice of assumptions.

Risk measurement

Insurance risks in the life insurance operations are measured by stressing the insurance company's balance sheet, income statement and shareholders' equity one year in advance with a given level of confidence. For the P&C insurance operations, insurance risks are measured by calculating the claim ratio i.e. claims in relation to premiums, by product and country.

Risk exposure

The group's assumptions regarding mortality, illnesses, longevity, accidents, claims and pricing produce a risk result. The assumptions can change annually, which means that adjustments can quickly impact the risk result.

P&C insurance today represents a small part of Swedbank's total insurance operations. Since contracts are issued on an annual basis, insurance risks are limited because pricing can be changed for the following year.

Capital requirement for insurance risk

Solvency is a measure of the insurance company's financial position and strength. The purpose is to show how much of a capital buffer the company has to fulfil its commitments to customers in accordance with the terms and guarantees in its insurance contracts.

The capital base in the Baltic life insurance operations amounted to EUR 35m as of 31 December 2012. The solvency ratio was 2.53. The capital base in the Baltic property and liability insurance operations amounted to EUR 79m as of 31 December 2012. The solvency ratio was 10.40.

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5 Capital adequacy

CAPITAL ADEQUACY RULES

On 1 January 2007 Estonia introduced new capital adequacy rules: Basel 2. The rules are based on the Basel Accord and are being introduced throughout the European Union in accordance with the provisions of the EU's Banking Directive and Capital Requirements Directive. According to the new rules, capital requirements will be more closely linked to the risk profiles of institutions.

There are two principal methods to calculate the capital requirement for credit risks: the standardised method and the IRB (Internal Ratings-Based) method. In the IRB method, the capital requirement is linked to Swedbank's current and future risk profile, its own risk measures and an assessment of risk capital needs to a greater degree than previously. In addition to the capital requirement for credit and market risks, a capital requirement was also introduced for operational risks.

Institutions have a requirement to prepare and document their own internal capital adequacy assessment process (Pillar 2). All relevant sources of risk must be taken into account when assessing the total capital needed i.e. not only those included when calculating the capital requirement for credit, market and operational risks (Pillar 1).

Moreover, there is a requirement for institutions to disclose comprehensive information about their risks, risk management and associated capital requirements (Pillar 3).

The annual report of Swedbank provides information on the risk profile, the aggregate amount and composition of its capital requirements and the aggregate amount and composition of its own funds which form the basis for the calculation of the capital adequacy ratio.

Swedbank Estonia forms part of the Swedbank Group and uses the same risk management policies and standards, as well as similar rules of procedure to the Swedbank Group, including the same risk classification system, modelling standards and internal measurement approaches and principles of calculating own funds and capital adequacy. Swedbank AB (publ) discloses Pillar 3 information for the whole Swedbank Group. The Capital Adequacy and Risk Management report of the Swedbank Group is available online at www.swedbank.com.

Swedbank Estonia received regulatory approval of the IRB approach in the credit risk area with effect from March 2009.

SWEDBANK COMPANIES INCLUDED IN CAPITAL ADEQUACY CALCULATION

The following Swedbank Estonia companies were included in capital adequacy calculation as at 31 December 2012:

Parent company and major subsidiaries	Subsidiaries	Companies NOT included in the CAD calculation *
Swedbank AS (Estonia)	Swedbank Support OÜ Swedbank Liising AS	Swedbank Life Insurance SE Swedbank P&C Insurance AS

* In accordance with Basel 2 capital adequacy rules, the Swedbank's insurance companies are not included.

CAPITAL BASE

The capital base serves as a buffer against losses that can arise from risks to which the Swedbank is exposed. Its ability to sustain significant losses is also largely dependent on the strength of the income statement, as well as on more qualitative factors such as risk management capabilities and internal governance and control.

Briefly, the capital base is the sum of primary capital (Tier 1 capital) and supplementary capital (Tier 2 capital) with deductions for the value of shares in insurance companies (which are subject to separate capital requirements). Tier 1 capital mainly comprises shareholders' equity after adjustments; Tier 2 primarily comprises subordinated debt.

CAPITAL REQUIREMENT FOR CREDIT RISKS

Credit risk refers to the risk of a counterparty being incapable of meeting its obligations and cash flow from pledged assets not covering claims. Credit risk incorporates concentration risk, which includes extensive individual exposures and significant exposures to groups of counterparties whose likelihood of default is driven by common underlying factors such as the economy, sector, geography and instrument type. Credit risk forms the largest part of the total outstanding risk for Swedbank Estonia and is inherent in almost all regular credit products such as loans, leasing, credit cards, guarantees and derivatives.

MARKET RISKS

Exposure to market risks arises from positions affected by changes in market risk factors: interest rates, foreign exchange rates and equity prices (or other relevant risk factors such as implicit volatility for options).

For capital requirement calculation purposes, the standardised approach for market risk has been implemented under Basel 2 capital adequacy rules.

OPERATIONAL RISK

Operational risk represents any undesirable impact on business objectives, including direct or indirect financial loss or loss of confidence occurring in day-to-day business operations resulting from errors or omissions in internal procedures or systems or due to human errors, fraud or external events.

To define capital requirements to cover unexpected losses from operational risk Swedbank Estonia has implemented the standardised approach under the Basel 2 capital adequacy rules, including such required methods as a loss database, risk self-assessment and business contingency planning.

SIZE OF CAPITAL BASE AND CAPITAL LEVEL

The capitalisation of Swedbank Estonia is continuously monitored to ensure that it is at the desirable level according to both legal capital requirements and internal capital targets. The capital base is maintained and developed primarily through internal profit generation. Profitability is supported by the principle that prices are higher for transactions associated with higher risk and which thus have a higher capital requirement than for transactions for which the risk is lower. The pricing of various products is ultimately determined by market prices, although Swedbank Estonia also takes into account the costs incurred in each transaction when setting prices for individual customers and products. The capital cost is an example of a key component in this regard. To achieve the preferred level of capitalisation, the capital base may be adjusted by means of various measures including issues of subordinated debt and sales of assets. However, capitalisation is not only a matter of the size and structure of the capital base: it may also be adjusted by altering risk exposure. Swedbank Estonia regularly evaluates the measures that can be taken, in an efficient manner in terms of both time and cost, to adjust capitalisation – both upwards and downwards.

Swedbank Estonia remains adequately capitalised, well above local regulatory requirements. The capital adequacy ratio was 28.2% at 31 December 2012 (26.0% at 31 December 2011).

TRANSFER OF CAPITAL WITHIN ESTONIAN COMPANIES

The need for capitalisation that meets requirements according to the capital adequacy rules and the internal capital adequacy assessment is not limited to financial group level. The Bank and subsidiaries must also be adequately capitalised. One company may be undercapitalised in an otherwise well-capitalised group while another is overcapitalised, producing a situation that may require intercompany transfers of funds from the capital base.

Funds can be transferred to the Bank as dividends to the extent that non-restricted profits are available in subsidiaries, but also as share capital decrease. Funds can be transferred to the subsidiaries as share capital increase. Swedbank Estonia regularly reviews capitalisation in the consolidation group as a whole, as well as in different legal entities within Swedbank Estonia. After this is completed, any transactions deemed necessary are undertaken.

Capital base	Basel II IRB 2012	Basel II IRB 2011
Primary capital (Tier 1)		
Share capital	85	85
Share premium	31	31
Reserves	43	43
Retained earnings from previous periods	1 280	820
Retained earnings (loss) from current period	140	460
Foreign currency translation reserve		
Less: Intangible assets	- 5	- 7
Total Tier 1	**1 574**	**1 432**
Supplementary capital (Tier 2)		
Subordinated debt	0	0
Value adjustments and provisions exceeding the expected loss		
Supplementary capital (Tier 2)		
Own funds, total	**1 574**	**1 432**
Deductions from own funds	34	15
Own funds, net	**1 540**	**1 417**

Capital ratios	2012	2011
Tier 1 capital ratio, %*	28.2	26.0
Tier 2 capital ratio, %	0.0	0.0
Total capital adequacy ratio	**28.2**	**26.0**

* The Swedbank's insurance companies are not included according to the Basel 2 capital adequacy rules

Capital requirements	Basel II IRB 2012	Basel II IRB 2011
Capital requirement for credit risks, standardized approach		
Central governments and central banks	0	0
Regional and local governments	4	3
Institutions administered by state authorities, non-profit institutions and associations	16	16
Credit institutions and investment firms	22	63
Companies	9	9
Other assets	12	6
Capital requirement for credit risks, internal ratings based approach		
Credit institutions and investment firms	1	1
Other companies	273	292
Other items	2	2
Retail exposures	89	84
Total capital requirement for credit risk	**428**	**476**
Capital requirement for market risks		
Foreign exchange risk capital requirement	0	0
Capital requirement for interest rate risk	0	0
Equity position capital requirement	2	3
Capital requirements for options	1	1
Total capital requirement for market risk	**3**	**4**
Capital requirement for operational risks		
Operational risk standardized approach	30	33
Total capital requirement for operational risk	**30**	**33**
Total capital requirement	**461**	**513**
Transitional minimum of own funds	547	545
Total capital requirement for adequacy calculation	**547**	**545**

* The Swedbank's insurance companies are not included according to the Basel 2 capital adequacy rules

Allkirjastatud identifitseerimiseks:

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INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP) – THE SECOND PILLAR

Definition

The internal capital adequacy assessment process (ICAAP) is the process by which Swedbank assures that it is adequately capitalised to cover its risks and to conduct and develop its operations. Internal capital adequacy assessment therefore takes into account all relevant risks that arise within Swedbank. The ICAAP process in the Baltic units of Swedbank is an integral part of the Swedbank Group wide ICAAP.

Swedbank AS, Estonia legal structure changed. Swedbank AS, Estonia sold its Latvian and Lithuanian subsidiaries to Swedbank AB in Sweden, according to which the three Baltic subsidiaries are now directly owned by Swedbank AB in Sweden. Therefore the ICAAP 2012 calculation includes only the Estonian operations (excluding Swedbank AS, Latvia and its subsidiaries and Swedbank AB, Lithuania and its subsidiaries), thus the outcome is not directly comparable to results of ICAAP calculations conducted before.

Measurement

Below we list identified risks for which Swedbank allocates capital in the model. Strategic risk and reputational risk are handled indirectly within the capital adequacy assessment, as the capital buffer implicitly protects against such risks. These risks remain an important part of Swedbank's potential exposure however, and they are carefully monitored and managed. Liquidity constraints may arise as a result of an imbalance between risk and capital. The internal capital adequacy assessment process is designed to ensure that imbalances like this do not arise, and consequently, a conservative view of liquidity risks is crucial to the process.

The ICAAP scenario

A number of stress scenarios were evaluated as part of the 2012 ICAAP; from these an extended recession was selected as the main scenario. It was selected because it had a combination of a severe outcome for Swedbank Group and it was seen as the most relevant in a light of the current macro situation. This scenario is deemed more severe that what can be expected to occur once in 25 years. Thus the assumptions from this scenario can be considered very conservative. The macro scenario used in the Swedbank Group ICAAP process is more negative than the stress tests of European banks coordinated by the European Banking Authority, EBA and the stress test of Swedish banks conducted by the Riksbank.

In the 2012 ICAAP, the effect on capitalization is divided between the effect of future regulatory changes and scenario effects. In early 2012, when the ICAAP was being prepared, the Basel 3/CRD IV regulation was expected to be implemented in 2013, and therefore was included; since then it has been postponed.

The 2012 ICAAP results assured that Swedbank Group is sufficiently capitalized even in the event of possible but unlikely scenario and considering the future regulatory requirements. Swedbank AS, Estonia demonstrates resilience in the ICAAP, even during the years with highest stress level. This suggests that the work to improve credit quality in the lending portfolio and strengthen the capital base in 2009-2011 has yielded results that the country is in significantly better macroeconomic balance and is more resilient than a few years ago. The ICAAP findings indicate that Swedbank Estonia would meet the anticipated regulatory requirements over the five-year scenario horizon

Risk types according to the ICAAP process

Risk type	Pillar 1	Pillar 2
Capital is allocated	Contributes to calculated capital need?	
Credit risk	Yes	Yes
Concentration risk	No	Yes
Market risk	Yes	Yes
Market risk: Interest rate risk in banking book	No	Yes
Operational risk	Yes	Yes
Business risk: Earnings volatility risk	No	Yes
Insurance risk	Yes[1]	Yes[2]
Risk in post-employment benefits	No	Yes[3]
Strategic risk: Business plans	No	Yes
Strategic risk: Projects and acquisitions	No	Yes, as a one-off sum added
No specific capital is allocated	Idenitifed and mitigated?	
Reputational risk	No	Yes
Liquidity risk	No	Yes, stress test
Strategic risk: Decision risk	No	Yes

[1] Holdings in insurance business (equities, sub-debts, similar instruments) are deducted from capital

[2] Holdings in insurance business are deducted from capital and an assessment is done whether the invested capital amount is adequate considering the adverse scenario applied in the ICAAP. The assessment is done considering the current as well as future Solvency regulations

[3] No applicable to Swedbank AS, Latvia

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6 Net interest income

	2012	2011
Interest income received from		
Loans to credit institutions	11.8	22.7
Loans to the public	256.7	475.7
Interest-bearing securities	10.2	22.8
Total Interest-bearing assets	**278.7**	**521.2**
Other assets	-1.8	-2.2
Total interest income	**276.9**	**519.0**
Interest expense paid on		
Amounts owed to credit institutions	33.9	99.2
Deposits and borrowings from the public	36.5	66.7
Debt securities in issue	0.1	0.9
Subordinated liabilities		11.3
Interest-bearing liabilities	**70.5**	**178.1**
Other liabilities	0.4	1.6
of which fee state stabilisation fund	0.4	1.6
Total interest expense	**70.9**	**179.7**
Net interest income	**206.0**	**339.3**
Attributable to:		
Continuing operations	206.0	219.9
Discontinued operations	0.0	119.4

Allkirjastatud identifitseerimiseks:

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7 Net commissions

	2012	2011
Commission income		
Payment processing	61.4	114.9
Asset management	6.7	18.2
Life insurance	0.2	0.2
Brokerage	7.4	2.6
Other securities		0.1
Lending	4.8	7.8
Guarantees	4.9	5.9
Non-life insurance	0.4	0.4
Other commission income	2.9	8.2
Total	**88.7**	**158.3**
Commission expenses		
Payment processing	18.1	36.2
Asset management	1.8	1.5
Life insurance	1.0	0.6
Other securities	1.1	1.5
Lending and guarantees		0.2
Other commission expenses	2.8	4.4
Total	**24.8**	**44.4**
Total	**63.9**	**113.9**
Attributable to:		
Continuing operations	63.9	64.3
Discontinued operations	0.0	49.6

8 Net gains and losses on financial items at fair value

	2012	2011
Valuation category, fair value through profit or loss		
Trading and derivatives		
Shares and related derivatives	1,7	-1,2
of which dividends	0,2	0,2
Interest bearing instruments and related derivatives	-1,5	-8,5
Other financial instruments	-0,8	0,9
Total	**-0,6**	**-8,8**
Hedge accounting at fair value		
Hedging instruments	-4,8	-4,0
Hedged items	4,6	4,4
Total	**-0,2**	**0,4**
Change in exchange rates	12,5	-0,1
Total	**11,7**	**-8,5**
Distributed by business purpose		
Financial instruments for trading related operations		
of which equity related	1,7	-1,2
of which interest rate related	-1,5	-8,5
of which currency related	12,5	-0,1
of which other	-1,0	1,3
Total	**11,7**	**-8,5**
Attributable to:		
Continuing operations	11,7	-22,4
Discontinued operations	0,0	13,9

Net gains and losses on items at fair value of 2011 include EUR 30m loss on the adjustment of unrealized foreign exchange differences from sales of former Latvian and Lithuanian subsidiary.

Allkirjastatud identifitseerimiseks:

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9 Net insurance

	2012	2011
Premium income		
Life insurance	32.7	35.1
of which loan insurance	8.3	7.3
of which other	24.4	27.8
Property and casualty insurance	41.0	37.4
Total	73.7	72.5
Change in insurance provisions		
Life insurance	18.8	20.3
of which loan insurance	1.2	0.7
of which other	17.6	19.6
Property and casualty insurance	21.6	18.5
Total	40.4	38.8
Net insurance income		
Life insurance	13.9	14.8
of which loan insurance	7.1	6.6
of which other	6.8	8.2
Property and casualty insurance	19.4	18.9
Total	33.3	33.7
Attributable to:		
Continuing operations	33.3	33.7
Discontinued operations	0.0	0.0

10 Other income

	2012	2011
Profit from sale of subsidiaries and associates	0.0	109.9
Income from real estate operations	0.2	0.3
Income properties,other assets taken over	0.4	0.8
IT services	19.0	11.8
Other operating income	7.5	8.4
Total	27.1	131.2
Attributable to:		
Continuing operations	27.1	16.4
Discontinued operations	0.0	114.8

Allkirjastatud identifitseerimiseks:

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11 Staff costs

	2012	2011
Salaries and other remuneration	45.0	76.3
Compensation programme	4.3	4.1
Social insurance charges	16.6	25.4
Training costs	0.8	1.8
Other staff costs	1.2	1.5
Total	**67.9**	**109.1**
of which, profit-based staff cost accruals incl taxes (reversal)	5.1	4.9
of which, redundancy costs(incl taxes)	0.1	1.5
Attributable to:		
Continuing operations	67.9	68.6
Discontinued operations		40.5
Salaries (incl. taxes) of the Board of AS Swedbank	1.0	1.0
Annual performance accrual (incl. taxes) of the Board of AS Swedbank	0.2	0.2
Number of employees, end of period (FTE)*	2 411	2 515
Continuing operations	2 411	2 515
Number of employees, average of the period (FTE)*	2 454	2 529

* In 2011 only Estonian FTE figures are presented

COMPENSATION WITHIN SWEDBANK
Swedbank's view is that compensation should, as far as possible, be individually based and thereby inspires employees to live up to Swedbank's goals, strategy and vision. Compensation should also encourage them to embrace our values – simple, open and caring – which we are convinced is the basis of a successful and sustainable business. Total compensation should be designed so that Swedbank can attract employees with the competence it needs, within established cost limits.

The majority of employees have fixed and variable compensation components, which, together with other benefits, represent their total compensation. The goal is to achieve a sound balance between the variable and the fixed components.

FIXED COMPENSATION
Fixed compensation is the main component of all employees' total compensation. Fixed compensation is based on the employee's duties, whether they meet their performance targets and abide by Swedbank's values, and it is also based on local market conditions.

VARIABLE COMPENSATION
Based on the principles established by the Annual General Meeting, Swedbank's Board of Directors oversees variable compensation, which covers the majority of employees.

Principal design of variable compensation
Swedbank currently has three share-based variable compensation programmes. Estonian employees participate in Programme 2011 and Programme 2012. Swedbank has chosen to apply the requirement to defer variable compensation to all employees participating in compensation programmes. The main reason why Swedbank chose to go beyond what the regulations require is the Board and management's desire to:

• Harmonise the interests of employees and shareholders by offering share-based compensation instead of traditional compensation in the form of cash,

• Create long-term value on the part of employees by deferring the variable compensation.

Risk management
Swedbank's variable compensation is adapted to risks in the company. Risk management can be divided into two parts: ex-ante and ex-post.

• Ex-ante risk management (risk management before the allotment of variable compensation)

Variable compensation is tied to employee's performance, the Group's total result and the business area result during the performance year. Allotments of variable compensation are contingent on a positive Economic profit (Operating profit after deducting company tax and the cost of capital) at the business area and Group levels.
Variable compensation is limited at the individual level, i.e., there is a maximum amount, and is evaluated on the basis of predetermined parameters. Total variable compensation for the Group and each business area is also limited to a predetermined amount in accordance with the Board's decision.

• Ex-post risk management (risk management after allotment of variable compensation during the deferral period)

A portion of variable compensation within Swedbank is deferred for at least three years for both code and non-code personnel. In addition, there is no threshold (but a deferral requirement), nor any pro-rata payment for deferred compensation, as permitted by law. Pro-rata payment allows a company to pay out deferred compensation once a year evenly distributed over the deferral period.

Based on the principals established by the Annual General Meeting, Swedbank's Board of Directors oversees variable compensation, which covers the majority of employees. The Board can withhold variable compensation if the Group's financial position has been greatly weakened or there is a significant risk of the occurring, or if improper actions by individuals have adversely affected Swedbank's (or a business area's) results.

Programme 2012
Programme 2012 consists of two parts:

• A general programme Eken (Oak), which comprises essentially all employees in the Group and consists of deferred compensation in the form of Swedbank AB shares.

• An individual programme comprising 42 employees in Estonia and consisting of cash and deferred compensation in the form of shares.

Share-based compensation includes dividend compensation during the deferral period of three years. Group Executive Management is also covered by a one-year restriction on the right of use after the delivery of shares. Continued employment is a prerequisite for delivery of shares. The delivery of shares is preceded by an evaluation described under "ex-post risk management".

Variable Compensation programme 2012 risktakers/non risktakers

	Risktakers	Non-risktakers	Total
Variable staff costs			
Cash,not deferred	0.2	0.1	0.3
Shares,deferred 3 years	0.3	2.0	2.3
Total	**0.5**	**2.1**	**2.6**
Number of employees	133	2278	2411

Risktakers are defined as senior management (incl board members), responsible persons within the control function, employees having material impact on the risk profile of the entity and employees with equal salaries with the board members.

Number of performance rights that establish the recognised share based expense, thousands

	2012	2011
Outstanding at the beginning of the period	616	
Alloted	769	616
Forfeited	-70	
Outstanding at the end of the period	1315	616
Weighted average fair value per performance right at measurement date,SEK	**111.0**	**111.0**

Reporting of share-based payment

Since the delivery of common shares in Swedbank AB requires the holder of the performance rights to remain an employee on the delivery date, the share-based payment is accrued during the duration of each programme.

Each programme is comprised of i) a vesting period during the initial performance year, followed by ii) allotments and a deferral period before iii) the delivery date, i.e., final transfer of the shares to participants in the year after the conclusion of the deferral period and publication of the year-end report. During the initial performance year the compensation is expressed and measured in the form of an amount corresponding to the performance amount. The compensation is subsequently expressed in terms of the number of performance rights until the delivery date.

Performance rights for each programme are valued in the accounts based on the estimated price of the ordinary share on the measurement date, i.e., the date when the company and the counterparty agree to the contractual terms and conditions in each programme. Each performance right entitles its holder to one ordinary share in addition to compensation for dividends that the performance rights do not qualify for during the programme's duration. The reported cost of each programme can change during the period until the delivery date if the performance amount changes or if performance rights are forfeited. The reported cost excluding social insurance charges does not change when the market value of the performance rights has changed. Social insurance charges are calculated and recognised continuously based on market value and ultimately determined at the time of settlement.

The value of the estimated compensation for Programme 2012, both cash and performance rights, was EUR 9.6m, including social insurance charges, of which EUR 2.7m was accrued in 2012.

12 Other general administrative expenses

	2012	2011
Expenses for premises	0.2	0.5
Rents	13.1	21.7
IT expenses	15.8	19.2
Telecommunications, postage	1.4	2.6
Consulting and outsourcing	0.5	3.2
Travel	2.0	3.9
Entertainment	0.7	1.6
Office supplies	0.3	0.5
Advertising, public relations, marketing	4.3	7.8
Security transports, alarm systems	1.2	2.9
Maintenance	1.1	1.6
Other administrative expenses	14.9	22.9
Other operating expenses	1.0	3.8
Total	**56.5**	**92.2**
Attributable to:		
Continuing operations	56.5	50.9
Discontinued operations	0.0	41.3

13 Operational leasing

Non-cancellable operating leases	2012	2011
within 1 year	5.2	5.2
1 to 5 years	2.0	3.2
over 5 years	0.5	0.0
Total	**7.7**	**8.4**

14 Depreciation/amortisation of tangible and intangible fixed assets

Depreciation/amortisation	2012	2011
Equipment	0.7	2.5
Computers and IT equipment	2.8	3.7
Owner-occupied properties	1.0	2.7
Leasing objects	1.4	1.2
Intangible fixed assets	2.6	3.8
Total	**8.5**	**13.9**
Attributable to:		
Continuing operations	8.5	9.4
Discontinued operations	0.0	4.5

Allkirjastatud identifitseerimiseks:

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15 Impairments of tangible and intangible assets

Impairments	2012	2011
Repossessed leasing assets	0.0	3.0
Total	**0.0**	**3.0**
Attributable to:		
Continuing operations	0.0	1.6
Discontinued operations	0.0	1.4

Repossessed lease assets are recognised in the balance sheet as other assets

16 Credit impairments

	2012	2011
Provisions for individually measured impaired loans		
Provisions for the period (reversal)	-3.5	-11.4
Recovery of previous provisions	-13.2	-127.2
Provisions for the period for homogenous loan receivables	9.2	13.3
Reversal of provisions for the period for homogenous loan receivables	-48.3	
Total	**-55.8**	**-125.3**
Portfolio provisions for loans that are individually not impaired	**-16.2**	**-44.0**
Write-offs		
Established losses	84.8	222.1
Utilisation of previous provisions	-38.0	-104.1
Recoveries	-10.7	-25.3
Total	**36.1**	**92.7**
Credit impairments for contingent liabilities and other credit risk exposures	**-3.6**	**2.2**
Credit impairments	**-39.5**	**-74.4**
Attributable to:		
Continuing operations	-39.5	-1.3
Discontinued operations	0.0	-73.1

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17 Tax

	2012						2011
	Estonia	Latvia	Tax %	Lithuania	Tax%	Total	Total
Profit before tax	233.8	3.9		10.9		248.6	473.0
Income tax on dividends	4.4					4.4	2.0
Effect of tax rates in foreign jurisdictions		0.6	15	1.6	15	2.22	32.0
Non-deductible expenses						0	1.5
Non-taxable income and tax incentives				-1.6		-1.6	-8.8
Total tax expense(benefit) charge to income statement	**4.4**	**0.6**		**0.0**		**5.0**	**26.7**
Current tax expense		0.6				0.6	2.1
Deferred tax expense relating to temporary differences	4.4					4.4	24.6
Total tax expense charge to income statement	**4.4**	**0.6**				**5.0**	**26.7**
Attributable to:							
Continuing operations	4.4	0.6				5.0	2.1
Discontinued operations						0	24.6

	Estonia	Latvia	Lithuania	2012	2011
Deferred tax liabilities					
Difference in timing	-4			-4	
Total deferred tax liabilities	**-4**	**0**	**0**	**-4**	**0**
Deferred tax balances					
At the beginning of the year				0	133
Change in deferred tax	-4			-4	- 133
Total deferred tax balance	**-4**			**-4**	**0**

Swedbank AS pays income tax in Estonia only after earnings are distributed to the Swedbank AB. The tax rate for 2012 is 21 per cent. The share of the remaining profit in Swedbank AS if it were subject to a dividend, would result in a maximum tax consequence of EUR 414m. A deferred tax in the amount of EUR 4 m has been recognised in the accounts because Swedbank AB (publ) has determined to take out EUR 75m dividend in 2013. Swedbank AB has decided not to distribute further dividends in the foreseeable future.

Allkirjastatud identifitseerimiseks:

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18 Treasury bills and other bills eligible for refinancing with central banks, etc.

	Carrying amount		Amortised cost		Nominal amount	
	2012	2011	2012	2011	2012	2011
Valuation category, fair value through profit or loss						
Trading						
Foreign governments	113	217	111	217	110	216
Other issuers						
Total	113	217	111	217	110	216
Valuation category, held to maturity						
Foreign governments	84	103	84	103	82	104
Total	84	103	84	103	82	104
Total	197	320	195	320	192	320

19 Loans to credit institutions

	2012	2011
Valuation category, loans and receivables		
Swedish credit institutions	691	1 356
Foreign banks	240	490
Total	931	1 846

20 Loans to the public

	2012	2011
Valuation category, loans and receivables		
Estonian public, lending	5 533	5 551
Estonian public, leasing	521	546
Estonian public, factoring	81	82
Allowance for credit losses	- 115	- 222
Total	6 020	5 957

21 Finance leases

				2012	2011
Finance lease agreements distributed by maturity	< 1 yr.	1-5 yrs.	> 5 yrs.	Total	Total
Gross investment	227	322	6	555	593
Unearned finance income	16	18		33	47
Net investment	211	304	6	521	546
Allowance for doubtful claims related to minimum leasing charges				6	11

22 Bonds and other interest-bearing securities

	Carrying amount		Amortised cost		Nominal amount	
	2012	2011	2012	2011	2012	2011
Valuation category, fair value through profit or loss						
Trading						
Foreign banks	145	88	145	86	144	85
Foreign entities	2	3	2	4	4	7
Foreign financial entities	28	21	27	21	26	22
Swedish banks	15	17	15	17	15	17
Total	190	129	189	128	189	131
Valuation category held to maturity						
Foreign banks	5	5	5	5	5	5
Foreign entities	29	32	29	32	29	33
Total	34	37	34	37	34	38
Total	224	166	223	165	223	169

23 Fund shares for which customers bear the investment risk

	2012	2011
Valuation category ,designated at fair value		
Units of equity and mixed funds	164	141
Units of debt funds	40	34
Units of real estate funds	1	1
Total client portfolio	**205**	**176**

24 Shares and participating interests

	Carrying amount		Cost	
	2012	2011	2012	2011
Valuation category, fair value through profit or loss				
Trading				
Trading stock	3	4	2	4
Fund shares	9	8	9	8
Total	**12**	**12**	**11**	**12**

25 Investments in Group entities

Corporate identity	Country	Number of shares	Carrying amount	Cost	Share of capital, % 31.12.2012	Share of capital, % 31.12.2011
Swedbank AS subsidiaries						
Swedbank Liising AS	Estonia	538 711	4	4	100	100
Swedbank Life Insurance SE	Estonia	4 693 980	3	3	50.3	50.3
Swedbank Support OÜ	Estonia	1	4	4	100	100
Swedbank P&C Insurance AS	Estonia	300 002	7	7	100	100
Total			**18**	**18**		
Swedbank AS affiliated companies						
AS Sertifitseerimiskeskus	Estonia	16	1		25	25
OÜ Tietoenator Support	Estonia	1 278			20	20
Branches						
Swedbank Life insurance SE Latvian branch	Latvia					
Swedbank P&C Insurance AS Latvian branch	Latvia					
Swedbank Life Insurance SE Lithuanian branch	Lithuania					
Swedbank P&C Insurance AS Lithuanian branch	Lithuania					

Allkirjastatud identifitseerimiseks:
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26 Derivatives

Swedbank Estonia trades in derivatives in the normal course of business and for the purpose of mitigating interest rate risks. Interest rate swaps that safeguard the interest rate risk associated with certain loans are recognised as hedging instruments in fair value hedge. The derivatives are recognised at fair value with changes in value through profit or loss in the same manner as for other derivatives. In note 8 Net gains and losses on financial items at fair value, any ineffectiveness of the hedges is recognised as the change in value of the derivative together with the change in value of the hedged risk component. The carrying amount of derivatives included in hedge accounting is reported separately below. The carrying amounts of all derivatives refer to fair value including accrued interest.

Derivatives with positive or nil value	Interest-rate-related		Currency-related		Equity-related, etc.	
2012	Carrying amount	Nominal value	Carrying amount	Nominal value	Carrying amount	Nominal value
Other derivatives						
Options held			20	634	7	78
Forward contracts				15		
Swaps	12	299	1	285		
Other			2	54	1	28
Total	**12**	**299**	**23**	**988**	**8**	**106**

Derivatives with negative value	Interest-rate-related		Currency-related		Equity-related, etc.	
2012	Carrying amount	Nominal value	Carrying amount	Nominal value	Carrying amount	Nominal value
Other derivatives						
Options issued			20	579	5	37
Forward contracts				8		
Swaps	22	297		43		
incl.fair value hedge	9	99				
Other			2	53	1	28
Total	**22**	**297**	**22**	**683**	**6**	**65**

Derivatives with positive or nil value	Interest-rate-related		Currency-related		Equity-related, etc.	
2011	Carrying amount	Nominal value	Carrying amount	Nominal value	Carrying amount	Nominal value
Other derivatives						
Options issued		1	6	209	7	75
Forward contracts				29		
Swaps	3	338	3	256		
Other		10	4	53	1	40
Total	**3**	**349**	**13**	**547**	**8**	**115**

Derivatives with negative value	Interest-rate-related		Currency-related		Equity-related, etc.	
2011	Carrying amount	Nominal value	Carrying amount	Nominal value	Carrying amount	Nominal value
Other derivatives						
Options held			6	208	4	39
Forward contracts				20		
Swaps	7	231	2	52		
incl.fair value hedge	4	99				
Other		10	3	54	1	39
Total	**7**	**241**	**11**	**334**	**5**	**78**

27 Intangible fixed assets

2012	Goodwill	Licences	Total
Cost			
Balance at the beginning of the year		15	15
Additions		1	1
Balance at the end of the year		**16**	**16**
Amortisation			
Balance at the beginning of the year		8	8
Amortisation charge for the year		3	3
Balance at the end of the year		**11**	**11**
Net book value			
Balance at the beginning of the year		7	7
Balance at the end of the year		**5**	**5**

2011	Goodwill	Licences	Total
Cost			
Balance at the beginning of the year	22	16	38
Additions		6	6
Disposals	- 22	- 7	- 29
Balance at the end of the year	**0**	**15**	**15**
Amortisation			
Balance at the beginning of the year		11	11
Amortisation charge for the year		4	4
Disposals		- 7	- 7
Write-offs			
Balance at the end of the year		**8**	**8**
Net book value			
Balance at the beginning of the year	22	5	27
Balance at the end of the year	**0**	**7**	**7**

Allkirjastatud identifitseerimiseks:

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28 Tangible assets

2012	Land	Buildings	Equipment and Other	Total
Cost				
Balance at the beginning of the year	1	25	43	69
Additions		1	4	5
Disposals			- 2	- 2
Write-offs			- 3	- 3
Balance at the end of the year	**1**	**26**	**42**	**69**
Depreciation				
Balance at the beginning of the year		12	29	41
Depreciation charge for the year		1	5	6
Disposals			- 2	- 2
Write-offs			- 3	- 3
Balance at the end of the year		**13**	**29**	**42**
Net book value				
Balance at the beginning of the year	1	13	14	28
Balance at the end of the year	**1**	**13**	**13**	**27**

2011	Land	Buildings	Equipment and Other	Total
Cost				
Balance at the beginning of the year	6	141	100	247
Additions		1	12	13
Disposals	- 5	- 117	- 65	- 187
Write-offs			- 4	- 4
Balance at the end of the year	**1**	**25**	**43**	**69**
Depreciation				
Balance at the beginning of the year		28	77	105
Depreciation charge for the year		3	7	10
Disposals		- 19	- 51	- 70
Write-offs			- 4	- 4
Balance at the end of the year		**12**	**29**	**41**
Net book value				
Balance at the beginning of the year	6	113	23	142
Balance at the end of the year	**1**	**13**	**14**	**28**

29 Other assets

	2012	2011
Finance leasing, cancelled agreements	1	1
Amounts in transit	14	13
Due from customers	11	8
Security settlement claims	103	
Other	41	11
Total	**170**	**33**

30 Prepaid expenses and accrued income

	2012	2011
Accrued interest income	16	24
Other	22	19
Total	**38**	**43**

31 Amounts owed to credit institutions

	2012	2011
Valuation category, other financial liabilities		
Swedish banks	565	1 206
Foreign banks	152	49
Other foreign credit institutions	70	104
Total	**787**	**1 359**

32 Deposits and borrowings from the public

	2012	2011
Valuation category, other financial liabilities		
Demand deposits	3 739	3 053
Time deposits	1 787	2 218
Borrowings from public	63	67
Total	**5 589**	**5 338**

33 Debt securities in issue, etc.

	2012	2011
Valuation category, other financial liabilities		
Interest-bearing bond loans	0	10
Structured products	4	5
Total	**4**	**15**

Turnover during the year	2012	2011
Interest-bearing bond loans		
Opening balance, 1 January	10	72
Reimbursed	- 10	- 62
Closing balance, 31 December	0	10
Structured products		
Opening balance, 1 January	5	5
Issued	4	3
Reimbursed	- 5	- 3
Closing balance, 31 December	4	5

34 Financial liabilities in insurance operations

	Liabilities, investment risk is borne by insurer	Liabilities, investment risk is borne by policyholder	Total
Valuation category ,designated at fair value			
Sum of liabilities as of 31.12.2010	0	201	201
Reclassification from provisions for insurance contracts	28		28
Received payments	6	35	41
Paid claims	-3	-24	-27
Fee income		-4	-4
Risk premiums	-1	-3	-4
Income from investment funds		-26	-26
Change of fair value through profit and loss	1		1
Sum of liabilities as of 31.12.2011	31	179	210
Received payments	5	37	42
Paid claims	-4	-29	-33
Fee income	-1	-4	-5
Reclassification of contracts		3	3
Risk premiums	-1	-3	-4
Income from investment funds		25	25
Change of fair value through profit and loss	1		1
Sum of liabilities as of 31.12.2012	31	208	239

35 Other liabilities

	2012	2011
Security settlement liabilities	185	6
Amounts in transit	63	71
Payables from insurance	1	1
Other	7	1
Total	256	79

36 Accrued expenses and prepaid income

	2012	2011
Accrued interest expenses	13	18
Other	31	30
Total	44	48

37 Provisions

	2012	2011
Provisions for insurance contracts	146	166
Provisions for guarantees	10	14
Total	156	180
Provisions for insurance contracts		
Opening balance	166	199
Additions	40	39
Payments	- 60	- 44
Reclassification to financial liabilities in insurance operations		- 28
Closing balance	146	166

Provisions for insurance contracts
Swedbank Estonia makes provisions for the insurance contracts or parts of contracts where significant insurance risks are transferred from the policyholder to Swedbank Estonia. Insurance risks are different than financial risks and mean that Swedbank Estonia compensates the policyholder if a specified uncertain future event has a negative impact on the insurer. Provisions are made for established claims and correspond to the amount that will be paid out. Provisions are also made for claims that have not yet been reported. A statistical assessment of anticipated claims based on previous years' experience with each type of insurance contract is used as a basis for the amount of the provision. Assumptions are made with regard to interest rates, sickness, mortality and other claims.

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38 Assets pledged, contingent liabilities and commitments

Contingent liabilities		
Nominal amount	2012	2011
Loan guarantees	272	256
Other contingent liabilities	3	2
Total	**275**	**258**
Commitments		
Nominal amounts		
Loans granted but not imbursed	1 154	975
Other interest, equity or currency related contracts	2 535	1 665
Total	**3 689**	**2 640**

39 Fair value of financial instruments

	2012			2011		
	Fair value	Carrying amount	Diffe-rence	Fair value	Carrying amount	Diffe-rence
Assets						
Financial assets covered by IAS 39						
Treasury bills, etc.	202	197	5	316	320	- 4
of which fair value through profit or loss	113	113		217	217	
of which held to maturity	89	84	5	99	103	- 4
Loans to credit institutions	931	931		1 846	1 846	
of which loan receivables	931	931		1 846	1 846	
Loans to the public	6 020	6 020		5 957	5 957	
of which fair value through profit or loss						
of which loan receivables	6 020	6 020		5 957	5 957	
Bonds and interest-bearing securities	226	224	2	166	166	
of which fair value through profit or loss	190	190		128	128	
of which investment held to maturity	36	34	2	38	37	1
Fund shares for which the customers bear the investment risk	205	205		176	176	
Shares and participating interest	12	12		12	12	
of which fair value through profit or loss	12	12		12	12	
Derivatives	43	43		24	24	
Other financial assets (cash)	1 089	1 089		228	228	
Total	**8 728**	**8 721**	**7**	**8 725**	**8 729**	**- 4**
Investments in associates	**129**	**129**				
Non-financial assets	**111**	**111**		**111**	**111**	
Total	**8 968**	**8 961**	**7**	**8 836**	**8 840**	**- 4**

	2012			2011		
	Fair value	Carrying amount	Diffe-rence	Fair value	Carrying amount	Diffe-rence
Liabilities						
Financial liabilities covered by IAS 39						
Amounts owned to credit institutions	787	787		1 359	1 359	
of which other financial liabilities	787	787		1 359	1 359	
Deposits and borrowings from the public	5 588	5 589	- 1	5 338	5 338	
of which other financial liabilities	5 588	5 589	- 1	5 338	5 338	
Debt securities in issue, etc.	4	4		15	15	
of which other financial liabilities	4	4		15	15	
Financial liabilities for which customers bear the investment risk	239	239		210	210	
Derivatives	50	50		23	23	
Non-financial liabilities	460	460		307	307	
Total	**7 128**	**7 129**	**- 1**	**7 252**	**7 252**	

Carrying amounts and fair values of financial instruments
A comparison between the carrying amount and fair value of Swedbank Estonia financial assets and financial liabilities according to the definition in IAS 39 is presented above. The carrying amounts and fair values coincide for the most part because of the large share of financial instruments recognised at fair value. The valuation methods applied to these financial instruments are described in more detail under the heading Financial instruments at fair value. For variable-rate lending and deposits, the carrying amount coincides with fair value.

Determination of fair value of financial instruments
Following is a description of the methods used to determine fair values, divided into three levels based on the degree of observability in the valuation.

Level 1 contains financial instruments whose fair value is determined based on quoted market prices on an active market. This category primarily includes stocks, bonds, treasury bills, commercial paper and standardised derivatives, where the quoted price is used in the valuation. Securities in issue that are traded on an active market are included in this category as well.

Level 2 contains financial instruments whose fair value is determined using valuation models based on observable market inputs, which are the prices of financial instruments that are as similar as possible and for which transactions have been executed. This category primarily includes less liquid bonds, loans to the public and derivatives valued on the basis of observable prices. For less liquid bond holdings, an adjustment is made for the credit spread based on observable market inputs such as the market for credit derivatives. Securities in issue that are not quoted but measured according to quoted prices for similar quoted bonds are also included in Level 2.

Level 3 contains financial instruments whose fair value is determined using valuation models based primarily on observable market inputs, also utilising own assumptions. This category primarily includes corporate bonds and securities in issue.

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Since valuation models are used to determine fair value, the consideration that is paid or received is considered the best estimate of fair value upon initial recognition. If a difference should arise between this fair value and fair value according to the valuation model, Swedbank Estonia will calibrate its valuation models to avoid differences. As of year-end there were no cumulative differences not recognised through profit or loss. The table shows financial instruments measured at fair value as per 31 December 2012 distributed by valuation method.

	2012			
31.12.2012	Level 1	Level 2	Level 3	Total
Assets				
Treasury bills and other bills eligible for refinancing with central banks	113			113
Bonds and other interest-bearing securities	190			190
Shares and participating interests	9		3	12
Fund units where the customer bears the investment risk	205			205
Derivatives		43		43
Total	**517**	**43**	**3**	**563**
Liabilities				
Financial liabilities where the customer bears the investment risk	239			239
Derivatives		41		41
FV hedges		9		9
Total	**239**	**50**		**289**

	2011			
31.12.2011	Level 1	Level 2	Level 3	Total
Assets				
Treasury bills and other bills eligible for refinancing with central banks	217			217
Bonds and other interest-bearing securities	128			128
Shares and participating interests	9		3	12
Fund units where the customer bears the investment risk	176			176
Derivatives		24		24
Total	**530**	**24**	**3**	**557**
Liabilities				
Financial liabilities where the customer bears the investment risk	179			179
Derivatives		19		19
FV hedges		4		4
Total	**179**	**23**		**202**

40 Related parties and other significant relationships

	2012		2011	
Deposits of the related parties	Balance	Interest range	Balance	Interest range
Members of the Council and the Board of Swedbank AS	0		1	0-3.4%
Loans to related parties				
Members of the Council and the Board of Swedbank AS	1	1.5-14%	1	2.87-14%
Transactions and balances with Swedbank Group	Swedbank Group	Swedbank AB	Swedbank Group	Swedbank AB
Deposits and loans placed	822	676	1 778	1 355
Deposits and loans taken	- 681	- 565	-1 216	-1 206
Accrued interest	- 5	- 5	- 8	- 8
Interest income	14	4	14	11
Interest expense	- 36	- 32	- 108	- 66

41 Events after balance sheet date

There were initiated the discussions in respect of two transactions related to Swedbank Life Insurance SE:

- Acquiring 49.67% shares of Swedbank Life Insurance SE from Swedbank AB (Lithuania); and
- Dividend payout by Swedbank Life Insurance SE in the amount of EUR 75m.

Closing of both transactions is expected to take place during the first half-year of 2013.

42 Primary statements of bank as separate entity

Bank separate income statement

EURm	2012	2011
Interest income	242.3	287.1
Interest expenses	-72.6	-107.1
Net interest income	**169.7**	**180.0**
Commission income	90.6	93.3
Commission expenses	-22.4	-23.3
Net commissions	**68.2**	**70.0**
Net gains and losses on financial items at fair value	12.3	8.8
Other income	20.0	355.6
Total income	**270.2**	**614.4**
Staff costs	62.0	63.4
Other general administrative expenses	49.0	53.7
Total general administrative expenses	**111.0**	**117.1**
Depreciation/amortisation and impairments of tangible and intangible fixed assets	2.7	2.8
Total expenses	**113.7**	**119.9**
Profit before impairments	**156.5**	**494.5**
Credit impairments	-35.6	4.2
Impairment of financial fixed assets	0.0	0.0
Operating profit	**192.1**	**490.3**
Tax expense	0.0	-2.0
Profit for the year	**192.1**	**488.3**

Bank separate balance sheet

EURm	Note	2012	2011
Assets			
Cash and balances with central banks		1 089	228
Treasury bills and other bills eligible for refinancing with central banks, etc.		85	175
Loans to credit institutions		810	1 748
Loans to the public		5 632	5 579
Bonds and other interest-bearing securities		188	129
Shares and participating interests		4	4
Investments in associates	24	1	1
Investments in subsidiaries	24	18	18
Derivatives		43	24
Tangible assets		19	18
Other assets		159	20
Prepaid expenses and accrued income		20	27
Total assets		**8 068**	**7 971**
Liabilities and equity			
Liabilities			
Amounts owed to credit institutions		787	1 354
Deposits and borrowings from the public		5 703	5 412
Debt securities in issue, etc.		4	15
Derivatives		50	23
Other liabilities		251	78
Accrued expenses and prepaid income		27	31
Provisions		10	14
Total liabilities		**6 832**	**6 927**
Equity			
Share capital		85	85
Other funds		73	73
Retained earnings		1 078	886
Total equity		1 236	1 044
Total liabilities and equity		**8 068**	**7 971**

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Bank separate statement of cash flows

EURm	2012	2011
Operating activities		
Operating profit	192	488
Loan losses	- 107	- 92
Interest income	- 242	- 287
Interest expense	73	107
Depreciation and amortisation	3	3
Profit from sales of subsidiaries		- 336
Total adjustments to operating profit	**- 273**	**- 605**
Changes in operating assets and liabilities		
Net change in prepayments	- 1	3
Net change in accrued liabilities	4	
Net change in deposits placed with other banks	427	- 276
Net change in trading securities	- 17	1
Net change in loans to financial institutions	278	- 3
Net change in compulsory reserve in CB	45	175
Net change in loans	49	512
Net change in other assets	- 138	51
Net change in short-term liabilities due to other banks	106	- 69
Net change in demand deposits	699	191
Net change in time deposits	- 404	415
Net change in other liabilities	197	- 10
Total adjustments to operating assets and liabilities	**1 245**	**990**
Interest received	249	287
Interest paid	- 78	- 113
Net cash flow from operating activities	**1 335**	**1 047**
Investing activities		
Net change in investments	5	1 510
Acquisition of tangible assets	- 4	- 4
Net cash flow from investing activities	**1**	**1 506**
Financing activities		
Credit lines of Central Bank and government received	5	
Credit lines of Central Bank and government paid	- 9	- 8
Long-term loans received from other banks	215	
Long-term loans paid back to other banks	- 888	-1 029
Securities repaid	- 12	- 4
Capital reduction		- 518
Subordinated loans repaid		- 500
Dividends paid		- 243
Net cash flow from financing activities	**- 689**	**-2 302**
Net increase in cash and cash equivalents	**647**	**251**
Cash and cash equivalents at the beginning of the year	**1 356**	**1 105**
Cash and cash equivalents at the end of the period	**2 003**	**1 356**

Bank separate specification of cash and cash equivalents

EURm	2012	2011
Cash	85	82
Balances with Central Bank	947	45
Placements with other banks	727	960
Liquidity bonds	244	269
Total	**2 003**	**1 356**

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Bank separate statement of changes in equity

	Shareholder's equity				
EURm	Share capital	Share premium	Reserves	Retained earnings	Total equity
Opening balance, 1 January 2011	603	31	42	640	1 316
Capital reduction	- 518				- 518
Dividends paid				- 242	- 242
Profir for the year				488	488
Closing balance, 31 December 2011	85	31	42	886	1 044
Opening balance, 1 January 2012	85	31	42	886	1 044
Profir for the year				192	192
Closing balance, 31 December 2012	85	31	42	1 078	1 236

	2012	2011
Total equity	1 236	1 044
Acquisition cost of subsidiaries	- 18	- 18
Cost of subsidiaries under equity method	557	514
Total equity (adjusted unconsolidated)	1 775	1 540

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INDEPENDENT CERTIFIED AUDITOR'S REPORT

To the Shareholder of Swedbank AS:

We have audited the accompanying consolidated financial statements (pages 8 to 59) of Swedbank AS, which comprise the balance sheet as at 31 December 2012, and the income statement and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Financial Statements

Management Board is responsible for the preparation, true and fair presentation of these financial statements in accordance with Estonian Accounting Act and the International Financial Reporting Standards as adopted by European Commission, and for such internal control as the Management Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Certified Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (Estonia). Those standards require that we comply with ethical requirements, plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Swedbank AS as of 31 December 2012 and its financial performance and its cash flows for the year then ended in accordance Estonian Accounting Act and the International Financial Reporting Standards as adopted by European Commission.

19 March 2013

Veiko Hintsov
Certified auditor No 328
Deloitte Audit Eesti AS
License No 27

Monika Peetson
Certified auditor No 555

Declaration of the Board

The Board has prepared the management report and the consolidated financial statements of Swedbank AS for the financial year ended on 31 December 2012.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted in the European Union and their Interpretations and present a true and fair view of Swedbank AS financial position, the results of its operations and cash flows.

The Board considers Swedbank AS as operating on a going concern basis. The information presented in the report is fair and complete.

Priit Perens
Chairman of the Board

Vaiko Tammeväli
Member of the Board

Rait Pallo
Member of the Board

Ulla Ilisson
Member of the Board

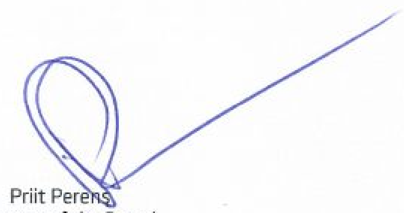
Heiki Raadik
Member of the Board

Robert Kitt
Member of the Board

Proposal of the Board for distribution of profit

The Board confirmed the 244 million euros net profit of Swedbank Estonia. In accordance with the audited financial results, the Board recommends the annual shareholders' meeting that the Swedbank Estonia 2012 net profit of 244million euros and retained earnings from previous financial periods of 1379 million euros, all totalling to 1623 million euros, to be distributed as shown below:

EURm	2012
Swedbank net profit for the financial year of 2012	244
Retained earnings from previous periods	1 379
Total retained earnings	1 623
To be paid as dividends	-75
Balance of undistributed profit	1 548



Priit Perens
Chairman of the Board

Declaration of the Council

The Board has prepared the management report and the consolidated financial statements of Swedbank AS for the financial year ended 31 December 2012.

The Council has reviewed the annual report, prepared by the Board, consisting of the management report, the consolidated financial statements, the Board's proposal for profit distribution and the independent auditors' report, and has approved the annual report for presentation at the annual shareholder's meeting. All the members of the Council have signed the annual report and given their approval for issuance to the public.

Birgitte Bonnesen
Chair of the Council

Tiina Sepa
Member of the Council

Johan Rosen
Member of the Council

Kristina Mikenberg
Member of the Council

Pehr Olofsson
Member of the Council

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