

# Länsförsäkringar AB

Annual Report

# 2017



# About us

## Länsförsäkringar AB

Länsförsäkringar AB is wholly owned by the regional insurance companies, together with 16 local insurance companies. Through its distinct role in the Länsförsäkringar Alliance's value chain, Länsförsäkringar AB contributes to increasing competitiveness and reducing costs for joint development. In turn, this creates possibilities for the regional insurance companies to be successful in their respective markets. In addition to the Parent

Company, Länsförsäkringar AB, the Group consists of Länsförsäkringar Sak, Länsförsäkringar Bank, Länsförsäkringar Fondliv, Länsförsäkringar Liv and the subsidiaries of these companies. Länsförsäkringar Liv and its subsidiaries are not consolidated in Länsförsäkringar AB since the company is operated according to mutual principles.

## Länsförsäkringar in brief

Länsförsäkringar comprises 23 local and customer-owned regional insurance companies and the jointly owned Länsförsäkringar AB with subsidiaries. Customers are provided with a complete solution for banking, insurance, pension and real-estate brokerage services through the regional insurance

companies. The regional insurance companies are owned by the insurance customers – there are no external shareholders and meeting customer needs and requirements is always the primary task. The Länsförsäkringar Alliance has 3.8 million customers and 6,400 employees.

**3.8 million customers**

**23 local regional insurance companies**

### Länsförsäkringar AB

#### Länsförsäkringar Sak Försäkrings AB

Supplements the regional insurance companies' non-life insurance offering with specialist products, serves as an engine for new business and is responsible for joint reinsurance.

#### Länsförsäkringar Bank AB

Offers a broad range of banking services to the regional insurance companies' customers through Länsförsäkringar Hypotek, Länsförsäkringar Fondförvaltning and Wasa Kredit.

#### Länsförsäkringar Fondliv Försäkrings AB

Offers pension savings with fund management, guarantee management and personal-risk insurance to the regional insurance companies' customers.

#### Länsförsäkringar Liv Försäkrings AB

Manages traditional life assurance taken out before September 2011 when the company closed for new sales.



**“ We make and keep a joint promise in 23 regional accents.”**

#### Rating

Company	Agency	Long-term rating	Short-term rating
Länsförsäkringar AB	S&P Global Ratings	A-/Stable	-
Länsförsäkringar AB	Moody's	A3/Stable	-
Länsförsäkringar Bank	S&P Global Ratings	A/Stable	A-1 (K-1)
Länsförsäkringar Bank	Moody's	A1/Stable	P-1
Länsförsäkringar Hypotek <sup>1)</sup>	S&P Global Ratings	AAA/Stable	-
Länsförsäkringar Hypotek <sup>1)</sup>	Moody's	Aaa	-
Länsförsäkringar Sak	S&P Global Ratings	A/Stable	-
Länsförsäkringar Sak	Moody's	A2/Stable	-

<sup>1)</sup> Pertain to the company's covered bonds.

# The 2017 fiscal year

## Earnings 2017

Figures in parentheses pertain to 2016

- Operating profit for the Länsförsäkringar AB Group increased to SEK 2,825 M (2,286). The return on equity amounted to 11% (10).
- Operating profit for Länsförsäkringar AB's non-life insurance operations increased to SEK 1,028 M (644). The combined ratio improved to 88% (92).
- Operating profit for the Bank Group increased to SEK 1,599 M (1,467). Net interest income strengthened to SEK 3,996 M (3,464).
- Operating profit for Länsförsäkringar Fondliv increased to SEK 600 M (512). Premium income rose to SEK 9,133 M (8,637). Commission income increased to SEK 1,583 M (1,412).

### Operating profit for the Länsförsäkringar AB Group

**2.8 SEK bn**

### Operating profit, Bank

**1.6 SEK bn**

### Combined ratio non-life insurance

**88%**

### Managed assets unit-linked insurance

**128 SEK bn**

## Five-year summary

	2017	2016	2015	2014	2013
<b>Länsförsäkringar AB, Group<sup>1)</sup></b>					
Operating profit, SEK M	2,825	2,286	2,155	1,469	923
Equity per share, SEK	2,269	2,046	1,858	1,675	1,557
Total assets, SEK M	473,773	421,816	384,595	355,933	322,550
Return on equity, %	11	10	11	7	5
Own funds for the group (FRL) <sup>2)</sup>	44,172	40,602	36,905 <sup>3)</sup>	–	–
Solvency capital requirement for the group (FRL) <sup>2)</sup>	33,441	30,121	28,233 <sup>3)</sup>	–	–
Own funds for the financial conglomerate	44,172	40,352	–	–	–
Capital requirement for the financial conglomerate	33,441	30,121	–	–	–
<b>Länsförsäkringar Sak, Group</b>					
Premiums earned after ceded reinsurance, SEK M	5,623	5,342	5,074	4,099	4,122
Technical result for the insurance operations, SEK M	977	435	821	611	434
Operating profit, SEK M	1,028	644	908	791	427
Solvency ratio, % (Länsförsäkringar Sak Försäkrings AB)	221	260	235 <sup>3)</sup>	–	–
<b>Länsförsäkringar Bank, Group</b>					
Deposits from the public, SEK M	99,404	91,207	83,925	76,790	69,220
Loans to the public, SEK M	261,444	226,705	201,964	179,424	162,003
Operating profit, SEK M	1,599	1,467	1,175	935	647
Return on equity, %	10,0	10,1	8,9	8,3	6,7
Common Equity Tier 1 capital ratio, Bank Group, %	24,3	24,8	23,7	16,2	–
Tier 1 ratio, Bank Group, %	26,8	27,5	26,6	16,2	–
<b>Länsförsäkringar Fondliv AB</b>					
Premium income, SEK M	9,133	8,637	8,645	8,543	9,473
Operating profit, SEK M	600	512	516	373	247
Managed assets, SEK M	128,140	114,450	102,807	93,610	77,517
Solvency ratio, %	152	150	141 <sup>3)</sup>	–	–
<b>Länsförsäkringar Liv, Group (not consolidated in Länsförsäkringar AB)</b>					
Premium income, SEK M	1,533	1,720	1,919	2,639	3,388
Net profit for the year, SEK M	2,363	2,682	5,089	1,903	5,174
Collective consolidation ratio, New Trad, %	117	114	114	120	115
Collective consolidation ratio, Old Trad, %	123	125	120	120	107
Solvency ratio, % (Länsförsäkringar Liv Försäkrings AB)	207	195	182 <sup>3)</sup>	–	–

<sup>1)</sup>Excluding Länsförsäkringar Liv Försäkrings AB. The company is operated in accordance with mutual principles.

<sup>2)</sup>According to Swedish Insurance Business Act (FRL), the Solvency II directive in Swedish law.

<sup>3)</sup>Opening balance on 1 January 2016 under Solvency II.

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“ It is gratifying that we can report strong earnings for the Länsförsäkringar AB Group for 2017. All business areas reported improved operating profit and healthy growth. In 2017, Länsförsäkringar once again topped the Swedish Quality Index's customer satisfaction survey in banking, private non-life insurance and real-estate brokerage, won the Swedish Brand Award, and the Red Dot Award and Web Service Award for its app. The Länsförsäkringar Global Hållbar sustainability fund was given the green light by Söderberg & Partners and placed in its list of top ten Swedish sustainable funds.”

Sören Westin

*President and CEO of Länsförsäkringar AB*

**Länsförsäkringar AB's** 2017 Annual Report contains information about the operations conducted within the Länsförsäkringar AB Group. Länsförsäkringar AB's consolidated subsidiaries are: Länsförsäkringar Sak, Länsförsäkringar Bank and Länsförsäkringar Fondliv. Länsförsäkringar Liv is operated according to mutual principles and is not consolidated in Länsförsäkringar AB. The Sustainability Report contains information about Länsförsäkringar's work on sustainability in its customer offering, operations and social commitment.



# The year in brief



## Satisfied customers and awards

Länsförsäkringar confirmed its position as one of the strongest brands in Sweden. The 2017 Swedish Quality Index again revealed that Länsförsäkringar has Sweden's most satisfied customers in a number of categories in banking, insurance and real-estate brokerage services. For the fourth consecutive year, Länsförsäkringar won the Swedish Brand Award for best brand in the industry and, according to Universum, Länsförsäkringar is the best employer in the industry. The mobile app won the international design competition Red Dot Award in the category of "apps and finance" and a Web Service Award.

## Savings Navigator

A new app, Savings Navigator, was launched in 2017. It guides customers to more efficient, easier and fun savings and helps customers realise their dreams.

## Wrapp partnership

Länsförsäkringar initiated a partnership with Wrapp in 2017. The Wrapp app can be linked to a Länsförsäkringar bank card, with customers receiving offers and money back after making a purchase.

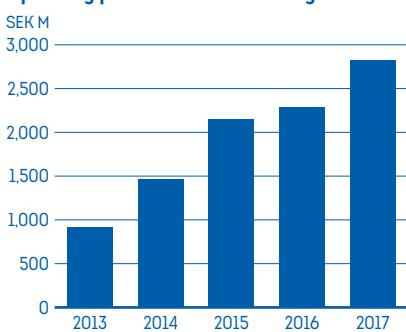
## Top ten sustainable fund

Söderberg & Partners named the Länsförsäkringar Global Hållbar fund one of Sweden's top ten sustainable funds in May 2017. For this fund, the sustainability analysis is equally as important as the financial analysis. The companies in which the fund invests are companies that are already, or are on their way to becoming, highly prominent in the field of sustainability and can document clear, positive changes.

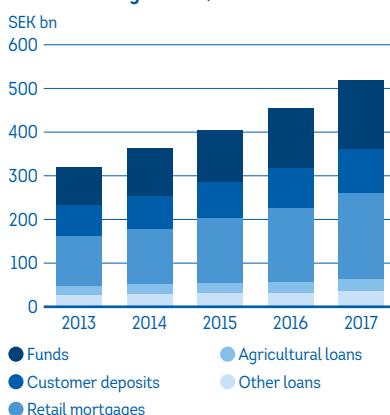


## Solid performance in all business lines

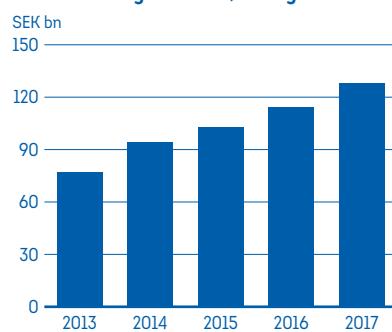
Operating profit for Länsförsäkringar AB Group



Länsförsäkringar Bank, business volume

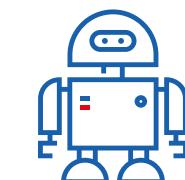


Länsförsäkringar Fondliv, managed assets



## Extended fund range

Both the scope and quality of Länsförsäkringar's fund range was expanded in 2017 as part of realising a new fund strategy of simplifications and greater choice for customers. More than 30 new funds from several different fund companies were launched. The funds in the recommended range are carefully analysed and assessed based on criteria including management organisation, return and sustainability.

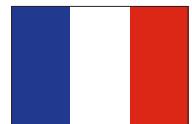


## Robotics

During the year, Länsförsäkringar AB introduced robotised processes to strengthen its competitiveness and meet customer demand for competitive prices and rapid response times. Processes in unit-linked insurance were the first to be robotised.

## Agria in France

Agria is growing. A partnership with the French Kennel Club was initiated during the year. Operations will begin in spring 2018 with an office in Paris, meaning that Agria will then be represented in six countries: Sweden, Norway, Denmark, Finland, the UK and France.



# Strong earnings and healthy growth

**Statement by the President** The Länsförsäkringar AB Group can sum up another successful year of strong earnings and healthy growth. Operating profit amounted to SEK 2.8 billion, with all business lines making positive contributions to the earnings trend. To support the regional insurance companies' operations in a rapidly changing business environment, with customers making brand new demands in certain areas, long-term efforts in a number of key areas were initiated during the year.

## Economic optimism in a time of political instability

In general, the global economy was surprisingly stable in 2017, particularly in light of the political risks that dominated the news. The largest surprise was Europe's performance where the economy clearly surged and growth exceeded expectations. The US economy also trended positively, particularly the strong labour market. The fixed-income market reported no major fluctuations during the year and stock markets generally posted a favourable trend, led by emerging markets. This was also reflected in Länsförsäkringar's high investment return for managed pension insurance and life assurance.

The Swedish economy also performed strongly during the year; growth was surprisingly positive, the labour market continued to improve and inflation rose. Nevertheless, the Riksbank decided to wait out interest rate increases, and the repo rate has been negative for almost three years. Continued expansive signals from the Riksbank, a stronger EUR and a degree of concern regarding the Swedish housing market underpinned this trend. The risks regarding housing prices and household indebtedness were behind the decision by the Swedish Financial Supervisory Authority to introduce stricter mortgage repayment requirements for households with a high level of debt.

Housing prices were considerably weaker than normal and excluding seasonal variations fell 5.3% in the second half of the year. Stricter repayment requirements combined with a temporarily high number of new-builds may have accelerated this

scenario. An increase in the number of households repaying their mortgages and a correction to housing prices are healthy developments. However, further action is needed to improve turnover in the housing market and to make it easier for those groups that face difficulties in entering the market. Even if households have favourable

Operating profit for the unit-linked insurance operations increased to SEK 0.6 billion and managed assets increased 12% to SEK 128 billion, benefiting from both a positive net inflow and healthy value growth trend.

Since the Länsförsäkringar AB Group's capital situation has strengthened in recent years in relation to the Group's capital

targets, the Board of Länsförsäkringar AB proposes a dividend of SEK 300 M to the owners.

Alongside healthy growth and strong earnings, we saw additional signs of the strength of our brand in 2017. Surveys placed Länsförsäkringar among the

most reputable brands in Sweden and the Swedish Quality Index showed that we have Sweden's most satisfied customers in banking, private non-life insurance and real-estate brokerage.

**“ Our task is to offer the regional insurance companies the best possible conditions to develop their offering close to their customers.”**

conditions to pay their loans, the risk that households with a high level of loans may cut back on consumption in a major economic downturn is seen as a macroeconomic risk looking forward.

## Continued strong earnings and healthy growth

Länsförsäkringar AB reported strong earnings for 2017 with operating profit amounting to SEK 2.8 billion. Non-life insurance operations contributed an operating profit of SEK 1.0 billion and the combined ratio fell below 90%. Both Agria and health business continued to make positive contributions to the earnings trend. During the year, Agria initiated a partnership with the French Kennel Club and when operations are established in France in spring 2018, Agria will be represented in five countries outside Sweden.

Operating profit for the banking operations increased 9% to SEK 1.6 billion due to a continuously rising customer inflow. Mortgage lending increased 17% with continued high credit quality.

## Long-term plan to support the regional insurance companies

Länsförsäkringar AB's task is to offer the regional insurance companies the best possible conditions to develop their offering close to their customers. A new long-term business plan for Länsförsäkringar AB was produced in 2017. The plan aims to define how we can become even better at helping each regional insurance company to best leverage the strength of the entire Länsförsäkringar Alliance in an increasingly digitised world. For the regional insurance companies, Länsförsäkringar AB is the partner that supports them in realising the customer promise and delivering the offering expected by customers. Experience shows that Länsförsäkringar's local business model combined with joint strength creates substantial



added value for customers. Our success lies in the balance between these two.

Our shared strategic objectives were drawn up based on the Länsförsäkringar Alliance's strategies, plans and targets. Both our processes and what we develop must be based on the expectations and requirements of the regional insurance companies' customers. To continue to address customer needs in a rapidly changing business environment, we have to raise our sights - we must create the prerequisites for customer experiences that are among the very best, regardless of industry. Only then can each regional insurance company deliver its customer promise - simplifying everyday lives for people and contributing to a secure future.

#### **UN Sustainable Development Goals part of sustainability activities**

In 2017, we started to review how Länsförsäkringar's operations can contribute to the UN Sustainable Development Goals (SDGs). Much of what we currently do is already well-aligned with these goals. Claims-prevention measures for people,

animals and property and responsible repairs are important parts of reducing the impact on the climate and environment. Another contribution is making the research financed and conducted through Länsförsäkringar's research fund available to all. We can also make a positive contribution through our investing activities and in our role as a lender. Engaging with policy-makers, customers, employees and other players in society and working together towards the goals are important for achieving the SDGs and we can see here that we continue to have an important role to fill. Work on the SDGs will continue in 2018. Sustainability initiatives such as the Global Compact, the UN Principles for Responsible Investment (PRI) and the UN Principles for Sustainable Insurance (PSI) provide important guidance in our daily sustainability activities.

Our efforts on responsible investments led to high ratings from external advisors such as Söderberg & Partners and Max Matthiessen. Our global sustainability fund

was named one of Sweden's most sustainable funds.

It is from a position of strength that we are now further developing our operations to contribute to offering the regional insurance companies the right conditions to develop, and together build an even stronger federation. Our work will transcend organisational boundaries and go beyond units and roles at Länsförsäkringar AB. We will have a culture of learning with the courage to test new ideas. And we will do so together within the Länsförsäkringar Alliance.

Stockholm, March 2018

Sören Westin  
President and CEO of Länsförsäkringar AB

On 2 February 2018, Johan Agerman left his position as President and CEO of Länsförsäkringar AB. In connection with this, Sören Westin was appointed President and CEO of Länsförsäkringar AB.

# Success lies in the balance between local and shared

**About Länsförsäkringar AB** Länsförsäkringar AB and its subsidiaries are commissioned by the regional insurance companies to conduct joint banking, non-life insurance, pension and life-assurance operations, pursue strategic development activities and provide service in areas that generate economies of scale and efficiency. All to create conditions for the regional insurance companies to develop the offering close to their customers.

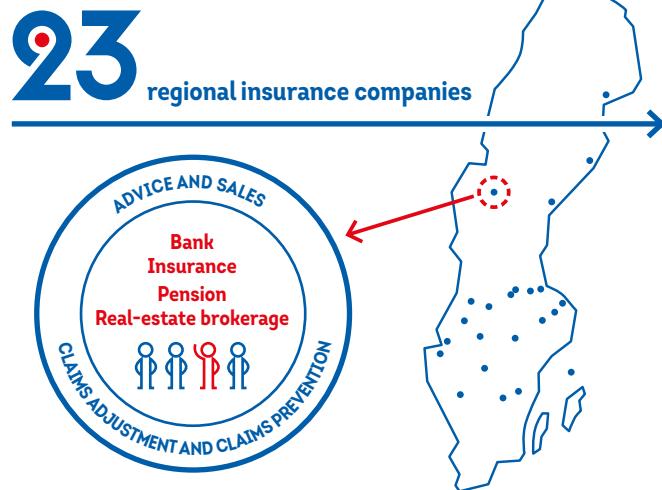
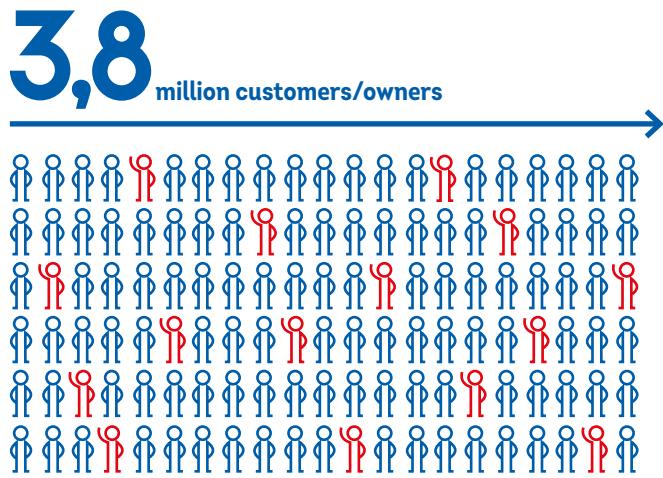
Länsförsäkringar AB is wholly owned by the 23 regional insurance companies, together with 16 local insurance companies. The regional insurance companies impose demands on effective capital use and a return on equity corresponding to 5% over the risk-free interest. The return on equity in 2017 was 11%. In addition to the Parent Company, Länsförsäkringar AB, the Group consists of Länsförsäkringar Sak, Länsförsäkringar Bank, Länsförsäkringar Fondliv, Länsförsäkringar Liv and the subsidiaries of

these companies. Länsförsäkringar Liv and its subsidiaries are not consolidated in the consolidated financial statements since the company is operated in accordance with mutual principles and the earnings accrue in their entirety to the policyholders.

#### Mission

Länsförsäkringar AB is tasked with conducting profitable business activities in banking, non-life insurance, pension insurance and life assurance, developing prod-

ucts, concepts, meeting places and tools, and providing business service to the regional insurance companies. This ensures that the regional insurance companies can offer their customers the right range of products and enables private individuals, companies and agricultural customers in Sweden to live with a sense of security. The Länsförsäkringar Alliance's reinsurance cover is managed through a number of cover pool solutions and joint group insurance cover by Länsförsäkringar Sak.



## Owner Control

Länsförsäkringar AB is a limited liability company and also the Parent Company of a financial Group, which is individually owned in various holdings by the 23 regional insurance companies and 16 local insurance companies, which in turn are owned by a total of 3.8 million insurance customers. The Boards of Directors of the regional insurance companies are formally responsible for owner control. Based on the federal organisation and the purpose of the ownership of Länsförsäkringar AB, these companies have together created joint forms for owner control that comply both with the requirements usually imposed on owner control and with the federal conditions.

Owner control at Länsförsäkringar AB has clear advantages compared

with the owner control of many larger financial groups. This is because all of the regional insurance companies have the same clear purpose for their ownership, conduct active operations and collectively hold sufficient financial capacity to ensure long-term ownership.

#### Owner control logic

The logic behind owner control centres mainly on the relationship between the Boards of the regional insurance companies, the Länsförsäkringar AB Board of Directors, Länsförsäkringar AB's General Meeting and the regional insurance companies' owner consortium. Formal owner control takes place through the General Meeting, although the regional insurance companies' owner consortium and their representation on Länsförsäkringar AB's Board are also important components. The duties of the General Meeting are

## Balance between local and shared

The Länsförsäkringar Alliance has developed a balance between the small and the large-scale. Cooperation between the regional insurance companies through Länsförsäkringar AB has emerged from a decentralised perspective, not the other way round. The local companies decided to cooperate to achieve economies of scale and to concentrate on the most important issues: meetings with customers and developing close customer relationships. Certain elements of the Länsförsäkringar Alliance are conducted on a large-scale to generate economies of scale, for example, product development and IT systems. Other areas are better suited to being conducted on a smaller scale, such as customer meetings. Success is found in balancing these elements. The basis for cooperation in the Länsförsäkringar Alliance is that as much of

the operations as possible are conducted by the local companies and essentially all customer contact is to take place with them. For Länsförsäkringar, the core concept is to meet and know customers, and this is best achieved on a small scale. Economies of scale arise in the cooperation between the regional insurance companies that takes place through Länsförsäkringar AB and its subsidiaries. Experience shows that local decision-making authority combined with joint strength creates substantial added value for customers.

## Governance of risk-taking and capital use

Länsförsäkringar AB's business activities are conducted to generate a profit so that the company can pay returns on equity at market levels. All capital that is not required for Länsförsäkringar AB's operations is returned over time to the owners in the

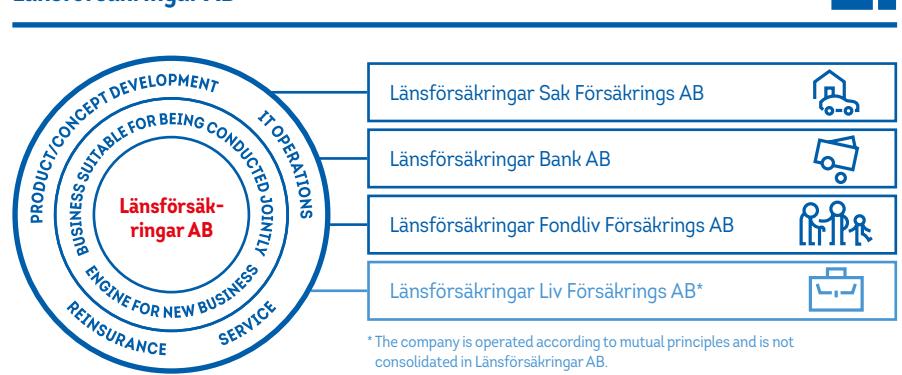
form of dividends. The Group's capital situation in relation to its combined risks forms the basis of decisions on potential dividend payments. Länsförsäkringar AB endeavours to maintain a balance between capital strength and risk-taking to justify a minimum credit rating of A.

More than 70% of the Länsförsäkringar Alliance's capital, excluding the capital in Länsförsäkringar Liv, which belongs to its policyholders, is invested in the regional insurance companies. Accordingly, the Group's capital strength is assessed not only on its own situation but also includes the capital strength of the regional insurance companies. Rating agencies and other stakeholders have that approach. The regional insurance companies are extremely well consolidated and thus are highly able to contribute capital to the Group.

## Owner control of Länsförsäkringar AB



## Länsförsäkringar AB



\* The company is operated according to mutual principles and is not consolidated in Länsförsäkringar AB.

formally governed by law and the Articles of Association. The duties of the consortium are governed in the regional insurance companies' consortium agreement. The Chairman of the consortium is appointed by the regional insurance companies.

Länsförsäkringar AB's Board is elected by the General Meeting, which comprises representatives of all shareholders. The Board is elected based on a process controlled by the owners through a Nomination Committee appointed by the General Meeting. The Nomination Committee's composition, mandate period and so forth are governed in the Articles of Association. The Chairman of the consortium is responsible for the process of renewing the Nomination Committee.

The task delegated by the owners to the Nomination Committee is documented in a separate instruction adopted by the General Meeting.

It is important that there is a clear boundary between the Nomination Committee and the Board. The Nomination Committee works independently from the Board on behalf of the owners.

Länsförsäkringar AB's Board serves as the representative of the owners in the framework of the owners' intentions. Länsförsäkringar AB's Board pursues the strategies and targets that the owners agree on, thus performing the owners' assignments. At the same time, Länsförsäkringar AB's Board has a major responsibility for safeguarding the capital invested in Länsförsäkringar AB by the regional insurance companies. The regional insurance companies' assignment to Länsförsäkringar AB's Board is decided in the consortium and is documented in the Länsförsäkringar Alliance's governance documents. Länsförsäkringar AB's Board decides on the direction and scope of the operations based on its assignment from the owners.

# Joint business

## Companies and offering



### Länsförsäkringar Sak Försäkrings AB

Länsförsäkringar Sak is responsible for the non-life insurance operations, including pet and crop insurance, which have been assigned to Länsförsäkringar AB by the regional insurance companies. Its role is to complement the companies' offering with specialist products to meet customer needs, and to start new business that can be channelled out to the regional insur-

ance companies. Pet-insurance operations are conducted in the subsidiary Agria Djurförsäkring. Länsförsäkringar Sak manages the Länsförsäkringar Alliance's joint reinsurance cover and internal Alliance reinsurance with a number of pool solutions, and underwrites some internationally assumed reinsurance.



### Länsförsäkringar Bank AB

Länsförsäkringar Bank offers banking services to private individuals, agricultural customers and small businesses. Sales, advisory services and customer service are carried out through the branches of the regional insurance companies and via digital channels and by telephone. Deposits and certain lending operations are conducted in Länsförsäkringar Bank, while most of the lending and funding operations are con-

ducted through the subsidiary Länsförsäkringar Hypotek. The subsidiary Länsförsäkringar Fondförvaltning offers mutual funds. The subsidiary Wasa Kredit offers financing services to corporate customers and private individuals – primarily leasing, renting and hire purchase. Länsförsäkringar Bank is the fifth largest retail bank in Sweden.

### Länsförsäkringar Fondliv Försäkrings AB

Länsförsäkringar offers pension savings, primarily occupational pensions. Fund management, guarantee management and personal-risk insurance are offered through Länsförsäkringar Fondliv. Länsförsäkringar Fondliv is a leader in the unit-

linked insurance market for individual occupational pensions, commanding a market share of 19% measured in premium income. Länsförsäkringar's fund range comprises 37 of its own funds and 78 external funds.



### Länsförsäkringar Liv Försäkrings AB

Länsförsäkringar Liv, which is closed for new business, manages traditional life assurance that was taken out before it was closed in 2011. Länsförsäkringar Liv conducts traditional life assurance for its customers divided into four portfolios: New

Trad, Old Trad, New World and Insured Pension. Customers with insurance policies under Old Trad have had the opportunity to transition their existing insurance to New Trad since 2013.

# A strong Länsförsäkringar AB – what does that mean to us?

## Earnings 2017

Of the Länsförsäkringar Alliance's total premiums earned of SEK 25.5 billion, premiums earned from Länsförsäkringar Sak accounted for SEK 5.6 billion. Operating profit amounted to SEK 1,028 M (644).

**88%**  
Combined ratio

Operating profit increased 9% to SEK 1,599 M (1,467). The return on equity totalled 10% (10).

**+14%**

Increase in business volumes to SEK 520 billion

Operating profit amounted to SEK 600 M (512). Managed assets increased 12% to SEK 128 billion.

**+6%**

Increase in premium income to SEK 9,133 M

The technical result amounted to SEK 2,363 M (2,682). Länsförsäkringar Liv's earnings are not consolidated in Länsförsäkringar AB since the company is operated according to mutual principles.

**115 SEK bn**  
Managed assets



“ The constant challenge for the 23 regional insurance companies is to deliver the best local customer meeting – both physically and in digital channels. This requires an innovative and agile Länsförsäkringar AB that helps us to be at the forefront of key areas.”

Henrietta Hansson,  
President Länsförsäkringar Jönköping

“ Länsförsäkringar AB operates on behalf of the regional insurance companies and together we shall deliver the most highly valued customer meetings in the market. For us, a strong Länsförsäkringar AB means strength in our development activities, valuable specialist expertise and care of our joint brand.”



Mikael Sundquist,  
President of Länsförsäkringar Bergslagen



“ A strong Länsförsäkringar AB provides economies of scale that enable the Länsförsäkringar Alliance to continue to grow profitably. In turn, this enables the regional insurance companies to continue to create value for customers.”

Susanne Petersson,  
President of Länsförsäkringar Skåne

“ A strong Länsförsäkringar AB is a prerequisite for our success. It offers specialist expertise and the joint development and management of IT support means that we can quickly adapt to the trend of digitisation.”

Anders Gränäs,  
President of Dalarnas Försäkringsbolag



# Drivers and trends in our business environment

**Our business environment** Drivers and trends in our business environment affect future customer requirements and thereby Länsförsäkringar's operations, business model and development needs. This presents many challenges but Länsförsäkringar has favourable conditions to best meet changed needs, primarily based on its broad customer base, local knowledge and highly skilled employees.

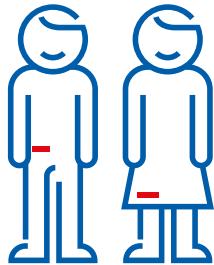
## Customers

More and more customers are seeking security from a supplier that they have confidence in, making the brand a key cornerstone of the customer experience. To deliver products and services that meet customer expectations, the supplier must understand customer needs and behaviour, and base development activities and customer contact on customer insight.

### On the customer's terms

Customer requirements for banking and insurance services are continuing to intensify since they presume that progress is just as advanced as in other industries. 24/7 availability, a high level of service, skilled personnel and personal service are important to customers who want to be able to choose where, when and how they do their banking and insurance.

The sharing economy that is emerging involves using resources sustainable and economically. There is also a desire to remove "the middle man" and technology is enabling new consumption models. Sharing a taxi, home, car, ideas and borrowing what you can, are becoming increasingly common to maximise comfort and flexibility at minimal cost. These new arising needs present new business opportunities for banking and insurance.



### Länsförsäkringar's response

Länsförsäkringar has favourable conditions to best meet customer needs, primarily founded on our broad customer base, local knowledge and our unique business model that supports both local and digital customer meetings. The award-winning bank app adds significant customer value. The starting point is always the customer and we base communication on customer data and thus on knowledge. We must be innovative and find the right balance and forms of cooperation within the Länsförsäkringar Alliance; while the customer experience must always be local and close, developments can be made together.

## Technology

Rapid technological progress brings with it new insurance solutions and new business opportunities. Traditional competition is being continuously challenged by new and innovative fintech companies.

### Internet of Things

Strong growth is predicted for sales for the Internet of Things over the next few years. More and more objects are becoming connected, and new business opportunities arise with telematics in the car, at home, at work and with people. The possibilities for using data include greater relevance, improved risk assessment, individualised products, claims prevention and predictive analysis for preventing claims. However, the risk of cyber crime is on the rise since the large number of connected devices increases data exposure.

New technology could also make insurance unnecessary. The conditions for motor insurance are changing. Surveillance systems to make Swedish homes burglar, fire and waterproof are becoming more affordable. The development of fireproof materials can significantly reduce the need for fire insurance.



### Länsförsäkringar's response

Development activities must be innovative with fast product development and testing operations to deliver new services quicker and at a lower cost and then continuously test and fine-tune them. Partnerships and investments in innovation companies supplement such development efforts. Länsförsäkringar will continue to develop robotics and automation to enhance efficiency. New technology also allows customer data to be processed together with social data to learn more about customers and the market, with Länsförsäkringar's broad customer base and product offering providing a major advantage.

## Climate change

Climate change – the result of higher carbon emissions – causes global warming. A warmer climate will have major socio-economic consequences, and lead to extreme weather conditions such as hurricanes, torrential rain and drought.

### Long-term environmental responsibility

The consequences of climate change for the insurance industry are obvious since global warming can lead to significant claims costs. That is why claims-preventing environmental work is increasingly important.

It is a hygiene factor for a rising number of investors that the companies they invest in comply with internal conventions on human rights, labour, the environment and anti-corruption. Fossil fuel has a negative effect on the climate through its high carbon emissions. There is a risk that oil, coal and gas companies are overvalued since it is unlikely that a large amount of the fossil reserves will be extracted from the ground due to legislation to limit global warming. Overvalued holdings are a financial risk and have led to many investors starting to phase out fossil fuels from their investments. Pressure has mounted on investors to move over to investments that help reduce climate risks. The Swedish Financial Supervisory Authority expects the finance industry to develop scenario analyses for how climate change will impact business operations. The government's target is for Sweden to become fossil-free by 2030.



#### Länsförsäkringar's response

Climate risk is the area of sustainability that presents the greatest challenge for Länsförsäkringar. We strive to limit and reduce the risk of climate impact through our activities by way of dialogue and investments in the area of responsible investments, claims-prevention activities and sustainability requirements on damage repair in the insurance offering, sustainability requirements on suppliers, financing research into climate impact, engagement and prevention activities in the aspects of long-term environmental efforts and social commitment.

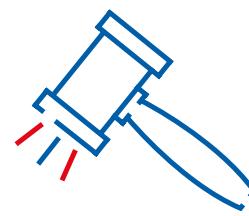
## Regulations

Regulatory development will continue to have a significant impact on banks and insurance companies over the next few years. Examples of major regulations are the Fourth Anti-Money Laundering Directive, the Mortgage Credit Directive, MiFID II, the General Data Protection Regulation (GDPR) and the Insurance Distribution Directive (IDD).

### Rapid regulatory developments continue

New EU regulations on data privacy and processing personal data will be introduced to all companies and institutions in 2018 with the GDPR. Reviews of the group rules for banks and regulations for crisis management in banks are being conducted. In life assurance and pension insurance, discussions are continuing on regulating transfer rights and introducing new rules on occupational pension business and taxation of occupational pensions as well as new information requirements for investment products within the framework of insurance. The government has also referred a proposal to the Council on Legislation for consideration on fringe-benefit taxation for health care insurance, which is expected to come into effect on 1 July 2018.

Harmonising legislation within the EU also adds to complexity. Extensive rules are often implemented in the form of both directives and EU regulations. In addition, guidelines are published by European supervisory authorities and the Swedish Financial Supervisory Authority issues regulations and general guidelines.



#### Länsförsäkringar's response

Länsförsäkringar believes that it is well-positioned to meet the changes under the regulations. It is vitally important that consumers are protected, but the regulations between banking and insurance must also be harmonised, which is particularly important for a group like Länsförsäkringar. Health care insurance supports employers' health and safety activities and serves as a health-promoting and rehabilitating measure and should therefore be taxed like similar measures. More than half of Länsförsäkringar's total number of health care insurance policyholders belong to the low or middle-income bracket.

# Vision, Values and Targets

Länsförsäkringar AB's operations apply vision and value-based planning, which guides all of the Group's operations towards achieving established targets:

- **Vision** Together we create security and opportunities.
- **Values** Commitment, Trust, Openness and Professionalism.
- **Overall target** Länsförsäkringar AB is to help create the right conditions for the regional insurance companies to deliver the market's most highly valued customer meetings.

## Customers' choice

**6** We will be customers' first choice for financial services and have the highest customer satisfaction

To meet customer needs, Länsförsäkringar must offer its customers a secure, total financial solution for banking, insurance, pensions and real-estate brokerage.

## Outcome 2017

- Länsförsäkringar has been a clear market leader in non-life insurance in Sweden for more than 20 years and the customer inflow to the banking business and real-estate brokerage remains strong.
- According to the Swedish Quality Index's 2017 customer satisfaction survey, Länsförsäkringar has Sweden's most satisfied customers in banking, private non-life insurance and real-estate brokerage.
- Kantar Sifo's 2017 reputation survey showed that Länsförsäkringar has the highest reputation in the finance industry.

## Awards in 2017



## Länsförsäkringar's Swedish market shares



## Profitable growth

6 Satisfied customers are the foundation of long-term profitable growth

Long-term profitable growth in the customer-owned regional insurance companies is important for meeting future challenges, assuming social responsibility and supporting sustainable development.

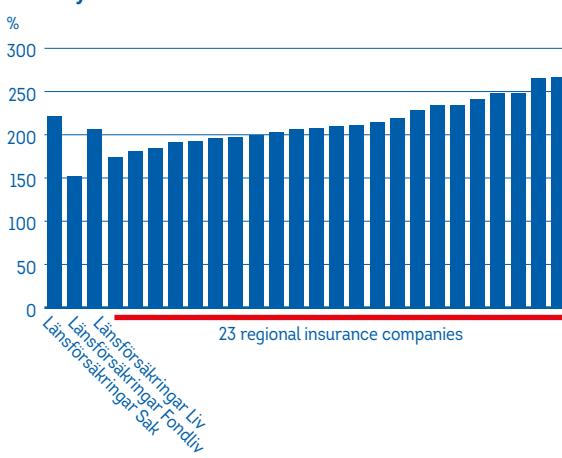
## Outcome 2017

- Länsförsäkringar's robust growth continued for all business lines in 2017.
- Based on the healthy earnings for 2017, the Board of Länsförsäkringar AB proposes that the General Meeting resolve to pay a dividend of SEK 300 M to the owners – the 23 regional insurance companies and 16 local insurance companies. The regional insurance companies in turn will pay a total of SEK 1.5 billion in bonuses to their owners – the customers.
- The regional insurance companies, the Länsförsäkringar AB Group and each subsidiary remained well-capitalised in 2017.

# 1.5 SEK bn regional insurance companies' bonuses to their owners - the customers

# 11%

## Solvency ratio on 31 December 2017



## Sustainable business

**↳ Sustainability involves generating greater value for customers and, at the same time, contributing to the sustainable development of society**

Länsförsäkringar can reduce its sustainability risks and also contribute to the positive development of society and create business value by incorporating sustainability into its business.

### Outcome 2017

- In 2017, Länsförsäkringar AB divested its investments in coal companies that derive more than 20% of their sales from coal.
- Länsförsäkringar's fund platform was supplemented with several tools for helping customers to choose sustainable funds.
- Länsförsäkringar contributes to research financing into such subjects as prevention of cardiovascular diseases, unprotected road-users and flooding risks due to climate change.
- Länsförsäkringar participated in the UN Private Sector Forum that focused on the private sector's role in achieving the Sustainable Development Goals, Agenda 2030.

**→** *Read more about Länsförsäkringar AB's sustainability work on pages 12-31.*

### Awards in 2017



Söderberg & Partners put the Länsförsäkringar "Global Hållbar" fund in its list of top ten Swedish sustainable funds and gave it green light sustainability approval.

Länsförsäkringar Liv's New traditional life-assurance portfolio also received the green light in Söderberg & Partners' annual analysis.

## Sustainable Development Goals

In 2015, the 193 member states of the UN adopted 17 Sustainable Development Goals (SDGs) to be achieved by 2030. These goals replaced the Millennium Development Goals and seek to achieve sustainable development by eradicating extreme poverty, reducing inequalities, solving the climate crisis, and promoting peace and justice. Work began in 2017 on comparing Länsförsäkringar AB's operations with the SDGs. Länsförsäkringar can reduce its negative impact and positively contribute to several of the 17 SDGs.

**→** *Read more about Länsförsäkringar's work on the SDGs on page 13.*



# Sustainable business

**Sustainability** involves generating greater value for customers and, at the same time, contributing to the sustainable development of society. Länsförsäkringar AB's sustainability work is based on the vision of "Together we create security and opportunities." Länsförsäkringar's objective is to offer its customers a secure, total financial solution for banking, insurance, pension and real-estate brokerage.

Länsförsäkringar can reduce its sustainability risks and also contribute to the positive development of society and create business value by taking economic, social and environmental aspects into consideration in business development and business decisions. Länsförsäkringar is a signatory to the principles of the UN Global Compact.

## Stakeholder dialogue

Material sustainability risks are identified and prioritised in cooperation with priority stakeholders: customers, owners, employees, suppliers, partners, trade organisations, civil society organisations, authorities and investors.

Länsförsäkringar AB is owned by the 23 regional insurance companies. Länsförsäkringar AB's task is to conduct joint banking and insurance operations, pursue strategic development activities and provide service

in areas that generate economies of scale and enhance efficiency. As owners and recipients of deliveries from Länsförsäkringar AB, the regional insurance companies hold a unique position among the company's stakeholders. Local customer meetings are managed locally by the regional insurance companies.

## Materiality analysis

Länsförsäkringar AB has identified eight priority sustainability aspects based on stakeholder dialogue and with the guidance of the Global Reporting Initiative (GRI). The eight aspects addressed in this year's Sustainability Report have been grouped into three areas: responsible offering, corporate social responsibility, and long-term environmental and social responsibility.

The sustainability aspect "High sustainability expertise among employees" has

been integrated with "Regulatory compliance" in this year's report. The "Responsible offering in insurance and banking" aspect has been divided into two aspects: "Responsible insurance offering" and "Responsible banking offering." A new materiality analysis will be carried out in 2018.

## RESPONSIBLE OFFERING

- 1. Responsible investments** – Investments that consider environmental and social risks and generate higher returns for customers.
- 2. Responsible banking offering** – Banking services that consider environmental and social risks.
- 3. Responsible insurance offering** – Insurance services that consider environmental and social risks.

## Stakeholder dialogues

Priority stakeholders	Communication channels	Issues	Activities in 2017
<b>Owners and Board</b>	Reporting, decisions, Board meetings, various consulting bodies and AGM.	Mission of operations, product development, policies and guidelines, risks and long-term objectives.	Ongoing dialogue on sustainability issues and objectives.
<b>Customers</b>	Customer surveys, customer meetings and questionnaires.	Availability, service and quality, responsible investments, environmental and social responsibility integrated into offering, transparency, "select sustainable products" tool.	Established tools for selecting sustainable funds on the fund platform – sustainability globes, and scores, sustainability profile and carbon measurements. Expanded range of sustainable funds.
<b>Employees</b>	Employee surveys, employee appraisals, meetings, dialogue and training.	Work environment and health, skills development and diversity.	Skills development in the form of training.
<b>Suppliers</b>	Procurement, self-assessment questionnaires and meetings.	Environmental and social responsibility.	Dialogue meetings on sustainability issues.
<b>Partners, trade organisations and civil society organisations</b>	Partnerships, meetings, questionnaires and exchanging know-how.	Environmental and social responsibility, responsible investments, responsible lending, transparency, climate change, environment and social responsibility.	Greater transparency concerning responsible investments in the corporate governance report, established four standpoints on responsible investments. Launched a sustainability overview for Länsförsäkringar Fondförvaltning and for lending in Länsförsäkringar Bank. Provided sustainability research results.
<b>Authorities</b>	Reporting and meetings.	Responsible offering, transparency and climate risks.	Engaged in dialogue on natural catastrophes and climate risks.
<b>Investors</b>	Reporting, meetings and surveys.	Responsible offering, common social challenges, environmental and societal risks, and transparency.	Greater transparency on sustainability.

## CORPORATE SOCIAL RESPONSIBILITY

4. **Regulatory compliance** – A corporate culture with a high level of ambition regarding business ethics.
5. **Responsible employer** – The aim of attracting and retaining skilled employees.
6. **Sustainability requirements on suppliers**
  - Sustainability requirements in the supplier chain.

## LONG-TERM ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

7. **Social commitment** – Contributing to claims-prevention activities and research.
8. **Long-term environmental work** – Preventive work to limit climate impact and reduce the use of resources.

### Direct and indirect impact

Länsförsäkringar AB carries out regular analyses of risks and opportunities and the company's direct and indirect impact on the value chain. A risk-based approach is particularly relevant in the areas of responsible offering, regulatory compliance and requirements on suppliers. Länsförsäkringar AB can reduce its risks and contribute to the positive development of society through social commitment, engagement with companies, community stakeholders and decision-

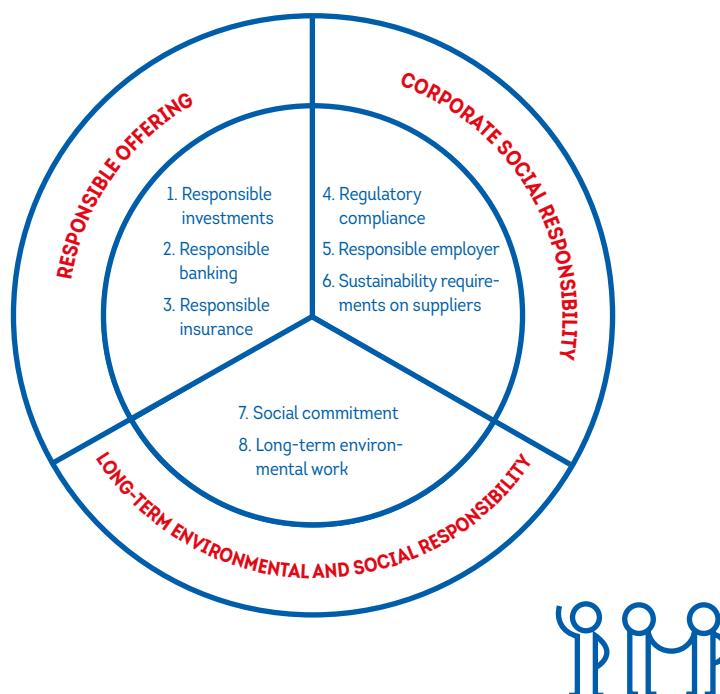
makers, research, claims-prevention activities and climate-smart investments.

Länsförsäkringar AB safeguards the transparency of risks and opportunities in order to allow stakeholders to make sound assessments of how they can influence and are affected by the operations.

### Climate risks – the greatest challenge

Climate risk is the area of sustainability that presents the greatest challenge for Länsförsäkringar. Climate change – the result of higher carbon emissions – causes global warming. A warmer climate will have major socio-economic consequences, and lead to extreme weather conditions such as hurricanes, torrential rain and drought. The devastating effects for insurance companies and banks are obvious. Länsförsäkringar AB strives to limit and reduce the risk of climate impact through its activities in several of the priority aspects: dialogue and investments in the area of responsible investments, claims-prevention activities and sustainability requirements on damage repair in the insurance offering, sustainability requirements on suppliers, financing research into climate impact, engagement and prevention activities in the aspects of long-term environmental efforts and social commitment.

## Materiality analysis and priority sustainability aspects



## Sustainable Development Goals

In 2015, the 193 member states of the UN adopted 17 Sustainable Development Goals (SDGs) to be achieved by 2030. These goals aim to achieve sustainable development by eradicating extreme poverty, reducing inequalities, solving the climate crisis, and promoting peace and justice. While each country is responsible for implementing and monitoring the SDGs, all parts of society must work together to realise them.

Work on comparing Länsförsäkringar AB's operations with the SDGs began in 2017 and is based on Länsförsäkringar AB's most important sustainability aspects, level of engagement, identified risks and opportunities. Internal goals and integrated goals will continue to be set in the operations in 2018 together with the regional insurance companies.

Länsförsäkringar can reduce its negative impact and positively contribute to several of the 17 SDGs. Some examples of the SDGs that Länsförsäkringar is currently working on, and where it is making a difference, are provided below:

### Goal 3 Good health and well-being

Research into health and road-traffic accidents, preventive health services and rehabilitation, road safety claims-prevention measures.



### Goal 8 Decent work conditions and economic growth

Dialogue on work conditions with companies in which Länsförsäkringar invests and suppliers, digital offering making financial services more available.



### Goal 10 Reduced inequalities

Promoting diversity through participating in nomination committees, in recruitment processes and in dialogues with companies and suppliers. (Goal 5 Gender equality and goal 10 Reduced inequalities)



### Goal 11 Sustainable cities and communities

Engaging policy-makers on sustainable urban planning, investing in environmentally certified properties, supporting research into sustainable, safe communities.



### Goal 12 Responsible consumption and production

Setting demands for materials, recycling and reuse for damage repairs, encouraging companies to report on sustainability, collecting chemicals and hazardous waste from agriculture.



### Goal 13 Climate action

Research into climate impact, dialogue with customers and policy-makers on climate issues, divesting from investments in coal companies, investing in green bonds.



### Goal 16 Peace, justice and strong institutions

Dialogue with companies regarding anti-corruption, anti-money laundering and preventing terror financing.





## 1. Responsible investments

### Investments that consider environmental and social risks and generate higher returns for customers.

Länsförsäkringar AB invests customers' savings and offers both its own and external funds. The basic view is that well-managed, sustainable companies are a better investment in the long term. Active corporate governance, international conventions, manager selection procedures and partnerships form the basis of responsible investments. Länsförsäkringar AB strives to transparently disclose its methods and procedures for responsible investments.

#### Active corporate governance

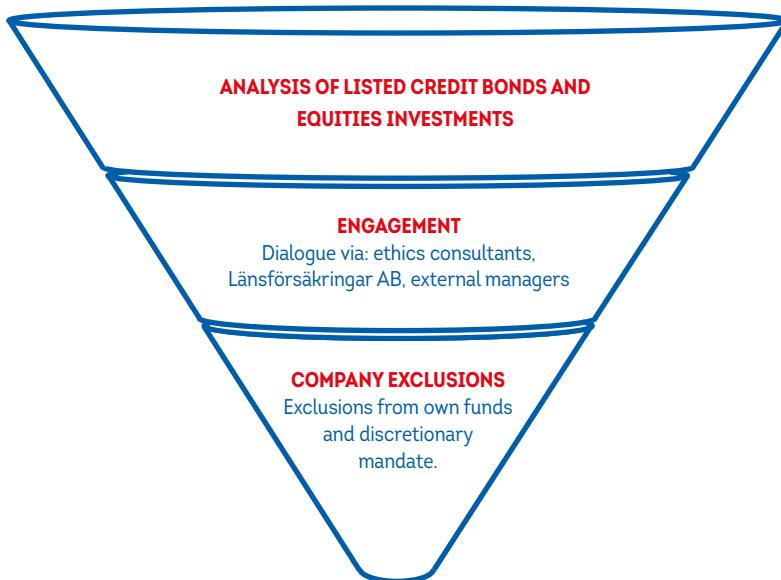
Corporate governance includes company dialogues on sustainability issues, active participation in the nomination committees of portfolio companies to influence board compositions and voting at general meetings. The owner policy is the foundation of the corporate governance. A long-term objective is to increase diversity in terms of gender, age and background, on the boards of the portfolio companies. During the annual general meeting season of 2017, the percentage of women board members increased to 43% (41) in the companies in which Länsförsäkringar Fondförvaltning

served on the nomination committee. Länsförsäkringar AB mainly votes at general meetings of the companies included in its own funds, and in which it has a substantial holding or where it is important to vote for other reasons. In 2017, Länsförsäkringar Fondförvaltning started to vote at meetings of US companies that had sustainability issues on their agenda.

As a preventive measure, Länsförsäkringar AB engages in dialogue with companies on sustainability issues. Two focus areas for 2017 were water risks in companies in emerging markets and work conditions in the agricultural chain of the food industry.

#### Analysis and dialogue process

Länsförsäkringar AB engages in dialogue with companies that breach international conventions. This takes place through an ethics consultant and Länsförsäkringar AB itself. All external managers are encouraged to engage in dialogue with companies. Companies with which dialogue has had no effect, companies linked to controversial weapons (nuclear weapons, cluster munitions, biological and chemical weapons, and landmines) and coal companies are excluded from Länsförsäkringar Fondförvaltning's own funds and those under Länsförsäkringar AB's discretionary mandate.



#### Ethical basis in international conventions

Work related to responsible investments is based on the international conventions signed by Sweden in the areas of environment, human rights, labour laws, corruption and controversial weapons. An external ethics consultant has been engaged to analyse listed company holdings based on these conventions. Based on these analyses, Länsförsäkringar AB strives to engage in dialogue with companies that breach these conventions. The aim is that the analysed company shall stop its breaches and take measures to prevent similar incidents from being repeated. If the dialogue does not achieve the desired results, the holdings in the company may, as a last resort, be divested.

#### Partnerships with other investors

Länsförsäkringar AB has partnerships with other investors to give greater impetus to dialogue and to pursue industry-wide issues. A list of the organisations of which Länsförsäkringar AB is a member and collaborates with is found on page 28.

#### Internal management of Swedish equities

Länsförsäkringar Fondförvaltning's Swedish equities funds have been managed internally since the end of 2016. Focus in 2017 was directed to carrying out an internal analysis of the companies' sustainability activities, with the aim of gaining an understanding of the current status and benchmarking for assessing the progress of their sustainability work in the future. The sustainability analysis is combined with the financial analysis and is factored into investment decisions. Managers of larger companies also have access to external sustainability analysis tools that supplement their own analyses.

#### Requirements on external managers

Länsförsäkringar Fondförvaltning is managed by internal managers. Other investments are managed by external managers through funds or discretionary mandates. The investment philosophy is based on using leading managers in Sweden and abroad with a variety of investment areas and management approaches. Sustainability requirements are included in the procurement of new managers. The integration of sustainability issues into management models is monitored every year.

The majority of managers have signed the Principles for Responsible Investment (PRI) and many of them intensified their focus on sustainability in their investment analyses, investment decisions and engagement in 2017. New managers of equities investments were procured for emerging markets in 2017, as were European corporate loans for the institutional portfolios (life-assurance and non-life insurance). The majority of the managers selected have a clear focus on integrating sustainability together with financial analysis in their investments. An investment was made in a fossil-free emerging market fund. Investments in green bonds continued to increase during the year.

#### Climate risks in investments

Länsförsäkringar AB sees financial risks in investing in companies that base their operations on fossil fuels since fossil assets risk

becoming "stranded assets." In 2016, Länsförsäkringar AB divested from its own funds and direct investments about 80 mining companies and energy companies that derive more than 50% of their sales from coal. The sales level was lowered to 20% in 2017 and led to a further 50 coal companies being divested.

Länsförsäkringar AB measures the carbon footprint of its equities investments and applies the measurement method recommended by the Swedish Investment Fund Association and Insurance Sweden.

 *More information about corporate governance, policies, fund manager selection process, collaborations, company dialogues, blacklisted companies, and the carbon footprints of Länsförsäkringar Fondförfatning's own funds and the life-assurance portfolio is available in Swedish on [lansforsakringar.se](http://lansforsakringar.se).*

#### External manager procurement and evaluation process



\* ESG stands for environmental, social and corporate governance issues.

Activities related to responsible investments	2017	2016
Number of reactive <sup>1)</sup> company dialogues on sustainability pursued by the ethics consultant on Länsförsäkringar AB's behalf <sup>2)</sup>	119	107
Of which number of reactive company dialogues on sustainability in which Länsförsäkringar AB was involved	15	30
Number of preventive dialogues on sustainability	17	19
Number of blacklisted companies regarding sustainability <sup>3)</sup> excluding coal companies	33	27
Number of general meetings at which votes were casted <sup>4)</sup>	50	36
Participation in nomination committees	16	13

<sup>1)</sup> Reactive company dialogues refer to dialogues with companies in which a sustainability incident has occurred.

<sup>2)</sup> The ethics consulting firm engaged conducts dialogues with companies that appear in the firm's ethics filter on behalf of Länsförsäkringar AB and other companies. Several of Länsförsäkringar AB's external fund managers also maintain ongoing dialogues with companies on sustainability issues.

<sup>3)</sup> Pertains to blacklisting direct ownership of shares and credit bonds.

<sup>4)</sup> Refers to annual and extraordinary general meetings.

#### Länsförsäkringar's global sustainability fund

The Länsförsäkringar "Global Hållbar" sustainability fund was in the top ten list of the most sustainable funds in Sweden in Söderberg & Partners' survey of sustainability of funds. It was also given the green light, which is awarded to funds whose managers use tools and incentives to selected sustainable companies and who conduct extensive engagement activities.

#### Sustainable pension companies

Länsförsäkringar's responsible investment activities were highlighted in Söderberg & Partners' annual analysis of sustainable investment processes, engagement, sustainability ambitions and value creation. Länsförsäkringar's new traditional life-assurance portfolio kept its green light and the old traditional life-assurance portfolio improved from red to amber. The latter did not receive a green light since its portfolio contains a high percentage of government bonds.



#### Tools for helping customers choose sustainable funds



Länsförsäkringar's fund platform was supplemented during the year with several tools for helping customers to choose sustainable funds. The sustainability Declaration for funds, which outlines how funds include, exclude and engage with companies, was upgraded to a new version. Morningstar's Portfolio Sustainability Score and Sustainability Rating were also introduced for various funds in the fund platform.

#### Green bonds

Länsförsäkringar invests in green bonds. Humlegården, a property company owned by the Länsförsäkringar Alliance, issued its first green bonds in 2017. Humlegården intends for all new-built housing to have the highest possible environmental certification.



## 2. Responsible banking offering

### Banking services that consider environmental and social responsibility.

Länsförsäkringar Bank is an important part of the financial system and by pursuing responsible loan origination, the bank can increase customer value, financial stability and the sustainable development of society. Greater availability of banking services is also a key element of this.

#### Low sustainability risks in lending

Länsförsäkringar Bank's loans are granted in Sweden and in SEK. The geographic spread of lending to both retail and corporate customers is well-diversified, with low average lending per customer. The bank has very limited lending to the large-corporates sector in which environmental and social risks are typically significantly greater.

Accordingly, the business model for loan origination has relatively low credit risks.

The foundation of loan origination is the credit policy and the credit instructions that include criteria for acceptable risk and identify high-risk areas in sustainability that require special consideration. Strict requirements are imposed on customers' repayment capacity and the quality of collateral. Loan application process, combined with the local customer and market knowledge of the advisors, provides favourable conditions for a loan portfolio with high credit quality and low sustainability risks.

Environmental risks and environmental responsibility for agriculture and companies are regulated by the extensive external rules of a variety of supervisory authorities. Environment-related risks are addressed in the loan application process based on, for example, licensable and non-licensable operations and a comprehensive assessment of the company's operations. Assessments of industry, operations, employment forms for personnel and temporary

employees, and other relevant information gathering can form the basis of further checks in analyses of human-rights risks, labour law, corruption or other criminal activities. The bank's credit instructions state that credit proposals with elevated sustainability risks are, as a rule, to be rejected.

#### Mortgage repayment requirements

Mortgage repayment requirements were introduced on new mortgages in June 2016, meaning that customers meeting these requirements must make the minimum statutory mortgage repayments. Länsförsäkringar encourages all customers to make repayments by presenting a recommended repayment plan, as well as an alternative plan, at mortgage advisory meetings. Even customers that do not fall under the repayment requirements are encouraged to pay off their mortgage. The higher repayment requirements for new loans for customers with debt ratios of more than 450% will be implemented in March 2018.

#### Funding at low credit risk

Länsförsäkringar Bank's main financing sources are deposits and funding through covered bonds. These covered bonds have the highest credit rating from Moody's and S&P Global Ratings, which indicates a low credit risk.

#### Local branches and digital services

With the 23 regional insurance companies, Länsförsäkringar's customers have access to branches throughout Sweden. Länsförsäkringar also offers digital banking services. As well as serving customers who actively choose digital meeting places, digital banking services are offered to customers who have not previously been able to come to a branch due to long distance or disability, or who require service outside normal office hours. 61% of the bank customers use Länsförsäkring's mobile app or Internet bank.

Digitisation also reduces the impact on the environment since it reduces the volume of paper documents, letters, print-outs and transportation. The percentage of digitally distributed customer documents increased to 38% (34) in 2017.

#### Sustainability declaration

Länsförsäkringar published a sustainability declaration in 2017 to clarify the bank's loans to companies. The sustainability overview is an industry initiative and was produced by Länsförsäkringar Bank together with other Swedish banks and the Swedish Bankers' Association.

#### Climate risks

In 2017, the bank analysed and participated in discussions with other Swedish banks on "Recommendations of the Task Force on Climate-related Financial Disclosures." The bank will continue this work in 2018 and initiate climate-related scenario simulations of its loan portfolio.

#### Prize for best mobile app

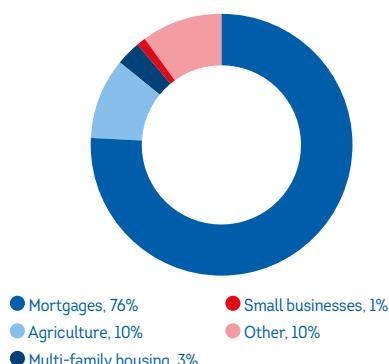
Länsförsäkringar was awarded the prize for Sweden's best app and mobile site at the Web Service Awards, with availability and user-friendliness stated as two of the reasons for the prize.

#### Partnership with ECPAT

Länsförsäkringar is a member of the Swedish Financial Coalition against Commercial Sexual Exploitation of Children, which works together with ECPAT and the police. The aims of the Financial Coalition are to prevent the Swedish payment system from being utilised for the purchase of documented child sexual abuse and ultimately stopping child sexual abuse.

In 2017, the Financial Coalition commissioned a study at Uppsala University into the use of machine learning to stop child sex trafficking. The study looked at how computers can be taught to analyse large volumes of data and identify patterns that indicate child sex trafficking at a speed that would never be capable by humans. This new technology would help police in the future to track offenders and identify missing children.

#### Loan portfolio 31 December 2017



### 3. Responsible insurance offering

#### Insurance services that consider environmental and social risks.

Länsförsäkringar can contribute to a sustainable society through its claims-prevention activities and responsible damage repairs. Preventing a claim is always a win for the environment and customers. Länsförsäkringar AB establishes claims-prevention and repair methods and standards.

#### Broad insurance offering

Länsförsäkringar Sak supplements the regional insurance companies' offering with specialist products to meet customer needs and to start new businesses that can be channelled out to these companies. The Länsförsäkringar Alliance's reinsurance cover is managed through cover pool solutions and joint group insurance cover by Länsförsäkringar Sak. By doing so, the regional insurance companies can offer customers a broad range of insurance for people, animals and property and ensure effective reinsurance coverage.

#### Reinsurance and natural catastrophes

Länsförsäkringar Sak is one of the largest purchasers of reinsurance for property and forests in Europe, and the regional insurance companies hold a large market share of forest insurance in Sweden. Reinsurance cover has been extended over the years due to the higher risk of natural catastrophes. Länsförsäkringar Sak has access to a comprehensive claims statistics database to continuously monitor and assess this risk. New technology and measurement methods also enhance this work.

#### Claims prevention is environmental work

Länsförsäkringar AB and the regional insurance companies work together with other companies, trade and civil society organisations, and authorities in Sweden and internationally on claims-prevention activities. Länsförsäkringar AB establishes claims-prevention methods and standards on behalf of the regional insurance companies. The regional insurance companies are primarily responsible for customer relationships and inform policyholders about claims risks and how they can be avoided and prevented. Natural catastrophes, water and fire damage claims, and motor insurance claims have the greatest impact on the environment and are thus Länsförsäkringar's focus areas for claims-prevention activities.

Average water damage to a home generates 300 kg in carbon emissions. Water-damage claims can be avoided by choosing the right materials and by installing early warning indicators. A fire at a home emits 25 tonnes of carbon dioxide. Fires also result in chemical emissions to air, water and land. Sanitising and restoring a house after a fire requires a vast amount of energy as well as new or recycled resources, and results in huge volumes of waste.

#### Good health for a sustainable lifestyle

Länsförsäkringar is one of the Sweden's leading players in health and health care insurance. Health care insurance is based on preventive health services and personal counselling, and providing the right type of care at the right time with effective rehabilitation. Independent medical examinations are used to ensure that mediated health care is based on medical grounds and provides the best long-term results for customers. The aim is for health care providers to follow the same guidelines for the forms of treatment that are recommended for various complaints, such as physiotherapy treatment instead of an operation, which means that health care and rehabilitation have better results for customers.

The aim of preventive health services is to promote good health and prevent ill health by using tools to reduce and manage stress, improve sleep and maintain a healthier lifestyle. A health profile for employees and organisations, online health programmes, personal counselling and manager support services are some examples of these preventive health services. Rehabilitation includes medical and work-oriented rehabilitation, as well as treatment for addiction and substance abuse. Work-oriented rehabilitation is introduced as early as possible to improve a patient's ability to work or, in the case of sick leave, shorten return times to work.

Länsförsäkringar sees a trend of greater use of preventive health services, indicating

that more people are seeking help to work proactively on health awareness themselves or for the entire working group. 2017 saw a 13% increase year-on-year, with the main increase seen in stress management followed by diet and exercise. Specific work-oriented rehabilitation measures at an early stage can identify mental health and sickness absence problems and thus avoid sick leave and speed up return times to work.

#### Research activities and sharing know-how

Länsförsäkringar participates in the public debate on good health and a sustainable working life. The research Länsförsäkringar financed in 2017 included:

- The Network for Personalized Lifestyle Medicine and Karolinska Institute's research into the effect of lifestyle intervention on patients with continuing health problems despite medication for hypothyroidism.
- The Swedish Heart-Lung Foundation's research on prevention of cardiovascular diseases.
- Umeå University's research on prostate cancer.

In 2018, Länsförsäkringar will continue to focus on preventive measures concerning ill health, for example, by participating in partnerships that promote mental health among school children and young adults. A pilot project on proactive health measures is planned with RISE, Karolinska Institute, GIH, the Apoteket chemist chain, and Stockholm County Council with the aim of exploring measuring positive health effects.

#### Security for different life situations

Länsförsäkringar has several offerings that provide financial security for customers' various life situations. The "Bo Kvar" insurance policy provides cover in the event of death, illness or unemployment and is offered to Länsförsäkringar Hypotek's mortgage customers and Länsförsäkringar's home-insurance customers. Another example is the "Senior" insurance policy, launched at the start of 2017. It provides health care insurance, life assurance and accident insurance for elderly customers who still need health insurance cover after they have reached the maximum age for their group insurance.



## Health-promotion and claims-prevention activities for animals

Agria is the market leader in pet insurance in Sweden and conducts claims-prevention and health-promotion measures for animals. Agria offers advice and information via various digital channels, such as the Agria app, a podcast that provides advice and tips for animal owners, and the Firstvet service where customers can use a video link free of charge to consult a veterinarian if their animal is ill or has been injured.

Agria's Research Fund supports Agria's research on animal health and well-being and the importance of animals to people and society. Agria has unique, extensive claims statistics that are used by researchers and breed clubs to improve animal health and sustainability.

Agria is in dialogue with vets on ethical positions regarding animal keeping and veterinary care. Agria develop products in close cooperation with animal-owner organisations that create security for animals and animal owners, tailored to customers' varying needs.

Activities targeted at children and young people increase awareness of different animals and the value of having a pet.

## Motor insurance and efforts to reduce road-traffic accidents

Länsförsäkringar is the leader in motor insurance. Länsförsäkringar strives to reduce the number of accidents on the road. One of the results of these efforts is a joint work method and "Claims on a Map" statistics database. Every motor and motor third-party liability accident and incident is reported geographically and the complete incident and accident statistics provide knowledge of where accidents occur and why, and aid efforts to prevent long-term insurance claims in collaboration with municipal street departments and municipalities. Customers can now plot claims themselves via the online claims notification service, which led to the number of claims in the database increasing during the year. An example is a roundabout in Borlänge that has been identified following many incidents. The street department now plans to rebuild it to reduce speeds.

## Sustainability of claims repairs

Länsförsäkringar AB has produced a certification programme for car workshops in collaboration with Autoteknik. Most regional

insurance companies have joined this programme, which ensures that the workshops used for damage repairs meet environmental and quality requirements. Certified workshops are to use used car parts for repairs as far as possible and try to repair plastic details instead of replacing them, thus reducing the impact on the environment. The regional insurance companies check the quality of completed repairs. About 1,300 workshop checks were carried out in 2017. The Swedish Motor Insurers' survey of 30 June 2017 revealed that certified workshops had 35% fewer shortfalls than non-certified workshops. The regional insurance companies will continue to perform quality inspections of completed repairs in 2018.

The companies impose high quality demands on repairs to properties and homes. Methods and systems for setting requirements for companies that repair damage to buildings were further developed with Länsförsäkringar AB. Companies are also engaged in dialogue regarding construction methods, recycling and materials that reduce adverse environmental impacts.

## Partnership with recycling companies

Several regional insurance companies have a partnership with Godsinlösen, a company specialised in the re-use and recycling of damaged goods. There are also local collaboration with several recycling companies. Via Godsinlösen, the regional insurance companies reduced their carbon emissions in 2017 by 243 tonnes and their volumes of electronic waste (mobile telephones, computers and tablets) and bicycles by 852 tonnes. Data is available only for these product categories.

Several of the regional insurance companies offer recycling services in cooperation with the Keep Sweden Tidy Foundation and local entrepreneurs to reduce environmentally harmful waste in the Swedish countryside. In 2017, 469 tonnes (399) of hazardous waste and 3,388 tonnes (3,027) of scrap from the agricultural sector was collected.

## Uncertain insurance cases

Länsförsäkringar's aim is to ensure that its policyholders are treated correctly and that the right compensation is paid to the right person. Each regional insurance company has a complaints officer whom customers can contact if they are unhappy with a decision or their claim.

## Insurance fraud

It is important to counteract insurance fraud to protect policyholders and to keep premiums down. According to Insurance Sweden, insurance fraud accounts for between 5% and 10% of claims costs, meaning that insurance fraud costs the entire insurance industry between SEK 3 and 6 billion every year.

Länsförsäkringar's investigation organisation looks into cases of suspected fraud and conducts preventive measures related to crime trends by arranging training courses and carrying out targeted activities. One of Länsförsäkringar's focus areas in 2017 was travel claims. The investigation organisation stopped erroneous payments of between SEK 170 and 180 M from about 2,700 claims cases. Fraud is an area that is spreading quickly throughout society.

Länsförsäkringar works together with the insurance industry and the authorities via Insurance Sweden to combat fraud and enhance security for customers. This work creates the conditions for influencing society's attitudes towards fraud and helping gain an overview of the extent of the problem. Länsförsäkringar participated in industry-wide activities on car fires in 2017. Länsförsäkringar follows Insurance Sweden's guidelines on insurance fraud.

## Highest customer rating

In the Swedish Quality Index's 2017 customer satisfaction survey among non-life insurance companies, retail customers gave Länsförsäkringar's sustainability credibility the highest rating of an index of 75.1. Corporate customers also have high confidence in Länsförsäkringar's sustainability activities with an index of 68.9.

## Länsförsäkringar addresses UN

Länsförsäkringar was the first Swedish insurance company to sign the UN Principles for Sustainable Insurance (PSI) in 2016.

Ann Sommer, President of Länsförsäkringar Sak, attended the United Nations Private Sector Forum in New York in 2017, which focused on the theme of the private sector's role in achieving the SDGs. Ann Sommer also attended a panel discussion on climate change and how the public and private sectors together with investors can initiate several partnerships to achieve the SDGs.



## 4. Regulatory compliance

### A corporate culture with a high level of ambition regarding business ethics.

The banking and insurance industry is subject to strict rules and regulatory requirements aimed at protecting its customers and maintaining confidence and stability in the financial market. The rules also seek to prevent and counteract the financial system being utilised for money laundering and terror financing. Full regulatory compliance is naturally inherent in all Länsförsäkringar's operations.

#### Anti-money laundering and terror financing

Money laundering and terror financing are international problems that pose serious threats to the financial system and its institutions, and ultimately the real economy and national safety. Confidence in the financial system is quickly tarnished if financial institutions are associated with illegal assets and money laundering or used to finance terrorists or terrorist organisations. The use of price-sensitive information and corruption also presents risks to companies in the banking and insurance industry. The banking and insurance industry is subject to strict rules and regulatory requirements in order to prevent these risks and provide protection for customers.

#### Focus on full regulatory compliance

For Länsförsäkringar AB, it is essential to apply full regulatory compliance and opti-

mally prevent the operations from being utilised for corruption, fraud, money laundering or terror financing. The company makes extensive efforts to limit these risks.

The guiding governance documents are the Code of Conduct for Employees, policies for employees' private transactions, policies and guidelines on anti-money laundering and terror financing, guidelines for identifying and handling conflicts of interest, and policies on improper benefits.

Systematic work is conducted to reduce the risk of money laundering, terror financing and fraud, such as building up in-depth customer knowledge, active monitoring and transaction reporting. Suspicions of money laundering are reported to the Financial Intelligence Unit of the Swedish National Criminal Police.

#### Continuous risk assessment

The general risk assessment performed within the business operations forms the basis of the governance documents, procedures and other anti-money laundering and terror financing measures. The risk assessment is regularly evaluated and updated as required.

Länsförsäkringar AB's Compliance function monitors and checks compliance with procedures and guidelines. A new risk assessment is carried out when new products, services and distribution channels are introduced and re-organisations are implemented. The Länsförsäkringar Alliance has a shared system for reporting deviations.

All employees and contractors working in the banking and life-assurance operations must be familiar with the content of the governance documents and the relevant procedures for anti-money laundering and terror financing. All of these employees must also undergo mandatory training on the subject and receive additional training.

#### SwedSec licences

Länsförsäkringar Bank is a member of SwedSec, an organisation that seeks to ensure a high level of knowledge and regulatory compliance among employees of the financial market. It provides a licensing programme based on proficiency requirements and examinations, and has a disciplinary procedure in the event of violations. Länsförsäkringar has a total of 1,181 licence-holders in various professional categories, of whom 1,026 hold an active SwedSec licence. All of the approximately 600 advisors who provide investment advice have a SwedSec licence.

#### Code of Conduct for Employees

The Code of Conduct for Employees is a set of rules and guidelines on business ethics that provides guidance for employees, managers and Board members in the expected standards of conduct and behaviour in their day-to-day work according to Länsförsäkringar AB's vision, values, targets, strategies and external requirements. The policy on improper benefits provides more detailed guidance on external requirements.

 The Code of Conduct is available at [lansforsakringar.se/code-of-conduct](http://lansforsakringar.se/code-of-conduct)



## Anti-corruption

Länsförsäkringar AB takes a stand against all forms of corruption and improper benefits, which is stated in the Code of Conduct and the policy on improper benefits. The Swedish Anti-corruption Institute's (IMM) recommendations on gifts, rewards and other benefits in business are part of the policy on improper benefits. The overall aim of Länsförsäkringar AB's anti-corruption work is to guide employees in avoiding giving and receiving gifts and representation that could arouse suspicions that the purpose is for private gain or promoting the interests of a third party.

The Compliance function regularly performs a risk and vulnerability analysis at Länsförsäkringar AB and its subsidiaries to evaluate the risk of bribery or other forms of improper influence. The areas addressed are the operations of each company, size

and organisation of each company, market, customers, distribution channels, partners, sponsoring and purchasing.

The result of the 2017 risk and vulnerability analysis showed that Länsförsäkringar AB and its subsidiaries are at low risk of being exposed to bribery.

## Annual e-courses

The annual e-course in the Code of Conduct for all employees contains teaching examples of business ethics to raise awareness and highlight the circumstances and the risks of corruption, and how employees are expected to act.

## Whistle blowing function

A whistle blowing procedure is open to all employees, customers, partners and other business associates to help counteract or stop crime or suspected crime in the busi-

ness activities or closely related to the business activities. Employees can contact their immediate manager or their manager's manager if they suspect any improprieties or wish to make a whistle blowing report. The informant has the right to anonymity and will not suffer any repercussions due to the report. The whistle blowing procedure is an alternative to other reporting channels. The Code of Conduct and intranet contain information about the whistle blowing procedure. The Head of Compliance did not receive any whistle blowing cases in 2017.

## Mandatory e-courses

	2017	2016
Number of employees trained in anti-money laundering (AML)	2,013	1,963
Number of employees who completed the e-course in Code of Conduct, safety and sustainability, %	82	*

\* No comparative figures for 2016 are available.

## 5. Responsible employer

### The aim of attracting and retaining skilled employees.

Employees are Länsförsäkringar AB's most important resource. They possess a variety of specialist and professional expertise that is vital to carrying out and developing the operations. Rapid technological advances in society require a dynamic, flexible and innovative workplace to meet competition. Länsförsäkringar AB's future focus area is to define and design a suitable culture and establish and implement this culture based on the perspectives of IT, location and people.

#### Focus areas for enhancing employer attractiveness

Diversity and equality, skills development, learning, health and work environment are deemed the key components of an attractive employer.

#### Diversity and equality

Diversity centres on business value and helps to strengthen competitiveness and increase profitability. Länsförsäkringar AB firmly believes that different thinking is a key factor for success for learning and innovation that results in new customers in new markets. Diversity initiatives also play an important role in being an attractive and responsible employer and broadening the recruitment pool.

Group management has established a definition of diversity and inclusion that

encompasses the seven basis of discrimination and everything that makes people different and unique. The importance of an inclusive culture is considered to be critical for benefiting from diversity and welcoming different perspectives and approaches.

A current and external diversity analysis was performed in 2017. Activities identified include continuing to raise awareness of diversity, incorporating diversity into cultural activities, empowering managers to work on diversity in their leadership, and reviewing business processes and procedures.

Several internal workshops and information meetings were arranged in 2017 to highlight the importance of diversity. A partnership was initiated with Novare Potential, a recruitment and staffing company with the aim of leading new arrivals into the Swedish job market. Other exam-

ples of partnership programmes include Rapid Acceleration Management, Korta vägen and Welcome Talent. Länsförsäkringar AB was involved in My Dream Now and Diversity Charter Sweden for the third consecutive year.

The equality and diversity plan includes the application of the Equal Opportunity Act and discrimination legislation, as well as targets, action plans and follow-up methods. 94% of employees said that they had not experienced any cases of victimisation or bullying in the workplace over the past 12 months. Länsförsäkringar AB has long maintained a clear zero tolerance stand-point on victimisation in its personnel policy.

A salary survey is performed every year to ensure that no gender discrimination exists for equal positions. The 2017 survey showed that Länsförsäkringar AB was generally performing well and the deviations that were identified (involving about 1% of employees) were adjusted in consultation with trade unions.

The aim of the recruitment process is to ensure a more even gender distribution in working groups and various managerial positions. Working groups with a 40/60 ratio of men and women achieved the target in the business plan of 28%. Work to ensure an even gender distribution will continue. Managers are encouraged to take a broad diversity perspective when recruiting.



All employees have the option of receiving supplementary salary as a complement to the state parents' allowance.

The Qnet network develops and coaches women managers as part of structured equality measures.

#### **Skills development and learning**

Employee skills are developed in accordance with Länsförsäkringar AB's objectives and the short and long-term needs of the operations. Länsförsäkringar AB intensified its competitiveness by continuously working on skills development and can manage the constantly changing business environment. Länsförsäkringar AB endeavours to nurture the conditions for a culture focusing on learning and development. All employees regularly discuss their performance, skills, work environment and health as part of the performance appraisal process.

Adaptability, self-organisation and professionalism have been identified as key components for Länsförsäkringar AB. An e-coaching tool has been developed in the areas of self-management, motivation, unpredictability, health, efficiency and skills development to enhance employees' knowledge of change management.

The internal training activities offer development opportunities and in-house courses in life assurance, banking, non-life

insurance and leadership training. In 2017, 4,399 in-house training courses were organised for the employees of Länsförsäkringar AB. Employees also received training in the form of skills transfers, external courses and seminars.

#### **Health and work environment**

Länsförsäkringar AB has applied a long-term approach to health and work environment, comprising the organisational, social and physical work environment as integrated parts of the operations, for many years. Proactive work is undertaken to create the conditions to ensure well-being and job satisfaction among employees in a healthy work environment that allows everyone to contribute their commitment, good performance and efficiency in order to attain business targets.

Every manager is responsible for addressing employee and health issues arising in their own work groups according to the systematic work-environment process, as well as equality, diversity and discrimination. A structure has been established for work-environment cooperation between employers, managers, employees and health and safety representatives. All organisational changes in the business are preceded by a risk assessment and are an explicit managerial responsibility. The

organisational and social work environment is regularly monitored to prevent stress and unhealthy work loads in accordance with the Swedish Work Environment Authority's provisions (AFS 2015:4).

The Work Environment and Equality Committee's monitoring process is based on a corporate perspective of the equality and diversity plan, sickness absence, occupational injuries and near-accidents, and the employee survey. Four minor occupational injuries and seven near-accidents were reported during the year. No cases of discrimination were reported.

Health care insurance is offered to all employees that includes medical consultations, counselling, preventive health services and rehabilitation. Sickness absence is continuously monitored. An agreement is in place with occupational health care services for rehabilitation support and work-related ill health, as well as ergonomic advice and regular medical check-ups. A "health care hour" with a wide range of exercise and well-being activities is offered during work hours. The staff canteen at Länsförsäkringar AB's own premises, where most employees work, incorporates sustainability by focusing on the environment and good health.

#### **Core values and governance documents**

Länsförsäkringar AB's core values, leader and employee profiles, personnel policy, Code of Conduct for Employees and the equality and diversity plan form the basis of HR. Cooperation with trade unions takes place through regular meetings and dialogue at organisational levels. External laws and regulations include the Employment Protection Act, the Work Environment Act and the collective and co-determination agreement. Länsförsäkringar AB follows the rules of collective agreements when employees leave the company or resign. All employees, except for Group management, have collective agreements.

#### **Metrics for measuring employer attractiveness**

Länsförsäkringar AB's internal attractiveness as an employer is measured using Employee Net Promotor Score (eNPS), a proven customer experience metric. Länsförsäkringar's score increased from 21 to 26 in the 2017 survey. The benchmark for the best companies was 29, which was the score for high-performing companies.



# Corporate social responsibility

95% of employees responded to this year's employee survey, and responded as follows:

	2017	2016
Believe that diversity in working groups is valued, %	84	81
Believe that Länsförsäkringar AB is an equal opportunity workplace, %	87	85
Believe that one's own skills are developed in line with changing work requirements, %	79	77
Believe that they have a reasonable stress level in their work, %	70	64
Believe that they have a good work/life balance, %	81	80

## Tangible results from long-term equality initiatives

Länsförsäkringar AB participates in the Nyckeltal institutet's (Institute of Human Resource Indicators) annual Gender Equality Index Jämix to monitor its equality efforts. Länsförsäkringar AB came 48th out of 215 companies. Nine different indicators were measured, with Länsförsäkringar AB achieving a score of 128 points out of a maximum 180. Scores for financial companies ranged between 96 and 134, meaning that Länsförsäkringar AB was above the average.



## Employee statistics Länsförsäkringar AB Group including Länsförsäkringar Liv

No. of employees	2017	2016
Permanent employees	1,847	1,759
of whom, men	777	730
of whom, women	1,070	1,029
New permanent employees recruited during the year	247	185
Permanent employees who have left and now work at another company in the Länsförsäkringar Alliance	9	13
Permanent employees who left during the year	170	125

Employee turnover, %	2017	2016
Permanent employees	9.7	7.2

No. of employees recruited during the year	2017		2016	
	Women	Men	Women	Men
0-30 years of age	35	32	23	17
31-40 years of age	31	45	27	35
41-50 years of age	41	35	41	22
51-60 years of age	12	12	13	7
61-	3	1	-	-
<b>Total</b>	<b>122</b>	<b>125</b>	<b>104</b>	<b>81</b>

All employees are full-time employees regardless of whether they work full or part-time. Employees who have children under the age of 12 can work part-time according to the industry's collective agreement.

Total no. of employees by age range	2017	2016
0-30 years of age	209	184
31-40 years of age	460	454
41-50 years of age	634	594
51-60 years of age	463	439
61-	81	88
Average age, women	44	44
Average age, men	44	44

No. of managers by age range	2017		2016	
	Women	Men	Women	Men
0-30 years of age	3	2	1	4
31-40 years of age	21	20	23	21
41-50 years of age	56	56	46	55
51-60 years of age	35	27	33	29
61-	1	5	-	5
<b>Total</b>	<b>116</b>	<b>110</b>	<b>103</b>	<b>114</b>
<b>Total</b>	<b>226</b>		<b>217</b>	

Average age of managers	2017		2016	
	Women	Men	Women	Men
Women			46	46
Men			47	46

Gender distribution among managers, %	2017		2016	
	Women	Men	Women	Men
Corporate management	57	43	50	50
Heads of department	53	47	48	52
Group managers and team leaders	50	50	47	53

Gender distribution among management and Board, number	2017		2016	
	Women	Men	Women	Men
President	5	5	4	6
Management teams <sup>1)</sup>	33	36	25	37
Board members <sup>2)</sup>	22	49	28	38

<sup>1)</sup> Includes union representatives.

<sup>2)</sup> Regular members including union representatives.

Sickness absence, %	2017		2016	
	Women	Men	Women	Men
Total sickness absence as a percentage of ordinary working hours			3.0	3.1
Percentage of total sickness absence that is long-term absence for consecutive period of absence of 60 or more days			45.1	44.4



## 6. Sustainability requirements on suppliers

### Sustainability requirements in the supplier chain.

Länsförsäkringar AB primarily makes purchases from service providers in the categories of IT and telecommunications, consultancy services, health and medical care, financial services, banking and investments, and marketing and communication. The Code of Conduct for Suppliers is based on the principles of the UN Global Compact.

#### Purchases mainly from service suppliers

Purchases are mainly made from suppliers in Sweden. IT purchases are made from suppliers operating in Sweden, but also other countries, such as India. 94 of the company's largest suppliers account for 80% of the total purchasing volumes, which allows for efficient delivery, sustainability and business follow-ups of suppliers.

Purchases mostly comprise services. The largest sustainability risk is deemed to be in the area of work conditions. Suppliers are expected to comply with Länsförsäkringar AB's Code of Conduct in which work condition requirements are a key part.

#### Code of Conduct for Suppliers

The purchasing and procurement policy stipulates the rules and methods for purchasing and procurement. The Code of Conduct for Suppliers has been included in purchasing agreements with all new suppliers since 2016. The Code is based on the Ten Principles of the UN Global Compact, and defines requirements regarding human rights, labour conditions, environment and business ethics. The policy also includes general and IT-specific security guidelines and guidelines for

managing conflicts of interest. Each agreement manager in the operations is responsible for monitoring suppliers.

 *The Code of Conduct for Suppliers is available at [lansforsakringar.se/code-of-conduct-suppliers](http://lansforsakringar.se/code-of-conduct-suppliers)*

#### Focus areas 2017

Continuous assessments of environmental and social risks related to country, line of business and company are carried out in procurement processes and meetings with major suppliers. A dedicated control group is responsible for monitoring, evaluating and managing the largest IT suppliers. Work conditions, business ethics and environmental impact were discussed with these suppliers in 2017 and no significant shortcomings were detected.

Independent medical examinations were introduced to claims adjustment for private health care insurance in 2015. When independent medical examinations were introduced, it was discovered that many of the operations carried out were not based on scientific best practice or proven experience. Work on independent medical examinations regarding health care providers

was further developed in 2017. Health care providers are continuously audited and evaluated to prevent the risk of patients receiving the wrong care.

#### Requirements on asset-management services and reinsurance companies

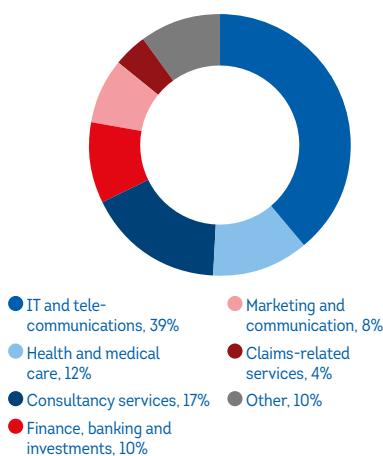
The Asset Management unit and Länsförsäkringar Fondförvaltning are responsible for procuring external asset-management services and managers. External managers are required to integrate sustainability into investment decisions and their engagement, all based on the United Nations-supported Principles for Responsible Investment (UN PRI). A description of activities with external managers is provided on page 14. Asset Management also monitors counterparties' codes of conduct.

Länsförsäkringar Sak also handles the Länsförsäkringar Alliance's reinsurance and underwrites assumed international reinsurance. Dialogue has been engaged with reinsurance companies since 2016 to encourage them to sign Länsförsäkringar AB's Code of Conduct for Suppliers or support the principles of the UN Global Compact.

#### Further development of supplier control

Work methods will be further developed as part of the continued work on implementing the Code of Conduct for Suppliers. The Code is included in all new agreements. Strategic contractual procedures will include a broader and deeper scope for sustainability dialogue. This includes assessing whether spot checks and audits with suppliers are required. A new risk analysis will be carried out.

#### Purchases in 2017



#### Monitoring suppliers, %

	2017	2016
Percentage of reinsurance companies that have signed the Code of Conduct and/or the UN Global Compact	80	74
Percentage of managers of Länsförsäkringar's own funds that have signed PRI	100	100
Percentage of managers engaged by Länsförsäkringar for managing listed assets in the institutional portfolios that have signed PRI	95	93
Percentage of Länsförsäkringar's recommended funds on the Fund platform that have signed PRI	100	98



## 7. Social commitment

### Contributing to claims-prevention activities and research.

Länsförsäkringar AB and the regional insurance companies have supported independent scientific research into security challenges for society for many years. Local social commitment is primarily pursued in the local regional insurance companies.

#### Research as part of our social commitment

Länsförsäkringar is driven by the concept of creating security for customers and society at large. Länsförsäkringar has been financing research into social, financial and physical security at Swedish colleges and universities since the 1970s.

#### Research focus – security for customers and society

Länsförsäkringar AB and the regional insurance companies award annual grants to Länsförsäkringar's Research Fund to identify and study current and future security challenges for society. Five focus areas are prioritised: Tomorrow's society, road safety, climate change, mutual business models and secure homes.

The Research Fund issues calls for proposals and the best scientists at Swedish universities, colleges and independent Swedish research institutions can apply for grants. These subsidies are awarded to projects at a qualified scientific level that are relevant to the subject of security and Länsförsäkringar's operations. Applications are studied by a committee comprising

members with experience from the business sector and academia. The Research Fund has granted financing of more than SEK 60 M to ten research projects since 2014.

#### Research results in the public domain

By making the research results available in the public domain, Länsförsäkringar contributes to knowledge-based development of security in society. Länsförsäkringar also applies the results to customers in its own operations.

#### Projects completed in 2017

The following research projects presented their final reports during the year.

#### Unprotected road-users

A study into parental attitudes to children and four-wheel drive vehicles was published in 2017. The study concluded that parents, particularly farmers with children on the farm, often overestimate children's driving ability and underestimate the risks. 40% of those injured in four-wheel accidents are children under 15. Länsförsäkringar used the study by contacting a broad range of customers, authorities and dealers to high-

light the risks and raise awareness in order to reduce the number of child injuries.

Bicycle helmets were tested using future methods under development in the EU. The test showed how the helmets offer protection against oblique impacts, known as "rotational injuries." It also revealed that the current testing standards are good but not yet designed to fully evaluate the type of impact causing the most serious injuries in bike accidents.

#### Flooding risks due to climate change

Coastal flooding is likely to increase in the future due to climate change. More model calculations and observations are thus needed to enhance understanding of regional changes to average and extreme water levels. The results of the "Flooding risks along the Swedish coast" research project concluded that there is a linear correlation between average and extreme water levels. This means that flooding caused by storms in today's climate can be added to the future regional average water level to see the future extreme water level. A simple correlation can be drawn between wind force and extreme water levels at various off-shore locations.

#### Home-owners' risk awareness, risk behaviour and willingness to pay

The aim of the research project was to increase knowledge of how home-owners' risk awareness, risk behaviour and willingness to pay in relation to expected climate

Research field	Project	Schedule
Tomorrow's society: Digitisation, urbanisation, sharing economy	The geography of trust: Trust in local society in a changing Sweden. Ersta Sköndal University College.	Start 2017 Final report 2019
	Regional growth against all odds: Driving forces for long-term growth in Nordic regions. Lund University.	Start 2017 Final report 2021
	Regional economic development and transformation in Sweden: Then, now and tomorrow. Lund University.	Start 2018 Final report 2020
Road safety	Wheel-bound, unprotected road-users. Swedish National Road and Transport Research Institute (VTI) Linköping.	Start 2015 Final report 2017
Adoption to climate changes	Flooding risks along the Swedish coast. Swedish Meteorological and Hydrological Institute (SMHI) Norrköping.	Start 2013 Final report 2017
	Lower climate risk in the buildings and homes of the future – lessons from past events and urban planning. Karlstad University.	Start 2015 Final report 2018
	Short and long-term consequences of home-owners' risk awareness, willingness to pay and risk behaviour for the insurance industry. Mid Sweden University.	Start 2015 Final report 2017
Mutual business models	Mutuality in the Swedish insurance model. Uppsala University.	Start 2016 Final report 2018
Secure homes	Nudging my future self: Behavioural economics studies of the financial decisions of young people. Linköping University.	Start 2016 Final report 2018



change could affect the insurance industry. The results showed that people are aware of climate change but are not particularly worried and do not do much to alter their home to a changed climate. Many are unsure about whether their insurance will cover any damage that may arise due to natural accidents caused by climate change. The results also stated that the Swedish public believes that the state, municipality and insurance companies have a greater responsibility than the private individual.

### Research into digitisation

Grants were awarded to two new research projects in 2017 that will enhance know-how about regional growth outside the large cities. This research will provide new knowledge on how processes of urbanisation are influencing growth outside the large cities and how technological changes are affecting more periphery areas, particularly as regards the transition from manufacturing industry to service industry as well as automation and digitisation.

The Research Fund will prioritise research into digitisation in its operations in 2018.

### Microinsurance in India

Länsförsäkringar AB has sponsored a microinsurance project in India since 2016 that aims to offer health insurance to low-income households (USD 2-5 per day). The project is taking place within the International Cooperative and Mutual Insurance Federation (ICMIF), a non-profit organisation of mutual insurance companies from around the world. Much of Länsförsäkringar AB's purchases of IT consultancy support are made from India, which means that the microinsurance project contributes to Indian society and is in line with the SDGs.



## 8. Long-term environmental work

### Preventive work to limit climate impact and reduce the use of resources.

Global warming and the resulting extreme weather events have huge socio-economic consequences. Länsförsäkringar takes preventive measures and exchanges know-how to reduce the risk of being affected by natural catastrophes.

### Greater risk due to global warming

Global warming is a financial risk for the insurance operations that is difficult to predict over time. A warmer climate, resulting in a greater risk of natural catastrophes in the form of extreme weather conditions such as hurricanes, torrential rain and drought, will entail a risk of higher payments for weather-related insurance claims, with considerable variations over years and parts of the country. In many respects, adjustment problems associated with managing financial risk and reducing the consequences of climate change present a new situation.

### National plan for preventing natural catastrophes

All of the 23 regional insurance companies have a plan for preventing natural catastrophes and a natural-catastrophe coordinator. Activities to prevent natural catastrophes include analysing the external environment and following scientific and technological developments. Länsförsäkringar provides information and also trains employees, customers, authorities and decision-makers to steer developments towards a more robust society. Claims-prevention measures are a vital component in these efforts, which take the form of advice to raise preparedness for the extreme

weather that occurs in Sweden. Advice is provided on how to best prepare property, forests, oneself and family to minimise the risk of damage.

### Preventive measures to reduce impact on the environment and use of resources

Länsförsäkringar can make a positive contribution to environmental impact in its claims-prevention activities and claims repairs. These measures are described under the Responsible insurance aspect on pages 17-18.

### Limited direct environmental impact

The direct environmental impact of the operations is relatively limited and primarily comprises business travel, heating and electricity in office premises, and paper print-outs.

There are guidelines for business travel, and digital meetings and rail travel, where possible, are recommended instead of air travel so as to reduce carbon emissions.

The volume of paper-based communication to customers can be reduced by increasing digital services, thus reducing



environmental impact while making information more accessible.

Länsförsäkringar AB's office properties are environmentally classified as energy-efficient and designed to promote health and sustainability, in line with the Sweden Green Building Council's certification scheme and the GreenBuilding system. One of the properties also holds the Silver rating under the Sweden Green Building Council's standard, due to the choice of energy, construction materials and indoor environment. Renewable electricity and district heating are used in these properties. Work methods are continuously reviewed to bring about more energy-efficient electricity consumption and heating, for example, by using the Green Fingerprint energy-savings app. Constant efforts are made to enhance efficiency in order to reduce the negative envi-

ronmental impact of the office operations in several areas as regards materials, recycling and waste.

## Sustainability policy

The sustainability policy outlines the foundation of Länsförsäkringar AB's climate and environmental work. The Code of Conduct for Suppliers is based on the principles of the UN Global Compact. Suppliers and their sub-suppliers are expected to comply with these principles and the Code is part of purchasing agreements. Länsförsäkringar supports the precautionary principle of the Swedish Environmental Code.

## Outcome 2017

Carbon emissions in 2017 increased compared with 2016 due to increased air travel, which was the largest source of carbon

emissions in 2017. Emissions from electricity consumption and district heating in the company's own operations increased in 2017 due to 300 employees moving in to office premises that were remodelled in 2016. The kitchen in the staff canteen was also renovated and expanded with more appliances so that more lunches can be served.

Activities are carried out to reduce carbon emissions and include, rail travel rather than car or air travel where possible and holding online meetings, video and telephone conferences instead of travelling.

A double climate compensation was paid in 2017 via Vi Agroforestry for the direct carbon emissions in Länsförsäkringar AB's operations in 2016.

## Carbon emissions in the operations

Sources of carbon emissions <sup>1)</sup>	CO <sub>2</sub> emissions, kg 2017	Consumption mWh 2017	CO <sub>2</sub> emissions, kg 2016	Consumption mWh 2016
District heating – properties and offices <sup>2)</sup>	121,310	1,619	85,708 <sup>3)</sup>	1,343 <sup>3)</sup>
Electricity consumption – operations	36,003	3,530	33,436 <sup>3)</sup>	3,278 <sup>3)</sup>
Electricity consumption – properties	11,150	1,093	10,983 <sup>3)</sup>	1,077 <sup>3)</sup>
Paper print-outs	4,607	13,243 kg	4,956	26,221 kg
<b>Total</b>	<b>191,122</b>	<b>6,255</b>	<b>107,692</b>	<b>5,138</b>

Sources of carbon emissions <sup>4)</sup>	CO <sub>2</sub> emissions, kg 2017	Km travelled 2017	CO <sub>2</sub> emissions, kg 2016	Km travelled 2016
Flights	620,426	5,284,022	556,816	4,465,921
Company car journeys	153,685	1,399,053	177,198	1,510,907
Private car journeys	32,635	265,322	29,257	230,368
Rail journeys	2	978,943	3	941,507
<b>Total</b>	<b>806,748</b>	<b>7,927,340</b>	<b>763,274</b>	<b>7,148,703</b>
<b>Total carbon emissions in the operations</b>	<b>997,870</b>		<b>898,357</b>	

Sorted waste for materials recycling	Recycled 2017	Recycled 2016
Corrugated cardboard	22,658 kg	14,595 kg
Office mixed paper	8,769 kg	16,960 kg
Metal	2,554 kg	3,713 kg
Fluorescent tubes	800 no.	– <sup>5)</sup>
Low-energy bulbs	300 no.	1,600 no.
Glass containers	3,851 kg	3,229 kg
Plastic	1,494 kg	– <sup>5)</sup>
Batteries	284 kg	– <sup>5)</sup>
Toner cartridges	65 kg	– <sup>5)</sup>
Untreated wood waste	2,000 kg	– <sup>5)</sup>
Electronic waste	5,117 kg	6,393 kg

<sup>1)</sup> Scope 2 under the GHG Protocol.

<sup>2)</sup> Degree day adjusted figures used to calculate district-heating usage.

<sup>3)</sup> In 2016, the operations moved into an additional property. Figures are recalculated for 2016.

<sup>4)</sup> Scope 3 under the GHG Protocol.

<sup>5)</sup> No figures available for 2016.

# Sustainability governance

Integrating sustainability into the operations is a priority for Länsförsäkringar AB. Länsförsäkringar AB's sustainability work is based on the vision of "Together we create security and opportunities." Sustainability is to feature throughout the operations.

## Governance of sustainability activities

Länsförsäkringar AB's Board assumes the overall responsibility for governing sustainability activities and decides on the policies that form the basis of such work.

A Sustainability Committee, comprising Group management and the Head of Sustainability, meets at least four times a year to discuss and decide on priority sustainability issues.

A Head of Sustainability for Länsförsäkringar AB was recruited in 2017 who is responsible for the function, governance and standardisation of sustainability at the company.

A coordination group for Responsible Investments addresses company engagement, with representatives from Asset Management, Länsförsäkringar Fondförvaltning and the Head of Sustainability. There is also a Committee for Responsible Investments with representatives from Länsförsäkringar Fondförvaltning, Länsförsäkringar Fondliv, Länsförsäkringar Sak, Länsförsäkringar Liv and Asset Management, who decide on company exclusions. A joint coordinating body is also in place that has representatives from Länsförsäkringar Bank, Länsförsäkringar Fondförvaltning, Länsförsäkringar

Fondliv, Asset Management and the Head of Sustainability discuss and decide on sustainability strategies for the fund range on the fund platform. Länsförsäkringar Sak has a sustainability group that coordinates the sustainability activities of the various business areas.

## UN initiatives provide sustainability framework

Länsförsäkringar AB is a signatory of the UN Global Compact's Ten Principles on human rights, labour, environment and anti-corruption and seeks to ensure that the operations comply with these principles. Länsförsäkringar AB has also signed the United Nations-supported Principles for Responsible Investment (PRI), which, together with the Global Compact, forms the basis of the owner policy. Länsförsäkringar Sak is a signatory of the UN Principles for Sustainable Insurance (PSI).

## Governing policies and guidelines

The sustainability policy includes the eight priority sustainability aspects and aims to provide managers and employees with guidance in their daily sustainability work. The policy also outlines environmental con-

siderations and the precautionary principle. Alongside the sustainability policy, Länsförsäkringar AB also has several other policies and guidelines that describe sustainability governance and focus, targets, activities and monitoring.

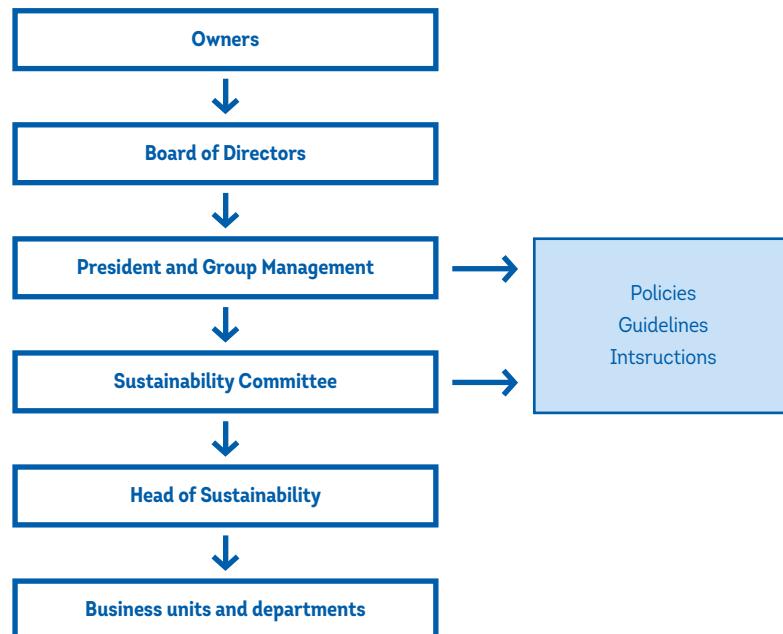
All employees are to complete an e-course in the Code of Conduct, safety and sustainability every year.

Policies and guidelines are revised annually. Self-assessments and operational procedures are applied for the ongoing monitoring of compliance with these policies and guidelines.

### Sustainability-related policies

- Sustainability policy
- Code of Conduct for Employees
- Personnel policy
- Equality and diversity plan
- Corporate governance policy
- Purchasing and procurement policy
- Code of Conduct for Suppliers
- Policy on employees' private transactions
- Policy on anti-money laundering and terror financing
- Guidelines on identifying and managing conflicts of interest
- Policy on improper benefits

## Governance of sustainability activities



## Overview of partnerships and memberships

### Global Compact

An UN initiative for businesses with ten principles on human rights, labour, environment and anti-corruption.



Länsförsäkringar is a member and submits annual reports on the implementation of these principles to Global Compact.

### SNS

The Centre for Business and Policy Studies (SNS) is an independent think tank that brings together the worlds of academia, business and government for knowledge-sharing and dialogue on key societal issues.

### NMC

The Swedish Association for Sustainable Business (NMC) is a professional association and cross-industry platform for sharing of knowledge on running a sustainable business, contributing to sustainable development.

Länsförsäkringar is a member.

Länsförsäkringar is a member.

## Investments

### PRI - Principles for Responsible Investment

A UN initiative of six principles for investors concerning the integration of sustainability into investment decisions, engagement and partnerships.



Länsförsäkringar is a member and submits annual reports on the implementation of these principles to PRI. Länsförsäkringar also participates in investor initiatives to influence other companies and stakeholders in sustainability issues.

### Swedish Investment Fund Association

A trade organisation whose purpose is to look after the collective interests of fund management companies and fund savers alike.

Länsförsäkringar is a member of the Ethical Committee for Fund Marketing and the working group on corporate governance and responsible investments.

### Institutional Owners Association

The Institutional Owners Association for Regulatory Issues in the Stock Market is a partnership between pension funds, AP national pension funds, insurance companies and fund companies. The association was founded to facilitate cooperation on developing best practice in corporate governance and the Swedish Corporate Governance Code.

Länsförsäkringar is an active member. During the year, Länsförsäkringar participated in a working group on industry-wide requirements for incentive programmes.

### Swesif - The Swedish forum for sustainable investments

An industry-wide association for sustainable investments that seeks to increase information and has developed a sustainability declaration for funds.

Länsförsäkringar is an active member and served on the board until May 2017. Länsförsäkringar was involved in the working group for developing the sustainability declaration for funds.

### CDP

An initiative whereby one hundred large asset managers require the largest listed companies in the world to report their emissions of greenhouse gases and other data on how they are managing climate challenges.

Länsförsäkringar is a signatory and encourages companies to report their climate impact to CDP.

### Hållbart värdeskapande

Hållbart värdeskapande ("Sustainable Value Creation") is a collaborative project comprising 17 of Sweden's largest institutional investors and Nasdaq Stockholm, with the aim of highlighting the importance of working with sustainability issues in a structured manner.

Länsförsäkringar is an active member.

## Banking

### Swedish Financial Coalition against Commercial Sexual Exploitation of Children

The Financial Coalition is a partnership between banks and Ecpat to prevent the Swedish payment system from being abused for the purchase of child pornography and trafficking of children for sexual purposes, and also to influence public opinion on such criminal activity.

Länsförsäkringar is a member of the board.

### Swedish Bankers' Association

An association of banks in Sweden whose tasks include spreading knowledge about banks and their important role for growth and welfare in society. A sustainability overview on banks' lending has been published through the Association.

Länsförsäkringar is a member of the board.

## Insurance

### PSI - Principles for Sustainable Insurance

A UN initiative of principles on integrating sustainability into insurance offerings.



Länsförsäkringar has been a member since the end of 2016. The first report will be submitted to PSI in 2018.

### Insurance Sweden

An industry organisation working to promote good business conditions for the insurance industry and to increase confidence in the industry and knowledge of the importance of private insurance in society.

Länsförsäkringar is a member of the board and several committees.

### ICMIF - International Cooperative and Mutual Insurance Federation

A body of mutual insurance companies that exchanges information and experience among its members on topics including sustainability.

Länsförsäkringar is an active member and supports such ICMIF projects as microinsurance in India.

### AMICE - Association of Mutual Insurers and Insurance Cooperatives in Europe

A body of European insurance companies that exchanges information and experience among its members on topics including sustainability.

Länsförsäkringar is an active member.

### Eurapco

An alliance of eight insurance companies working in 18 countries with 40 million customers. The members exchange information and experience.

Länsförsäkringar is an active member of several committees.

### Kyoto Statement of the Geneva Association

An initiative that encourages the world's insurance companies to work together with customers, policy-makers and industry colleagues to help reduce environmental impact. The Geneva Association, which has existed for 40 years, has a global partnership on economic, political and social issues in the insurance industry.

Länsförsäkringar is a signatory.

# Global Reporting Initiative

Länsförsäkringar AB's 2017 Sustainability Report, prepared annually, was inspired by the Global Reporting Initiative (GRI) G4 for transparency and comparison between companies and over time.

Länsförsäkringar AB's Sustainability Report for the period 1/1-31/12-2017 has been inspired by the Global Reporting Initiatives' G4 Sustainability Reporting Guidelines (Core option). The Financial Services Sector Supplement (FSSS) is included. The Report describes our work on the most material sustainability aspects. With the new materiality analysis scheduled for 2018, Länsförsäkringar AB plans to enhance its sustainability reporting with the aim of fully complying with the requirements of the new GRI Standards in future reports. The Sustainability Report has not been audited by a third party. The information refers to the Länsförsäkringar AB Group, unless otherwise stated. The Sustainability Report, together with the Annual Report, is to pro-

vide a fair indication of Länsförsäkringar AB's financial, environmental and social performance and earnings. The content has been defined based on an analysis of material sustainability issues within the operations and Länsförsäkringar AB's ability to provide disclosures. This Report is also a "Communication on Progress" for the UN Global Compact. The 2016 Sustainability Report was published in March 2017.

## Questions about this Sustainability Report

Submit any questions regarding this Sustainability Report to the Head of Sustainability at Länsförsäkringar AB, Christina Hillesøy, via e-mail: [christina.hillesoy@lansforsakringar.se](mailto:christina.hillesoy@lansforsakringar.se).

Aspects	Material impact
Responsible investments	Internal and external
Responsible banking offering	Internal and external
Responsible insurance offering	Internal and external
Regulatory compliance	Internal
Responsible employer	Internal
Sustainability requirements on suppliers	Internal and external
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# Board of Directors' Report

The Board of Directors and the President and CEO of Länsförsäkringar AB (publ), Corporate Registration Number 556549-7020, hereby submit the Annual Report and consolidated financial statements for the 2017 fiscal year.

## Ownership and Group structure

Länsförsäkringar AB is wholly owned by the 23 regional insurance companies and 16 local insurance companies.

Länsförsäkringar AB is the Parent Company of Länsförsäkringar Sak Försäkrings AB (referred to below as Länsförsäkringar Sak) with subsidiaries, Länsförsäkringar Bank AB (referred to below as Länsförsäkringar Bank) with subsidiaries and Länsförsäkringar Fondliv Försäkrings AB (referred to below as Länsförsäkringar Fondliv).

Länsförsäkringar Liv Försäkrings AB (referred to below as Länsförsäkringar Liv) and its subsidiaries are wholly owned by Länsförsäkringar AB but are not consolidated in the consolidated financial statements since the company is operated in accordance with mutual principles and its surplus accrues to the policyholders.

## Focus of operations

Länsförsäkringar AB has three primary tasks: to conduct business activities in banking, non-life insurance, pension and life assurance; to provide business service to the regional insurance companies in areas in which economies of scale and efficiency

arise, and to conduct Länsförsäkringar's joint strategic development activities.

The business activities are carried out in the Non-life Insurance, Banking and Life Assurance business units, whose task is to conduct business and assume responsibility for direct product-related support to the regional insurance companies. The financial control is primarily based on the owners' yield requirements and risk tolerance. The business activities are conducted to generate a profit so that the company can pay competitive returns on equity. Business service and Länsförsäkringar's joint development activities are conducted in the support functions of the Business Support unit. The accounting, capital planning and Group controller functions are part of the Finance unit. The Asset Management unit manages the Parent Company's and insurance operations' investment portfolios. The Customer and Channel Support unit is responsible for ensuring that the regional insurance companies have the prerequisites for delivering highly valued digital and physical customer meetings. The IT unit is responsible for the IT operations conducted within the Länsförsäkringar AB Group and the IT operations that Länsförsäkringar AB outsources to external suppliers.

## Significant events during the year

During the year, Länsförsäkringar Sak completed its work to transfer part of the accident and health insurance business for adults to the regional insurance companies.

Following Länsförsäkringar's business model, a decision was made in 2015 to transfer the product since it was deemed to have reached the desired level of volume, profitability and stability. The transfer involves an active insurance business line and in 2017 Länsförsäkringar Sak received SEK 260 M in remuneration from the regional insurance companies. The claims portfolio was transferred on 1 December 2017 after gaining approval from the Swedish Financial Supervisory Authority.

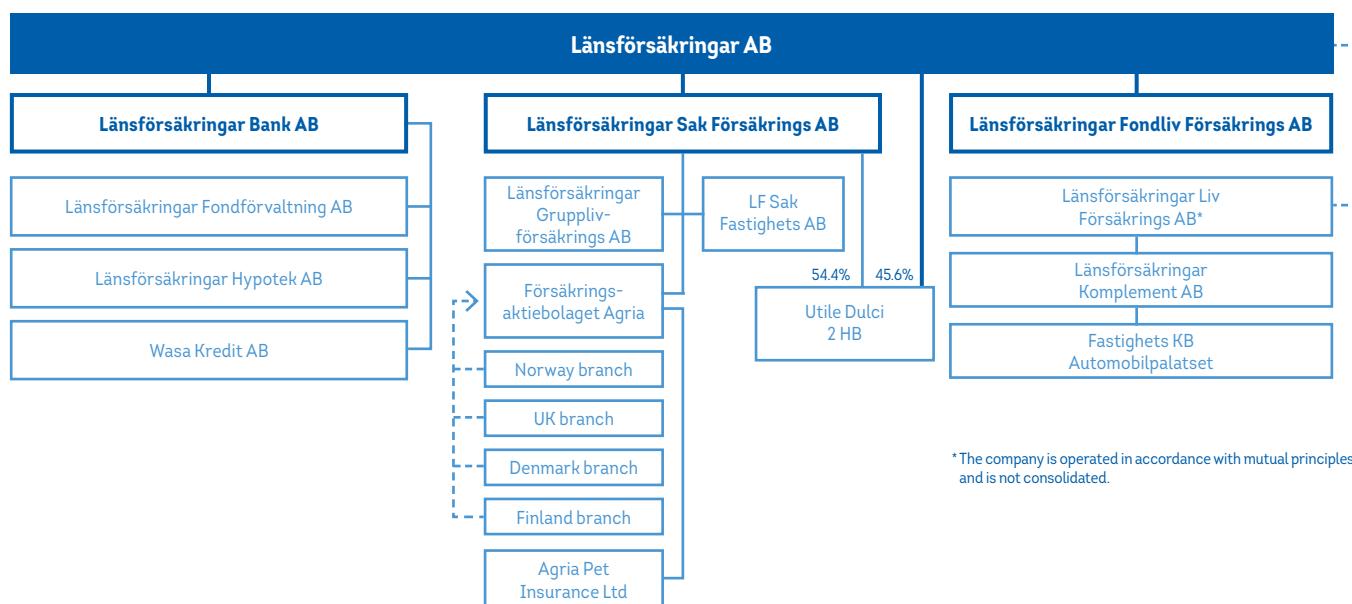
A new long-term business plan for Länsförsäkringar AB was produced in 2017 to define how Länsförsäkringar AB can become even better at helping each regional insurance company to best leverage the strength of the entire Länsförsäkringar Alliance in an increasingly digitised world.

**Significant events after balance-sheet date**  
On 2 February 2018, Johan Agerman left his position as President and CEO of Länsförsäkringar AB. In connection with this, Sören Westin was appointed President and CEO of Länsförsäkringar AB

## Expectations regarding future development

Rapid technological advances are creating new conditions, while at the same time significant changes and innovation are needed to leverage the opportunities that are emerging. Digitisation, for example, is having a profound effect on the operations. Know-how, the technical environment and

## Länsförsäkringar AB Group structure, 31 December 2017



organisation must be adapted to support rapid developments so as to meet customers' changing requirements.

Customers demand relevance, flexibility and availability. Accordingly, developments are best driven forward with a high level of customer involvement. Active development of internal processes and employee system support is also needed to create the types of customer meetings expected.

In the past, customers based their selection of company on price and product, but nowadays an equally important factor is, for example, a user-friendly app that makes everyday transactions easy. As digitisation increases so do opportunities for packaging the right products and services for customers - understanding the customer's situation and lifestyle choices and offering solutions that cater to these needs are, therefore, essential for winning customer trust and loyalty. For this reason, Länsförsäkringar is pursuing its activities towards achieving the target of being the industry leader in digital services.

The macroeconomic conditions are of great importance to continued developments in the banking and insurance industry, as are politicians' efforts to protect consumers and increase stability in the financial system. The pursuit of transparency and stability entail continued pressure on regulating companies, which in turn imposes demands on Länsförsäkringar to rapidly adapt the operations and convert regulatory requirements into business advantages and even more satisfied customers.

Sustainability is a fundamental element of future developments, and has played a part in Länsförsäkringar's operations since the very beginning when the first regional insurance company was founded more than 200 years ago. Länsförsäkringar's products and services must not only strengthen the business but must also contribute to the sustainable development of society. Work began in 2017, and will continue in 2018, on comparing Länsförsäkringar AB's operations with the UN Sustainable Development Goals.

## **Earnings and financial position**

### **Group earnings**

Operating profit for the Länsförsäkringar AB Group increased to SEK 2,825 M (2,286). The return on equity amounted to 11% (10).

Operating profit for the non-life insurance operations increased to SEK 1,028 M (644). Premiums earned after ceded reinsurance rose 5% to SEK 5,623 M (5,342), and the combined ratio improved to 88% (92), partly due to run-off gains.

The Bank Group's operating profit increased to SEK 1,599 M (1,467), primarily due to strengthened net interest income. Net interest income rose 15% to SEK 3,996 M (3,464) attributable to increased volumes and lower refinancing costs.

Managed assets in the unit-linked insurance operations increased 12% to SEK 128 billion (114), mainly the result of a high value growth trend, but also a positive net inflow. Operating profit strengthened to SEK 600 M (512).

The Group's investment return attributable to the insurance operations' and Parent Company's assets amounted to 4.3% (4.5). Properties, which totalled 23% (21) of the investment assets at the end of the year, yielded the highest return contributing 2.8 percentage points (2.9) to investment return. This was mainly driven by positive changes in the market value of property holdings. In the fixed-income portfolio, which contributed a total of 0.7 of a percentage point (1.3), mainly US credits had the most positive contribution. The contribution from equities was a positive 1.0 percentage point (0.6), while the contribution from currencies remained slightly negative.

### **The Group's capital situation**

The Länsförsäkringar AB Group's equity increased SEK 2,328 M during the year to SEK 24,857 M. The Länsförsäkringar AB Group is a financial conglomerate. The Group's companies are encompassed by group solvency regulations in accordance with legislation on financial conglomerates, legislation on insurance operations and legislation on banking operations.

Länsförsäkringar AB and its insurance subsidiaries have had permission from the Swedish Financial Supervisory Authority since May 2016 to calculate the capital requirement for insurance operations using a partial internal model. This means that capital requirements are calculated based on a model that reflects the composition of Länsförsäkringar AB's business operations and thus the actual risk profile.

At 31 December 2017, surplus capital for the Länsförsäkringar AB Group under the rules on financial conglomerates was SEK 10.7 billion, up SEK 0.5 billion during the year. Own funds amounted to SEK 44.2 billion and the capital requirement to SEK 33.4 billion. The capital situation under the rules on insurance operations commensurated with the capital situation under the rules on financial conglomerates on 31 December 2017.

The rules for calculating capital requirements for financial conglomerates and for

groups under the insurance rules have been re-interpreted since the transition rules for capital requirements in the banking operations ceased to apply on 1 January 2018. In these calculations, Pillar II requirements for the banking operations are now treated as capital requirements. In previous calculations under the rules on financial conglomerates, the Pillar II requirements were considered only as a hindrance to the transferability of capital between legal entities. This re-interpretation is consistent with the Financial Supervisory Authority's view on capital requirement calculations for the banking sector in financial conglomerates, published on 13 February 2018.

The Common Equity Tier 1 capital ratio for consolidated situation\* (the group encompassed by the group rules for banking operations) was 23.3% on 31 December 2017, up 2.1 percentage points for the year.

\* The Länsförsäkringar Bank Group consolidated with Länsförsäkringar AB and the property company Utile Dulci 2 HB.

After the European Banking Authority published an opinion on an interpretation in November 2017, the calculation of own funds for the consolidated situation under the group rules for banking operations has been re-interpreted. This re-interpretation entails that own funds instruments externally issued by Länsförsäkringar Bank cannot be fully included in own funds, but only to the portion of capital required to cover the capital requirements of Länsförsäkringar Bank AB and its subsidiaries. Accordingly, eligible Tier 1 capital amounted to SEK 944 M (1,200) and eligible Tier 2 capital to SEK 2,163 M (2,592) on 31 December 2017.

On 9 October 2017, Länsförsäkringar AB had repaid its bond loan of SEK 1.7 billion and the Medium Term Note programme had matured. The loan was not refinanced.

The Board of Länsförsäkringar AB proposes that the General Meeting resolve to pay a dividend of SEK 300 M to the owners. This proposal should be viewed in light of the Länsförsäkringar AB Group's capital situation having strengthened in recent years.

The capital situation of the Group and its insurance subsidiaries according to Solvency II is described in greater detail in the Länsförsäkringar AB Group's Solvency and Financial Condition Report. An updated report on the capital situation on 31 December 2017 will be published on Länsförsäkringar's website in June 2018.

### **Parent Company earnings**

Profit after financial items for the Parent Company amounted to SEK 1,638 M (453).

Net profit for the year was positively impacted by dividends and Group contributions of SEK 750 M (-) from Länsförsäkringar Fondliv and SEK 1,130 M (630) from Länsförsäkringar Sak. Net sales amounted to SEK 2,948 M (2,894).

#### Proposed appropriation of profit

According to the statement of financial position for Länsförsäkringar AB, non-restricted

equity totalling SEK 12,578,048,469 is at the disposal of the Annual General Meeting.

#### The Parent Company's non-restricted equity comprises (SEK)

Share premium reserve	5,470,917,955
Fair value reserve	1,210,129
Retained earnings	5,481,336,248
Net profit for the year	1,624,584,138
<b>Non-restricted equity, 31 December 2017</b>	<b>12,578,048,469</b>

The Board of Directors proposes that of the unappropriated earnings in the Parent Company SEK 28.75 per share be paid to the shareholders, a total of SEK 299,706,733, and that SEK 12,278,341,737 be carried forward, of which SEK 5,470,917,955 to the share premium reserve.

## Non-life insurance business operation

The Non-life Insurance business unit is responsible for the non-life insurance operations, which have been assigned to Länsförsäkringar AB by the regional insurance companies.

Its role is to complement the regional insurance companies' offering with specialist products to meet customer needs, to start new business that can be channelled through the regional insurance companies and to manage the Länsförsäkringar Alliance's total reinsurance cover.

Non-life insurance is divided into the following three business areas: Agria (pet insurance), Business Area Health and Business Area Reinsurance and Special Insurance, and business activities are conducted in Länsförsäkringar Sak and its subsidiaries. Länsförsäkringar Sak underwrites health care, accident and health and commercial special insurance and international reinsurance, and manages the Länsförsäkringar Alliance's overall reinsurance cover. Länsförsäkringar Sak also conducts annuities operations. Länsförsäkringar Sak's subsidiary Länsförsäkringar Grupplivförsäkringsaktiebolag underwrites group life assurance and occupational group life assurance. The subsidiary Försäkringsaktiebolaget Agria is specialised in pet and crop insurance. This specialisation involves a streamlined focus on and involvement with animals and their owners. Agria's international operations are conducted in branches in the UK, Norway, Denmark, Finland and in an administration company in the UK, Agria Pet Insurance Ltd.

#### Earnings and financial position

Operating profit for the Länsförsäkringar Sak Group increased to SEK 1,028 M (644) and the combined ratio improved to 88% (92). The technical result for the insurance operations improved to SEK 977 M (435). Claims payments after ceded reinsurance amounted to SEK 3,764 M (3,793) and the claims ratio improved to 67% (71). The expense ratio was unchanged at 21% (21).

Operating profit and the claims ratio for the year were generally affected by run-off gains following the review of provision for claims payments in prior years, but with varying effects in individual business lines. The transfer of the claims portfolio for part of the accident and health insurance business to the regional insurance companies in the fourth quarter also contributed to the run-off gains. First-quarter profit was also positively impacted by SEK 260 M in remuneration for the part of the accident and health insurance business that was transferred from Länsförsäkringar Sak to the regional insurance companies. Profit in the fourth quarter was affected by goodwill impairment of SEK 179 M from the previous acquisition of the personal-risk business.

Premiums earned after ceded reinsurance increased 5% to SEK 5,623 M (5,342). Premiums earned increased despite the regional insurance companies renewing accident and health insurance policies for adults from 2017. The increase was due to portfolio growth and premium increases in Agria, previous premium increases in health care insurance and new agreements in liability insurance.

The Länsförsäkringar Sak Group's investment return amounted to 4.5% (4.5). Properties, which totalled 27% (23) of the investment assets at the end of the period, yielded the highest return contributing 3.6 percentage points (3.5) to the investment return. The fixed-income portfolio, which has a short duration, had a positive effect of 0.9 percentage points (0.9) on the return. The equities portfolio reported a positive performance and contributed 0.3 percentage points (0.0), whereas contributions from currencies were slightly weaker compared with the preceding year.

#### Agria

Agria's technical result amounted to SEK 279 M (288). Horse insurance posted weaker earnings, while earnings for Agria's UK

operations improved. Profit in the preceding year also included slightly higher run-off gains. Agria's largest business line in terms of volume - pet insurance - continued to deliver stable, positive earnings.

Premiums earned amounted to SEK 3,136 M (2,891). The Swedish operations continued to deliver stable growth, mainly in cat, pet and horse insurance. Agria launched new dog insurance policies customised for 423 different breeds on 1 April. Focus on cat insurance is continuing and a new collective veterinary-care insurance for cat shelters was launched at year-end. Agria is the benchmark and market-leader in the pet insurance segment in both Sweden and Norway. The operations in Norway continued to display a stable trend with higher business volumes. More companies consider pet insurance to be an attractive niche in the insurance industry and the offering in the Norwegian market is increasing. The Danish operations also posted a stable, positive volume growth. Horse insurance was launched in Denmark with strong, initial sales. Profitability improved in the UK and awareness of the Agria brand improved during the year and the portfolio grew significantly. Länsförsäkringar is closely following developments after the UK referendum to leave the EU and is making preparations for changes that may be needed due to altered business conditions that may arise in connection with Brexit. Work on establishing operations in France started during the year.

#### Health

The technical result amounted to SEK 461 M (224). Earnings for health care insurance strengthened as a result of previous premium adjustments and quality enhancements in claims adjustment. The part of the accident and health insurance business that was not transferred to the regional insurance companies reported improved earnings, mainly as a result of higher run-off

losses in the preceding year. Changes to product content and premium adjustments are expected to further improve earnings for health insurance in 2018.

Premiums earned amounted to SEK 1,527 M (1,538). Länsförsäkringar remains the market leader in health care insurance and sales performed well during the year. Sales of the Bo Kvar insurance policy, distributed in cooperation with Länsförsäkringar Bank, also performed strongly. This policy provides financial protection in the event of death, illness or unemployment and is an important component in providing financial security to mortgage customers. Digital services were developed during the year, mainly focusing on data-driven marketing, customer care and services with offers for the Bo Kvar and health care insurance. A new purchasing service for Bo Kvar was launched in November, allowing customers to take out home loan cover online.

#### **Reinsurance and Special Insurance**

Länsförsäkringar Sak supplements the regional insurance companies' offering to corporate customers with specialised liability, cargo, motor, property and credit insurance. Länsförsäkringar Sak manages the Länsförsäkringar Alliance's joint reinsurance cover and internal Alliance reinsurance with a number of pool solutions. The internal reinsurance and the reinsurance cover jointly procured for the Länsförsäkringar Alliance is a major asset for Länsförsäkringar and its customers. The system ensures a stable solution at low cost by distributing risk within the Länsförsäkringar Alliance and procuring external cover for large claims. Länsförsäkringar Sak also underwrites a highly diversified portfolio in internationally assumed reinsurance.

The technical result for Reinsurance and Special Insurance amounted to SEK 9 M (loss: 41). Cargo insurance continued to deliver stable, positive earnings and also benefited by run-off gains. Liability insurance and assumed international reinsurance posted negative earnings due to strengthening of prior years' reserves. Earnings for assumed international reinsurance were also impacted by major natural disasters, which resulted in slightly higher claims costs from hurricanes in the Caribbean and southern US.

Premiums earned amounted to SEK 961 M (913). The premium portfolio in liability insurance performed positively due to several new agreements. The legal situation for professional indemnity insurance for life-assurance brokers remains uncertain. Länsförsäkringar Sak ceased underwriting new liability insurance for life-assurance

brokers in 2014 and has taken the case to court to clarify the legal situation. Rulings on the cases before the European Court of Justice to be considered against the EU Directive, on which Swedish law is based, have not yet been handed down. After the European Court of Justice has heard these cases, they will be considered by a Swedish court for a final ruling. Rulings are expected in the first half of 2018. Sales of seller liability insurance, which provides cover for the ten years of liability for hidden faults that sellers of private residences have under the Swedish Land Code, are increasing in line with the growth of Länsförsäkringar Fastighetsförförmelding.

#### **Capital situation**

Länsförsäkringar Sak's capital situation is expressed and measured in accordance with Solvency II as a ratio of own funds in relation to risk-based capital requirements. Capital requirements for most market risks, non-life insurance risks in Länsförsäkringar Sak are calculated using an internal model, whereas other types of risk are calculated by applying the standard formula. Länsförsäkringar Sak's solvency ratio on 31 December 2017 fell to 221% (260). Länsförsäkringar Sak's own funds declined SEK 147 M during the year to SEK 3,306 M. Own funds strengthened by the high earnings during the year, but were negatively impacted at year-end by Group contributions paid and proposed dividends to the Parent Company totalling SEK 750 M, which led to a net decline in own funds. The capital requirement increased during the year by SEK 172 M to SEK 1,498 M, primarily driven by higher market risk as a result of the increased value of property holdings.

#### **Market**

The non-life insurance market is mature and premium income increased by just under 4% in 2017 according to statistics from Insurance Sweden.

Fewer and larger players continue to influence the direction of animal health care. A persistent challenge is rising costs for veterinary care, which is being managed through active engagement and dialogue with the entire veterinary sector. Agria carried out an investigation into pets together with the Swedish Kennel Club and Royal Canin during the year, with the results showing that the percentage of insured cats and dogs has increased compared with the previous study in 2012.

The market for accident and health insurance increased 4% in 2017 and Länsförsäkringar's market share remained unchanged at just over 20%. The market for personal-

risk insurance was affected by growing concern that social insurance in Sweden will be insufficient and greater household debt. Personal-risk insurance provides an important supplement for increasing financial security in the event of illness, accident, unemployment and death. Companies are eager to prevent illness and sickness absence since sick leave has huge consequences for both profitability and delivery. The health care insurance market is continuing to grow and competition in the market remains fierce, particularly in the market for medium-sized and large companies.

The government is preparing a fringe-benefit tax for health care insurance paid by the employer, which is expected to come into effect on 1 July 2018, and has referred a proposal to the Council on Legislation for consideration. It mainly entails a cost increase for the employee who is insured under health care insurance paid by the employer. The health care insurance market will be affected if the proposal becomes a reality.

In cooperation with Insurance Sweden, Länsförsäkringar has actively raised awareness of the function of health care insurance and the consequences that fringe-benefit taxation would have on individuals, companies and society. The vast majority of companies that have taken out the insurance are small companies with up to nine employees. Health care insurance fulfills an important, and sometimes crucial, role in keeping personnel healthy and at work. The issue of preventive health has also been pursued and how it is supported by health care insurance. There are many advantages to be had from both a financial and a human perspective for taking preventive measures and action at an early stage when the risk of long-term sick leave arises.

Competition remains fierce in cargo insurance, particularly in the large company segment. In liability insurance, the trend of an increasing number of players showing interest in the small and medium-sized businesses segment is continuing, thus intensifying competition.

The total reinsurance capacity in the international reinsurance market remained large, resulting in pressed price levels. Low interest rates for several years have attracted new players looking for alternative returns. Globally, 2017 was a high claims year with several natural disasters. Hurricanes in the Caribbean, an earthquake in Mexico and forest fires in California impacted profitability in the reinsurance market, which contributed to the stagnation of falling price levels and a slight increase in price levels in mainly the US market.

# Bank business operation

The Bank Group consists of the Parent Company Länsförsäkringar Bank, and the wholly owned subsidiaries Länsförsäkringar Hypotek, Länsförsäkringar Fondförvaltning and Wasa Kredit. Länsförsäkringar Bank is the fifth largest retail bank in Sweden with business volumes of SEK 520 billion. The banking operations are conducted only in Sweden and business volumes are continuing to grow in all product segments. The strategy is to offer banking services to the Länsförsäkringar Alliance's customers, which is based on Länsförsäkringar's strong brand and local presence through the customer-owned regional insurance companies. The banking operations have a large potential customer base with the Länsförsäkringar Alliance's 3.8 million customers. The main target groups are the 3.2 million retail customers, of whom 2.3 million are home-insurance customers. Other target groups are agricultural customers and small businesses. According to the 2017 Swedish Quality Index customer satisfaction survey, Länsförsäkringar Bank is the single player on the bank market with the most satisfied retail customers, an accolade that Länsförsäkringar Bank has won 12 times in the past 14 years. For the first time, Länsförsäkringar Bank was also named the single player with the most satisfied corporate customers and the player with the most satisfied mortgage and corporate customers for property loans. This is confirmation of the banking operations' clear customer focus and high quality.

## Earnings

The Bank Group's operating profit increased 9% to SEK 1,599 M (1,467), due to higher net interest income. Net interest income rose 15% to SEK 3,996 M (3,464) attributable to increased volumes and lower refinancing costs. The return on equity amounted to 10.0% (10.1).

Operating income included SEK 42 M in dividends received from the sale of the holding in Visa Europe. Net losses from financial items amounted to SEK -49 M (gains: 68) due to unrealised changes in the market value of financial items. Net commission amounted to SEK -750 M (-662) due to increased remuneration to the regional insurance companies based

on healthy volume trend and the strengthened profitability of the business.

## Expenses

Operating expenses increased 14% to SEK 1,601 M (1,399), of which 7 percentage points was due to higher staff costs associated with additional personnel from Länsförsäkringar AB to the Bank Group's Business Service unit and the Economic Research Department, and the recruitment of new fund managers at Länsförsäkringar Fondförvaltning. The underlying cost increase amounted to 7% partly attributable to initiatives for future-oriented IT investments. The cost/income ratio before loan losses amounted to 0.49 (0.48).

## Loan losses

Loan losses amounted to SEK 58 M (38\*), net, corresponding to a loan loss level of 0.02% (0.02). Impaired loans, gross, amounted to SEK 278 M (240), corresponding to a percentage of impaired loans, gross, of 0.11% (0.11). Reserves totalled SEK 268 M (250), corresponding to a reserve ratio in relation to loans of 0.10% (0.11). In addition, SEK 88 M (130) of the remuneration to the regional insurance companies' credit-risk commitments for generated business is withheld in accordance with the settlement model. The reserve ratio in relation to loans, including withheld remuneration, was 0.14% (0.17).

\*The comparative figure includes dissolution of reserves of SEK 23 M.

## Market and business volumes

Business volumes increased 14% to SEK 520 billion (456). Lending improved 15% to SEK 261 billion (227) with continued high credit quality. Lending in Länsförsäkringar Hypotek increased 17% to SEK 198 billion (169). Deposits increased 9% to SEK 99 billion (91). The fund volume increased 15% to SEK 159 billion (138).

All loans are granted in Sweden, in SEK and have a well-diversified geographic distribution. The weighted average loan-to-value ratio of the mortgage portfolio, LTV, declined to 60% (61). The percentage of retail mortgages in relation to the total loan portfolio was at 76%. On 31 December 2017, the market share of retail mortgages had strengthened to 6.3% (5.8) according to Statistics Sweden.

Agricultural lending increased to SEK 27 billion (25). Agricultural lending primarily comprises first-lien mortgages to family-owned agricultural operations, and the average commitment was low at SEK 2 M on 31 December 2017. First-lien mortgages for agricultural properties, comprising 94% (93) of agricultural lending, accounted for the entire increase in agricultural loans and increased to SEK 25 billion (24). Agricultural lending is continuing to grow at a lower rate than other loans and its share of total loans is falling. Loans to small businesses totalled SEK 1.8 billion (1.5) on 31 December 2017. Lending in Wasa Kredit increased to SEK 22 billion (18).

## Funding

The Bank Group has a low refinancing risk and the maturity profile is well diversified. Debt securities in issue increased to a nominal SEK 183 billion (152), of which covered bonds amounted to SEK 147 billion (122), senior long-term funding to SEK 35 billion (29) and short-term funding to SEK 1 billion (1). The average remaining term for the long-term funding was 3.5 years (3.3) on 31 December 2017.

Covered bonds were issued during the year at a volume of a nominal SEK 39 billion (31), repurchased covered bonds to a nominal SEK 7 billion (8) and matured covered bonds to a nominal SEK 7 billion (8). Länsförsäkringar Bank issued senior unsecured bonds in the nominal amount of SEK 14 billion (8) during the year.

In March, Länsförsäkringar Hypotek issued a seven-year Euro benchmark-covered bond for a nominal EUR 500 M, and in September, Länsförsäkringar Bank issued a five-year senior unsecured Euro bond for a nominal EUR 500 M. The transaction was the first step of a long-term strategy to also build up an investor base in the Euro market for senior funding. In addition, Länsförsäkringar Hypotek issued two Swedish benchmark bonds during the year, LFH516 and LFH517, which mature in September 2023 and September 2024, respectively.

## Liquidity

On 31 December 2017, the liquidity reserve totalled SEK 48 billion (42). The liquidity reserve is invested in securities with very high credit quality that are eligible for

# Life-assurance and pension insurance business operations

transactions with the Riksbank and, where appropriate, with the ECB. By utilising the liquidity reserve, contractual undertakings can be met for more than two years without needing to secure new funding in the capital market.

The Group's Liquidity Coverage Ratio (LCR) for the consolidated situation according to the Swedish Financial Supervisory Authority's definition amounted to 202% (169) and according to the European Commission's delegated act to 339% (342) at 31 December 2017. The Net Stable Funding Ratio (NSFR) for the consolidated situation amounted to 116%\*\* (116) on 31 December 2017.

\*\*The calculation is based on Länsförsäkringar Bank's interpretation of the Basel Committee's most recent Net Stable Funding Ratio proposal. The comparative figure is 30 September 2017.

## Capital adequacy, consolidated situation

In accordance with the capital adequacy rules, the consolidated situation includes the parent mixed financial holding company Länsförsäkringar AB, in addition to the Bank Group.

## Capital ratio

Consolidated situation (SEK M)	31 Dec 2017	31 Dec 2016
IRB Approach	34,148	31,149
retail exposures	26,798	24,110
exposures to corporates	7,350	7,039
Standardised Approach	17,643	16,221
Operational risks	11,346	10,717
Total REA	64,379	59,513
Common Equity Tier 1 capital	14,992	12,617
Tier 1 capital	15,936	13,817
Total capital	18,100	16,409
Common Equity Tier 1 capital ratio, %	23.3	21.2
Tier 1 ratio, %	24.8	23.2
Total capital ratio, %	28.1	27.6

Länsförsäkringar offers pension savings, primarily occupational pensions. Fund management, guarantee management and personal-risk insurance are offered through Länsförsäkringar Fondliv. No new policies are underwritten in Länsförsäkringar Liv, but the company manages traditional life assurance that was taken out before it was closed in 2011. Länsförsäkringar Liv is operated according to mutual principles and is not consolidated in Länsförsäkringar AB.

### Länsförsäkringar Fondliv

#### *Earnings and financial position*

Operating profit for Länsförsäkringar Fondliv strengthened in 2017 to SEK 600 M (512), primarily due to increased income from growing managed assets.

Total managed assets increased SEK 14 billion to SEK 128 billion (114) on 31 December 2017. The increase was mainly the result of a high value growth trend due to a favourable stock-market climate, but also a positive net inflow from existing and new customers.

Total premium income increased 6% to SEK 9,133 M (8,637), of which capital transferred to the company accounted for SEK 1,444 M (1,321). Premium income after ceded reinsurance for insurance risk increased to SEK 198 M (173). Commission income, which is strongly linked to managed assets, increased to SEK 1,583 M (1,412).

Operating expenses rose to SEK 1,028 M (973), primarily due to higher distribution and administration expenses from increased business volumes. Investments were also made in digital development, such as the launch of a digital purchase service where self-employed persons can take out occupational pensions directly online.

### Capital situation

Länsförsäkringar Fondliv's capital situation is expressed and measured in accordance with Solvency II as a ratio of own funds in relation to risk-based capital requirements. Länsförsäkringar Fondliv's solvency ratio on 31 December 2017 amounted to 152% (150).

### Market and business volumes

Länsförsäkringar strives to offer comprehensible pensions that are considered to be secure and personal. The offering is mainly directed to small and medium-sized busi-

nesses and is distributed via the regional insurance companies and independent insurance brokers. The largest portion of Länsförsäkringar's new life-assurance sales is for pension solutions for companies that do not have collective agreements.

Premium income in the total life-assurance market amounted to SEK 262 billion in 2017, up 14% compared with 2016. Länsförsäkringar Fondliv's market share of the total life-assurance market is 3.5%. Länsförsäkringar Fondliv's total premium income as defined by Insurance Sweden amounted to SEK 9,133 M (8,645). Capital transferred, which is part of premium income, amounted to SEK 1,444 M (1,375). The individual occupational pension market for unit-linked insurance is Länsförsäkringar's main market. The sub-market accounted for 71% of Länsförsäkringar Fondliv's total premium income. Premium income via pension selection centres accounted for 11%, private insurance for 6%, endowment insurance for 6% and other occupational pensions for 6%.

Länsförsäkringar Fondliv's premium income for guarantee management amounted to SEK 592 M (425). Capital transferred strengthened premium income by SEK 103 M (144).

### **Occupational pensions – the largest market**

The occupational pension market is the largest sub-market, comprising 68% (69) of the total life-assurance market measured in premium income. The market grew 12% over the last year and amounted to SEK 180 billion. Länsförsäkringar Fondliv holds a market share of 5.3%, making the company the sixth largest.

### ***Individual occupational pensions with unit-linked insurance***

Far from all workplaces have collective agreements and thus employees need to obtain a different occupational pension. This is the case for many small businesses in industries that do not traditionally have a strong link with trade unions. Länsförsäkringar Fondliv is the leading unit-linked insurance company in this area. Premium income in this sub-market amounted to SEK 34 billion in 2017, up 9% compared with 2016. Länsförsäkringar Fondliv's market share amounted to 18.7%.

### **Transfer market**

Mobility in the total transfer market increased during the year and a total of SEK 31 billion was transferred compared with SEK 23 billion last year. Länsförsäkringar Fondliv reported a negative net transfer of SEK 672 M (neg: 285) for the year. Capital transferred to the company increased 9% during the year, while capital transferred from the company rose 32%, which is the reason for the lower net transfer amount.

### **Unit-linked insurance**

Slightly more than 90% of the funds in the total fund range performed positively in 2017. More than 50% of the funds increased by more than 10%, with no funds declining more than 10%. 2017 was a positive stock-market year that resulted in a favourable performance for many equities funds. Equities funds investing in Asia, small companies and technology reported the strongest trend. The performance of funds targeting commodities, Russia and certain hedge funds was weaker.

Both the scope and quality of Länsförsäkringar's fund range were expanded in 2017 as part of realising a new fund strategy of simplifications and greater choice for customers. More than 30 new funds from several different fund companies were launched. The funds in the recommended range are carefully analysed and assessed based on criteria including management organisation, return and sustainability.

### **Guarantee management**

Länsförsäkringar Fondliv offers management of pension insurance carrying a guarantee element regarding paid-in premiums. The guarantee principle is that the customer recoups premiums paid in to savings, but with the possibility of additional returns. Full guarantee, meaning "at least your premium back" applies for a minimum ten-year savings period. A sliding scale is applied to shorter savings periods, with the guarantee at 80% of paid-in premiums for periods of five to ten years until retirement, and a minimum of 70% of paid-in premiums with less than five years until retirement. The assets are divided between equity and interest-bearing investments, with the interest-

bearing portion always being at least 40% and the equities portion may be as low as zero. On 31 December 2017, 65% of the investments comprised interest-bearing investments and 35% equities.

Managed assets amounted to SEK 3.1 billion (2.9). The return rose to 6.0% (5.3). Both equity and interest-bearing investments made positive contributions to the total return.

### **Traditional life assurance in Länsförsäkringar Liv**

Länsförsäkringar Liv, which has been closed for new business since 2011, conducts traditional life assurance for its customers divided into four portfolios: New Trad, Old Trad, New World and Insured Pension. Total managed assets amounted to SEK 115 billion (116).

### **Earnings and financial position**

Profit for Länsförsäkringar Liv amounted to SEK 2,363 M (2,682). The positive earnings derive from a positive investment income in New and Old Trad, and transitions from Old Trad to New Trad, which continued to strengthen earnings through lower technical provisions.

Changes in market interest rates affect Länsförsäkringar Liv's earnings with rising market interest rates leading to lower liabilities to policyholders since future commitments are discounted with the market interest rate. However, the company can largely protect itself from interest-rate changes impacting earnings by matching assets and liabilities against each other. In 2017, about 80% of the interest-rate sensitivity of liabilities was matched, generating a positive earnings effect of about SEK 100 M when long-term market interest rates rose. The Swedish ten-year government bond rate increased by just under 25 basis points.

Liabilities to policyholders declined SEK 2.0 billion (1.2) during the period, primarily due to negative cash flows, meaning that payouts and external transfers exceeded premium payments. The assumption for future operating expenses was adjusted in 2017, which led to higher liabilities of SEK 685 M. The increase in the expense assumptions is because the company is closed for

new business and thus the insurance portfolio decreases over time, which is expected to lead to a slightly higher unit cost over time.

Operating expenses fell to SEK 417 M (447) in 2017, mainly due to lower development costs.

Investment income was positive for all management portfolios and totalled SEK 4.8 billion (6.0). New World contributed SEK 1.4 billion, which does not affect earnings and instead is transferred directly to the policyholders.

In December 2017, Länsförsäkringar Liv divested two property-owning subsidiaries to Humlegården Fastigheter AB (publ) (referred to below as Humlegården) in exchange for payment in newly issued shares in Humlegården and cash and cash equivalents. Based on this transaction, Länsförsäkringar Liv became the second largest owner of Humlegården with a holding of 11.6%. The transaction better diversifies Länsförsäkringar Liv's property exposure and provides an interest in a property portfolio that is deemed to be of high quality with great potential.

Länsförsäkringar Liv is operated according to mutual principles and is not consolidated in Länsförsäkringar AB.

### **Capital situation**

Länsförsäkringar Liv's capital situation is expressed and measured in accordance with Solvency II as a ratio of own funds in relation to risk-based capital requirement. Länsförsäkringar Liv's solvency ratio on 31 December 2017 increased to 207% (195).

Collective consolidation is calculated as the ratio between total capital and insurance capital. Collective consolidation on 31 December 2017 amounted to 117% (114) in New Trad and 123% (125) in Old Trad.

Länsförsäkringar Liv has worked actively on measures to strengthen the company's balance sheet and own funds for several years. A strengthened balance sheet provides the company with greater flexibility and opportunities to invest in asset classes with higher expected returns. These measures have resulted in equity strengthening from SEK 10.9 billion to SEK 24.4 billion between 2012 and 2017.

Transitions from Old Trad to New Trad also contributed to the strengthened capital situation in 2017. Such transitions to New Trad have strengthened own funds by a total of SEK 4.8 billion since 2013, of which SEK 0.4 billion in 2017.

#### **New Trad**

Länsförsäkringar Liv customers with traditionally managed insurance have had the opportunity to transition their existing insurance to New Trad since 2013. Transitions from Old Trad to New Trad involve lower fees and a reduction in the guaranteed rate. The reduced guarantee rate allows capital in New Trad to be invested in assets that have higher expected returns.

Managed assets in New Trad amounted to SEK 21 billion (18). Investments as at 31 December 2017 comprised 60% interest-bearing investments, 34% equities, 4% alternative investments and 2% properties. The total share of interest-bearing investments increased slightly in 2017. Investment return for New Trad amounted to 6.4% (4.3). The return was mainly attributable to equities investments, which contributed 5.5 percentage points.

The bonus rate on 31 December 2017 was 6% (4). The bonus rate was raised from 5% to 6% on 1 October 2017. The average bonus rate since New Trad started in 2013 has been 6.4%.

#### **Old Trad**

In Old Trad, Länsförsäkringar Liv manages capital of SEK 81 billion (85) on behalf of its customers. The aim of risk-taking in the Old Trad investment portfolio, given the prevailing low interest-rate environment, is to ensure that the guaranteed bonus can be realised also in the event of a negative market trend. At the same time, balanced risk-taking is applied to facilitate a reasonable return on customers' savings.

A large portion of the capital comprised long-term interest-bearing investments in 2017. Investments as at 31 December 2017 comprised 87% interest-bearing investments, 7% equities, 4% alternative investments and 2% properties. Investment return amounted to 2.7% (5.9).

The bonus rate for 2017 was unchanged at 2%.

#### **New World**

New World is a traditional insurance policy whereby customers benefit from upturns on the equities market, while at the same time are guaranteed to recoup at least the premiums paid, after deductions for expenses and yield tax.

Managed assets amounted to SEK 12 billion (11). The percentage of equities for the New World management form is normally 70% and the remaining 30% comprises interest-bearing investments. However, the investment mix can vary within defined intervals, with the percentage of equities comprising 60–80%. Investment return amounted to 13.3% (5.1).

# Other information

## Risks and uncertainty factors of the operations

The Länsförsäkringar AB Group's banking and insurance operations give rise to various types of risks, with the most prominent risks comprising credit risk in the Bank Group and insurance and market risks in the non-life and unit-linked insurance companies. Alongside these risks, focus on cyber and climate risks was intensified during 2017.

Credit risk in Länsförsäkringar Bank is primarily affected by the economic situation in Sweden since all loans are granted locally. The Bank Group is also exposed to liquidity risk and a certain level of market risk. Loan losses remain low and the refinancing of business activities is highly satisfactory. A settlement model has been applied since 2014 regarding the commitment that the regional insurance companies have for loan losses related to the business they have originated. The model entails that the regional insurance companies cover 80% of the provision requirement on the date when an impairment is identified, by off-setting this against a buffer of accrued commission.

Market risks primarily arise in Länsförsäkringar Fondliv on the basis of indirect exposure to market risk, since future income in the unit-linked insurance operations is dependent on trends in the financial market. Länsförsäkringar Sak's market risk is less extensive and is predominantly attributable to the company's investment assets.

Life-assurance risks relate primarily to cancellation risk in Länsförsäkringar Fondliv, meaning the risk of lower future fee income due to customers moving their insurance to paid-up policies or transferring them to another insurance company.

Non-life insurance risks arise on the basis of business in Länsförsäkringar Sak, which conducts highly diverse business operations ranging from cargo insurance and reinsurance to pet insurance in the subsidiary Agria. These risks are reinsured to a high extent.

The risks that arise directly in the Parent Company Länsförsäkringar AB are primarily attributable to the company's financing,

investments in liquidity and the business-support operations conducted on behalf of the subsidiaries and the regional insurance companies.

Cyber risks arise in the use and transfer of digital data in the operations. Climate risks arising from climate change can directly or indirectly increase other risks, for example, by increasing insurance claims, financial losses or damage to the brand.

Länsförsäkringar AB and its insurance subsidiaries have permission from the Swedish Financial Supervisory Authority to calculate the capital requirement for insurance operations using a partial internal model. Capital requirements for most market risks, non-life insurance risks and health-insurance risks are calculated using an internal model, whereas other types of risk are calculated by applying the standard formula. Länsförsäkringar Bank also has approval from the Financial Supervisory Authority to use the Internal Ratings Based Approach (IRB Approach) for credit risk measurement for calculating the capital requirement.

A more detailed description of the risks to which the Group and Parent Company are exposed and how these risks are managed is presented in Group note 2 Risk and capital management.

## Employees

Länsförsäkringar AB's high ambition is to be a responsible and attractive employer. The workplace has dedicated and skilled employees and managers who share joint responsibility for the operations and their own development. Rapid technological advances in society require a workplace that is dynamic, flexible and innovative. Employee's physical and mental health and job satisfaction are of great importance in achieving this goal.

## An attractive employer

Länsförsäkringar AB's internal attractiveness as an employer is measured according to an Employer Net Promotor Score (eNPS), which increased from 21 to 26 in this year's employee survey. The benchmark is 29, which was the score for high-performing companies. Länsförsäkringar is also consid-

ered externally to be an attractive workplace. Young university graduates named Länsförsäkringar the best employer in insurance for the tenth consecutive year in the Career Barometer survey. In the Corporate Barometer, business students at Swedish universities and colleges ranked Länsförsäkringar as their dream employer in the insurance industry for the 15th year.

## Skills development and learning

Employee skills are developed in accordance with the company's objectives and the short and long-term needs. Länsförsäkringar AB endeavours to nurture the conditions for an organisational culture focusing on learning and development. 79% (77) believe that their skills are developed in pace with changed working requirements, with a target of 75% in the business plan.

## Diversity and equality

Diversity and integration centre on business value and help strengthen competitiveness and thus increase profitability. The equality and diversity plan includes the application of the Equal Opportunity Act and discrimination legislation. 84% (81) of employees believe that diversity is valued in their working group and 87% (85) believe that Länsförsäkringar AB is an equal opportunity workplace. 94% of employees said that they had not experienced any cases of victimisation or bullying in the workplace in 2017. Länsförsäkringar AB has long maintained a clear zero tolerance standpoint on victimisation in its personnel policy.

The aim of the recruitment process is to ensure a more even gender distribution in working groups and various managerial positions. The Länsförsäkringar AB Group's share of working groups with a 40/60 ratio of men and women achieved the target in the business plan for 2017 of 28%. Salary surveys are conducted every year to ensure that there are no differences between salary levels that are solely attributable to gender.

## Health and work environment

Länsförsäkringar has applied a long-term approach to health and work environment, comprising the organisational, social and

physical work environment as integrated parts of the operations for many years. Every manager is responsible for addressing work-environment, health, equality, diversity and discrimination issues. A structure has been established for work-environment cooperation between employers, managers, employees and health and safety representatives. The organisational and social work environment is regularly monitored to prevent stress and unhealthy work loads in accordance with the Swedish Work Environment Authority's provisions (AFS 2015:4). The Work Environment and Equality Committee's monitoring process is based on a corporate perspective of the equality and diversity plan, sickness absence, occupational injuries and near-accidents, and the employee survey.

This year's employee survey showed a positive trend with 70% (64) of employees believing that they have a reasonable stress level in their work and 81% (80) thinking that they have a good work/life balance.

Health care insurance is offered to all employees that includes medical consultations, counselling and preventive health services. An agreement is in place with occupational health care services for rehabilitation support, work-related ill health and fitness subsidies. Sickness absence is continuously monitored and total sickness absence fell from 3.1% to 3.0% in 2017.

## **Sustainability**

Länsförsäkringar AB's sustainability work is based on the vision of "Together we create security and opportunities." Länsförsäkringar can reduce its sustainability risks and also contribute to the positive development of society and create business value by incorporating sustainability into its business.

In accordance with Chapter 6, Section 11 of the Swedish Annual Accounts Act, Länsförsäkringar AB has decided to prepare a statutory Sustainability Report as a separate report to its Annual Report. The Sustainability Report is available at [lansforsakringar.se/sustainability-report2017](http://lansforsakringar.se/sustainability-report2017)

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*The results of the year's operations and the financial position of the Länsförsäkringar AB Group and the Parent Company at 31 December 2017 are presented in the following financial statements with accompanying notes for the Group and Parent Company.*

# Corporate Governance Report

## Introduction

Länsförsäkringar AB is wholly owned by the 23 customer-owned regional insurance companies, together with 16 local insurance companies. The Länsförsäkringar AB Group comprises the Parent Company Länsförsäkringar AB with a number of directly and indirectly owned subsidiaries. The business operations of the Länsförsäkringar AB Group are those deemed by the Länsförsäkringar Alliance as best suited to be run jointly. Most of the Länsförsäkringar Alliance's development and service activities are coordinated with Länsförsäkringar AB, with shared priorities.

Länsförsäkringar AB is a public limited liability company. Länsförsäkringar AB had bonds listed on Nasdaq Stockholm between November 2012 and the beginning of October 2017. Länsförsäkringar AB complies, where applicable, with the Swedish Corporate Governance Code (the Code), which became effective on 1 December 2016. The main reasons for the deviations are the limitations under the rules for financial companies, the federal structure of the Länsförsäkringar Alliance and that Länsförsäkringar AB is not a stock-market company. Deviations from the provisions of the Code and explanations for such deviations are presented in the Deviations from the Code section.

According to the Code, good corporate governance is assurance that companies are managed in a manner that optimises efficiency for their shareholders. However, good corporate governance is also significant for other company stakeholders, such as customers, bond investors and supervisory authorities.

## Description of the corporate governance system

The Länsförsäkringar AB Group has a corporate governance system that aims to ensure healthy and responsible control of the Group, risk management and a high level of internal control in the operations. Because both insurance and banking operations are conducted in the Group, the Länsförsäkringar AB Group is a financial conglomerate and the Parent Company Länsförsäkringar AB is a mixed financial holding

company. In this capacity, Länsförsäkringar AB is encompassed by the group rules for banking and insurance as well as the rules on special supervision of financial conglomerates. This means that Länsförsäkringar AB together with the Länsförsäkringar Bank Group comprises a "consolidated situation." Länsförsäkringar Bank is responsible for parts of the consolidated situation from a supervisory and reporting perspective. However, this has no effect on the control and supervisory responsibility that Länsförsäkringar AB has in its capacity as Parent Company towards the subsidiaries of the Group and, accordingly, Länsförsäkringar AB's governance of the Group. The corporate governance system is continuously adapted to ongoing changes in these regulations.

The corporate governance system is regulated in the Group's joint Group instructions, which comprise the basic governance documents pertaining to governance and monitoring in the Länsförsäkringar AB Group.

Länsförsäkringar AB's corporate governance model can be described as the framework upon which the Länsförsäkringar Alliance's strategies and Länsförsäkringar AB's task from the shareholders, long-term direction and governance principles are converted into business activities in the Länsförsäkringar AB Group and according to which Länsförsäkringar AB organises, governs and controls the operations, taking into account applicable internal and external regulatory frameworks. The foundations of the corporate governance system are:

- the Länsförsäkringar Alliance's strategies,
- the task from the owners,
- Länsförsäkringar AB's long-term direction, and
- the principles approved by Länsförsäkringar AB's Board for governing the Länsförsäkringar AB Group.

The Länsförsäkringar Alliance's strategies comprise a number of strategy documents that describe such issues as the Alliance's core values and outline the direction and prerequisites for both the individual regional

insurance companies and for the cooperation between the companies and Länsförsäkringar AB.

The assignment from the owners comprises the regional insurance companies' request for a coherent delivery of the activities within Länsförsäkringar AB and the Länsförsäkringar Alliance's joint strategies, as determined by Länsförsäkringar AB's shareholder consortium.

Länsförsäkringar AB's long-term direction is determined by the Board of Länsförsäkringar AB by adopting a long-term plan and within the framework of the annual business planning process in accordance with the Guidelines for Financial and Capital Management and Control.

The Board of Länsförsäkringar AB has decided on five principles for the governance of the Länsförsäkringar AB Group to achieve integrated and efficient control of the Group. The principles are as follows:

- Governance of the Group is to be based on the Board of Länsförsäkringar AB.
- Governance is to be based on the market, risk and profitability.
- The organisation of the Group is to be efficient.
- The operations of Länsförsäkringar AB are to be conducted as if they were licensable, where appropriate.
- Internal rules are to be established within the framework of governance.

The risk-based performance management represents the basis of corporate governance. The foundation of the business is risk-taking and the governance of the Group is to be based on risk. The risk-based performance management is to ensure healthy and efficient governance of the Group's risks. As a result, risk-based performance management entails that the Länsförsäkringar AB Group's operations are to be governed and conducted based on conscientious risk-taking but without ever compromising the Länsförsäkringar AB Group's long-term profitability and viability. Risk awareness is to permeate the organisational structure and governance of the Länsförsäkringar AB Group. Risk-based performance management includes the internal-control system and the systems

for such matters as regulatory compliance and risk management.

Based on these starting points for the corporate governance system and risk-based performance management, the corporate governance system comprises the following components:

- Organisation
- Internal regulatory framework
- Internal-control system, including:
- Regulatory-compliance system
- Risk-management system

#### ***A suitable and surveyable organisational structure and decision process, and a clear distribution of responsibility and work assignments***

The basis of corporate governance is the operational organisational structure established by the Board, with an appropriate and transparent organisation for which the central areas are a clear distribution of responsibility and duties between the various company bodies and the so-called lines of defence, and a clear decision and reporting procedure (refer to Internal-control system below). Some of the areas to be guaranteed within the framework of the organisation are: economies of scale via Group-wide functions and outsourced operations, continuity management and business contingency plans, efficient systems for reporting and transferring information, information security, management of conflicts of interest and ensuring that Board members and employees are suited to their tasks.

The corporate governance model thus comprises a description of the organisation, the decision process, how responsibilities are distributed, the working methods of the Board and the management, and the responsibilities of central senior executives and functions.

#### ***Group-wide functions and outsourced operations***

The distribution of work in the Länsförsäkringar AB Group is a key tool for achieving economies of scale in terms of both finance and expertise. It is also a method of implementing effective and proactive governance within the Länsförsäkringar AB Group. The operational organisation with the business activities conducted in the business units and Group-wide functions in the Parent Company was established based on this approach. Outsourcing operations to external parties is also a key tool for achieving economies of scale in terms of both finance and expertise. Outsourcing takes place in both Länsförsäkringar AB and in the subsidiaries. For this reason, the

Board of Länsförsäkringar AB has established a Group-wide policy for outsourcing operations that stipulates the overall principles for internally and externally outsourced operations.

- Policy – communicates a position of principle
- Guidelines – overall regulatory framework
- Instructions – detailed regulations in a specific area

The governance documents can either be joint or company specific, that is to say they apply either to all companies within the Länsförsäkringar AB Group or for only one of the companies. The joint governance documents are adopted by the Länsförsäkringar AB Board or decided by the President. The joint governance documents are also to be approved by and incorporated in the other companies in the organisation. The company-specific governance documents are adopted by either the Board of each company or by the President of the subsidiaries.

#### ***Internal-control system***

Internal control is part of the governance and management of the Länsförsäkringar AB Group. Internal control aims to ensure that the organisation is efficient and fit for its purpose, that operations are conducted in accordance with decided strategies in order to achieve established targets, that financial statements and reporting are reliable, that information systems are managed and operated efficiently and that there is a strong ability to identify, measure, monitor and manage risks and proper regulatory compliance. Risk and capital control and capital planning are a part of the internal control. The internal control process encompasses all parts of the organisation, including outsourced operations, and must be an integral part of the operations. Internal control is based on a system with a strong culture of risk and regulation, with three lines of defence. The first line of defence is the operations. The first line of defence includes responsibility for the operation's risks and the operations are responsible for ensuring that control processes for monitoring are in place, implemented and reported. To support the internal-control process, a Compliance function and a Risk Management function have been established and form the second line of defence. Compliance is responsible for independent monitoring and control to ensure that the operations are conducted in full regulatory compliance. Risk Management is responsible for independent risk control and ensuring that the operations are conducted with a high level of risk control. Internal Audit, the third line of defence, comprises the Board's support for quality

#### ***Continuity management and business contingency plans***

The Länsförsäkringar AB Group has continuity management aimed at ensuring that important information is protected and that the operations can be maintained in the event of an interruption or major operational disturbance. Group-wide and company-specific business contingency plans have been prepared for this purpose.

#### ***Efficient systems for reporting and transferring information***

The Länsförsäkringar AB Group has efficient information and reporting systems for ensuring that both external and internal information and operational reporting, for example, are reliable, correct, complete and published at the correct time.

#### ***Information security***

The Länsförsäkringar AB Group has IT systems and procedures for ensuring the confidentiality and accessibility of important information.

#### ***Managing conflicts of interest***

All of the companies in the Länsförsäkringar AB Group have internal rules regarding the identification and management of conflicts of interest.

#### ***Suitability requirements***

All employees and Board members of the Group's companies must be suitable for the duties that they are intended to perform in terms of expertise, experience, reputation and integrity. A suitability assessment is carried out as part of the employment process and prior to election of Board members at General Meetings. Suitability assessments of Board members, senior executives and individuals in other central functions take place following adopted governance documents.

#### ***Internal regulatory framework***

In order to be surveyable and easily available, the Länsförsäkringar AB Group's internal regulatory framework is to be simple and clear. The aim is to limit the number of internal regulatory documents as far as possible. The internal regulatory framework in the Länsförsäkringar AB Group comprising the following governance documents:

assurance and evaluation of the organisation's risk management, governance and internal control.

#### **Regulatory-compliance system**

Länsförsäkringar AB Group has a system for regulatory compliance aimed at ensuring compliance with laws, regulations and other rules, monitoring and effective implementation of new and amended regulations, that the Boards and employees are trained and that the Group is continuously able to identify, measure, control, manage and report risks regarding compliance with external and internal regulations. The system helps minimise risks and aids the Group's operations in attaining a higher degree of security.

The first-line regulatory compliance functions are the legal functions and the regulatory support functions in the subsidiaries. The President's staff function Legal Affairs at Länsförsäkringar AB Group has the overall responsibility for managing legal issues within the Länsförsäkringar AB Group, such as uniform interpretations and application of regulations, and is also responsible for matters related to corporate governance.

The subsidiaries' regulatory support functions are to provide regulatory support for the specific operations, which includes providing support and advice to the company and assuming responsibility for regulatory compliance by, for example, ensuring implementation of regulations in the subsidiaries.

Compliance is responsible for the second-line of regulatory work (for further details, refer to the section on Control functions below).

A special Regulatory Group has been established with the task of ensuring that regulatory changes and new rules are identified at an early stage so as to perform impact assessments and decide on action. The Regulatory Group includes, among others, Head of Legal Affairs at Länsförsäkringar AB, Group CFO, Group CRO and Head of Compliance. The Regulatory Group regularly reports on new and changed regulations to Group management, Committees and the Board.

#### **Risk-management system**

The purpose of the risk-management system is to ensure that Länsförsäkringar AB is continuously able to identify, measure, monitor, manage and report risks and the dependencies between various risks. The system is an integral part of Länsförsäkringar AB's organisational structure and

decision process and is designed with appropriate consideration for established organisational and decision processes.

The risk-management system contains the strategies, processes and reporting procedures that are necessary for continuously identifying, measuring, monitoring, managing and reporting risks. The risk-management system addresses the risks that the company is, or could be, exposed to and their mutual dependencies.

An overview of the corporate governance structure in Länsförsäkringar AB is illustrated in the figure on page 45.

#### **Shareholders and General Meeting**

The shareholders exercise their influence at the General Meeting, which is the company's highest decision-making body. A General Meeting is normally held once a year, the Annual General Meeting. No shareholder have a stake greater than 9.8% of the capital or votes in the company.

#### **Shareholders' power of decision**

At General Meetings, no one may vote using their own or anyone else's shares for more than 99/1,000 votes represented at the Meeting. Motions are passed at General Meetings by a simple majority of votes unless the Swedish Companies Act prescribes another specific voting majority. Decisions are made at the Annual General Meeting pertaining to: the Annual Report, the election of members of the Board and auditors, remuneration of Board members and auditors and other important matters to be addressed in accordance with laws or the Articles of Association. The remuneration proposal for Board members is specified for the Chairman, Deputy Chairman, other Board members and fees for committee work.

The 2017 Annual General Meeting approved the principles for remuneration and other terms of employment for corporate management.

#### **Nomination Committee**

The General Meeting of Länsförsäkringar AB appoints a Nomination Committee, which is charged with the duty of presenting proposals for members of the Board of Directors and auditors of Länsförsäkringar AB and its directly owned subsidiaries and certain other companies, and fees and other remuneration of these members and auditors. The Nomination Committee follows an instruction adopted by the Annual General Meeting of Länsförsäkringar AB. The Nomination Committee is responsible for ensuring that a suitability assessment of pro-

posed Board members is performed. New Board members are recruited in accordance with the Nomination Committee's instructions and established procedures and processes. When recruiting new Board members, the Nomination Committee is also to apply the established diversity policy, according to which as a minimum age, gender, geographic origin, educational and professional background are to be considered in order to promote independent views and a critical and questioning attitude in the Boardroom. See also the section on Suitability assessment of the Board of Directors and the President below.

#### **Nomination Committee prior to 2018 Annual General Meeting**

The Nomination Committee has comprised Otto Ramel (Chairman) (Länsförsäkringar Skåne), Per-Åke Holgersson (Länsförsäkringar Kronoberg), Anna-Greta Lundh (Länsförsäkringar Södermanland), Göran Spetz (Länsförsäkringar Västerbotten) and Mats Åstrand (Länsförsäkringar Gävleborg) since the 2017 Annual General Meeting.

Prior to the 2018 Annual General Meeting, the Nomination Committee has:

- Studied the Board's evaluation of its work.
- Studied the Board Chairman's, Board members' and President's views on the operations, the Board's work and requirements for knowledge and experience.
- Reviewed and discussed requirements for expertise and experience with respect to the needs of the operations and regulatory requirements.

Prior to 2018 Annual General Meeting, the Nomination Committee will:

- Evaluate the independence of candidates.
- Nominate Board members, including the Chairman of the Board and, in certain cases, a Deputy Chairman.
- Carry out suitability assessments of Board members.
- Propose fees and other remuneration of Board members, auditors and other bodies.

The Nomination Committee's proposals are presented in the notice to convene the Annual General Meeting. The Nomination Committee presents and motivates its proposals at the Annual General Meeting, and provides an account of how its work was conducted.

## External auditors

The Annual General Meeting appoints the external auditors. Nominations are made to the Nomination Committee. In accordance with the Articles of Association, Länsförsäkringar AB is to have between one and three auditors and between zero and three deputy auditors. The auditors are appointed for a mandate period of not more than four years. At the 2017 Annual General Meeting, Mårten Asplund, KPMG AB, was elected auditor for the period until the 2018 Annual General Meeting. Deputy auditor Anders Tagde, KPMG AB, was elected at the 2015 Annual General Meeting for a mandate of three years.

The auditors examine Länsförsäkringar AB's Annual Report and Corporate Governance Report, as well as the administration of the Board and the President. At the Annual General Meeting, the auditor presents the audit report and describe the audit process. The auditor presented the audit results and observations to the Board once during 2017. The auditors also participate in meetings of the Audit Committee.

## Board of Directors

The Board of Directors of Länsförsäkringar AB are appointed by the Annual General

Meeting and, in accordance with the Articles of Association, is to comprise between eight and twelve Board members elected by the General Meeting, with or without deputies. In accordance with the Articles of Association, Board members are elected for a mandate period of two years by the Annual General Meeting. In addition, members and deputies appointed by the trade-union organisations are members of the Board. The President is not a member of the Board. The company has no time limit for the length of time a member may sit on the Board and no upper age limit for Board members. The Chairman and Deputy Chairman of the Board are appointed by the Annual General Meeting. The President, Board Secretary, Head of Legal Affairs and Director of Corporate Communications participate in Board meetings except for matters in which there may be a conflict of interest or when it would otherwise be inappropriate for them to attend. Employees reporting on particular issues attend meetings when they make their presentations.

The Board currently comprises 12 regular members and two deputies. Nine of the members were elected by the Annual General Meeting. Three members and two deputies were appointed by the trade

unions. The Board members are presented on pages 122–123.

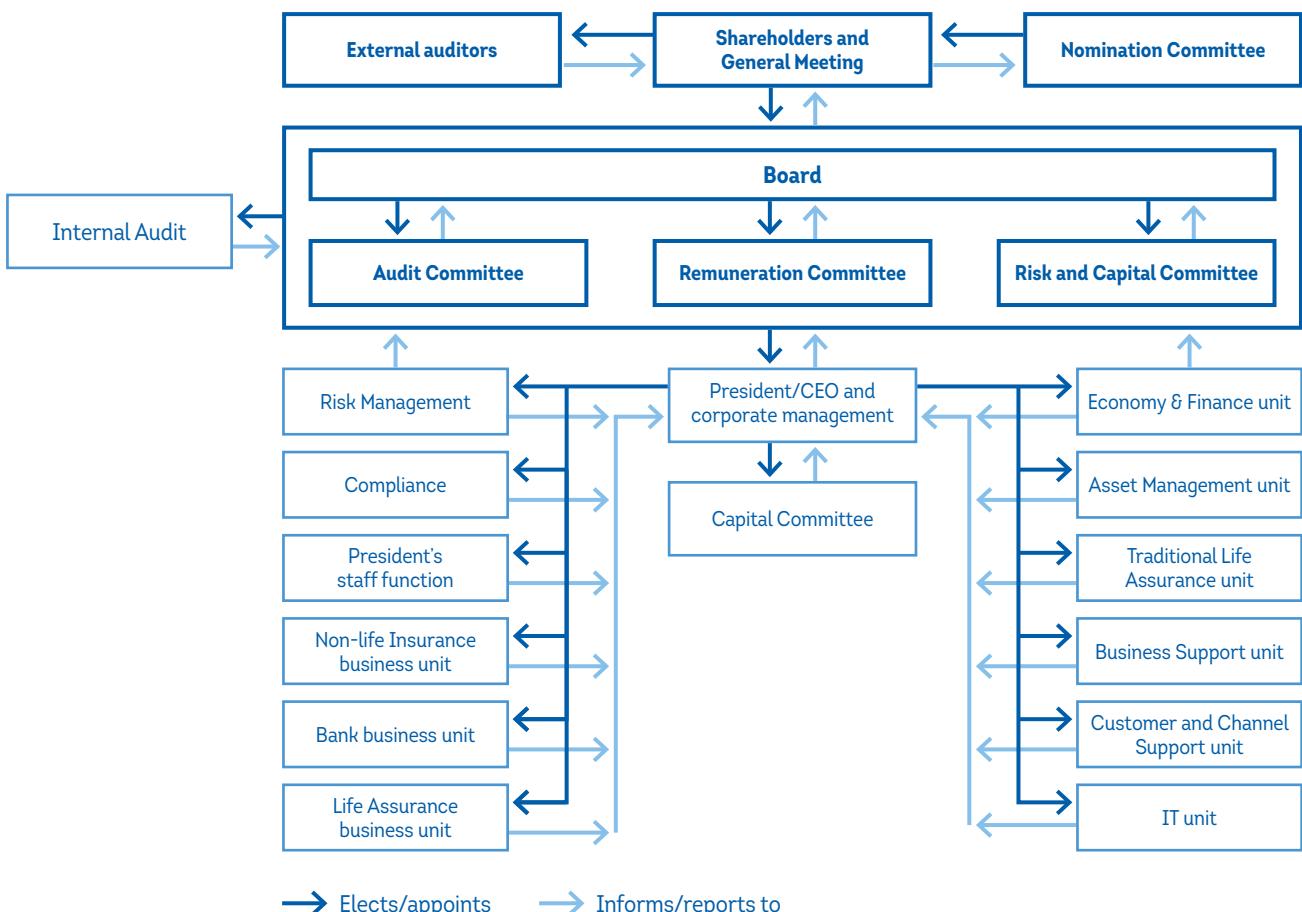
## Board responsibilities and allocation of duties

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

Every year, the Board adopts a formal work plan. The formal work plan includes regulations on the duties and responsibilities of the Board and its Chairman, the number of Board meetings, procedures for reporting on the operations and financial reporting as well as procedures for Board meetings, notices of meetings, presentation of material, delegation of work duties within the Board, conflicts of interest and disqualification.

The Board is to continuously remain informed about the performance of the

## Länsförsäkringar AB's governance structure



company to be able to continuously assess the company's financial situation and position.

Through its formal work plan and a reporting manual, the Board has established that financial reporting is to take place regularly at Board meetings. The Board also regularly manages and evaluates the company's and the Group's risk development and risk management. During the year, the Board regularly reviews the earnings and sales trends, investment income, financial position, risk trends etc., in relation to the business plan and forecasts. The Board receives reports from Compliance, Risk Management and Internal Audit four times per year. The Board continuously monitors current matters with authorities.

#### **Chairman**

According to the formal work plan, the Chairman is to lead the Board's work and ensure that the Board fulfils its duties. The Chairman shall also ensure that the Board meets as required, is provided with the opportunity to participate in meetings and receives satisfactory information and documentation for decision-making, and applies an appropriate working methodology. On the basis of ongoing contact with the President, the Chairman is to remain informed of significant events and developments within the company, also between Board meetings, and supports the President in his work.

#### **Work of the Board**

In its formal work plan, the Board has established a standard for its agenda, annually recurring items of business and a standard for information and decision-making material. In an internal Group directive, the Board has established the company's and the Group's operational organisation and clarified the distribution of work duties between the various units and executives in the company and the Group. In addition to the internal Group directive, the Board establishes its formal work plan, directive for the President and a large number of governance documents for the operations at least once a year, regardless of whether any amendments are required.

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

The Board conducts annual strategic seminars and annual evaluations of the President's work and terms of employment. The Board meets the company's auditors at least once per year (refer also to the Audit Committee section below).

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

The Board held 14 meetings in 2017. The Board devoted particular attention to such issues as the strategy for the life-assurance operations, regulatory matters, risk and capital issues, the financial situation in the business world and subsequent effects on the operations and IT and digitisation issues. During the year, the Board underwent several training courses in operational and regulatory issues.

The number of Board meetings and members' attendance at these meetings are presented in the table on page 47.

#### **Evaluation of the Board's work**

Every year, the Board Chairman initiates an evaluation of the Board's work. In 2017, this took the form of an online survey. A summary of the findings was presented to the Board for discussion.

#### **Audit Committee**

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

- Monitoring the company's financial reporting.
- Regarding the financial reporting, monitoring the effectiveness of the company's internal control, internal audit and risk management.
- Remaining informed of the audit of
- the Annual Report and consolidated financial statements.
- Examining and monitoring auditors' impartiality and independence and, in this respect, particularly noting whether the auditors provide the company with any other services than auditing services.
- Assisting in the preparation of proposals to the Annual General Meeting's motions on election of auditors.

In addition, the Audit Committee is responsible for preparing the Board's work on

monitoring the effectiveness of the company's:

- corporate governance system, which includes internal governance and control, and
- internal control of the operational risks.

At the statutory Board meeting immediately following the 2017 Annual General Meeting, Göran Lindell (Chairman), Maria Engholm, Jan Fock and Jonas Rosman were appointed members of the Audit Committee.

The number of Audit Committee meetings and members' attendance at these meetings are presented in the table on page 47.

#### **Risk and Capital Committee**

The Risk and Capital Committee is to support the Board in risk and capital issues and serve as a forum for analysing and holding in-depth discussions on Länsförsäkringar AB's and the Länsförsäkringar AB Group's risk-taking and capital requirements. Prior to Board meetings, the Committee is to discuss and address issues relating to the following:

- Risk policy and capital policy.
- The Group's internal models and validation.
- Internal risk and capital planning for the Länsförsäkringar AB Group.
- Risk capital distributed internally to subsidiaries and targets for risk-adjusted returns and evaluations of earnings.
- Follow-up of risk trends and potential deviations from risk limits.

At the statutory Board meeting immediately following the 2017 Annual General Meeting, Jan Fock (Chairman), Christer Villard and Caesar Åfors were appointed members of the Risk and Capital Committee.

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

#### **Remuneration Committee**

The Remuneration Committee prepares issues on remuneration of corporate management, remuneration of employees with overall responsibility for any of the company's control functions, and prepares decisions for measures to monitor application of the remuneration policy.

At the statutory Board meeting immediately following the 2017 Annual General Meeting, Jan Fock (Chairman), Jonas Rosman and Caesar Åfors were appointed members of the Remuneration Committee.

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

### President/CEO and corporate management

Sören Westin was appointed President and CEO of Länsförsäkringar AB on 2 February 2018 and succeeded Johan Agerman who had served as President and CEO since 9 January 2017. Sören Westin was born in 1953 and has worked in senior positions at Länsförsäkringar AB since 2008, most recently as Executive Vice President and the Head of Business Support. To ensure that the operations of each subsidiary comply with the overall objective for Länsförsäkringar AB, the President and CEO of Länsförsäkringar AB, as a general rule, also serves as the Chairman of the Board of each subsidiary.

In terms of the operations, the Länsförsäkringar AB Group is organised into three business units: Non-life Insurance, Banking and Life Assurance, and five support functions: Business Support, Asset Management, Economy & Finance, Customer and Channel Support and the IT unit. In addition, there are the Traditional Life Assurance unit, the President's staff functions of HR, Legal Affairs, Communication, Internal Control and Strategic Planning, and the control functions of Internal Audit, Compliance and Risk Control. The latter is part of the Risk Management unit. To ensure the coordination of the opera-

tions in each business unit, the head of the business unit is also the President of the unit's Parent Company. Furthermore, the heads of each business unit, as a general rule, also serve as the Chairmen of the Boards of the directly owned subsidiaries.

Länsförsäkringar AB's corporate management comprises the Presidents and heads of the business units and support functions. The Head of Legal Affairs, HR Director, Director of Corporate Communications and the Head of Customer and Channel Support are co-opted members of corporate management. Corporate management comprises the management team for the entire Länsförsäkringar AB Group. Corporate management discusses and decides on issues concerning the Group's units, Länsförsäkringar AB's President's staff functions and the Compliance and Risk Management functions.

The President established a Capital Committee to addresses issues regarding risk-taking, risk management and the balance between risk-taking and use of capital in the Länsförsäkringar AB Group. The members of this Committee are appointed by the President of Länsförsäkringar AB. The Committee is governed by a separate formal work plan. Group management is presented on pages 124-125.

### Control functions

#### Internal Audit

Internal Audit is an independent review function that comprises the Board's support in the evaluation of the corporate gov-

ernance system, including the organisation's risk management, governance and controls. Based on its reviews and advice, Internal Audit evaluates and ensure the quality of the efficient execution of the operations' overall internal governance and control systems, that the overall reporting to the Board provide a correct and comprehensive view of the operations, that the operations are conducted in accordance with applicable internal and external regulations, and compliance with the Board's decisions. Internal Audit reports to the Länsförsäkringar AB Group's Board of Directors and to the Boards of each subsidiary but is organisationally affiliated under the Chairman of the Audit Committee.

#### Compliance

Compliance is an independent control function responsible for monitoring and controlling that operations are conducted in full regulatory compliance. The task of the function is to monitor and control regulatory compliance in the licensable operations, and identify and report on risks that may arise as a result of non-compliance with regulatory requirements. Compliance is to also provide support and advice to operations, to ensure that operations are informed about new and amended regulations and to take part in the implementation of training. Compliance risks and recommendations for action are regularly reported to the President and Board of Länsförsäkringar AB and its licensable subsidiaries, and to the Group's Audit Committee.

#### Risk Control

Risk Management is responsible for independent risk control and provides support for the President, management and operating units in fulfilling their responsibility to conduct operations with a high level of risk control. The function reports regularly to the Board and President of each company and to the Risk and Capital Committee. Risk Management is also responsible for the independent risk control of the operations of the Asset Management unit. Risk Management reports this work to the President and the Board of Länsförsäkringar AB. The Bank business unit has a separate risk control function that is under the President of the Bank business unit. Reporting is addressed to the respective Board and President of the business unit. The Head of Risk Management is appointed by the President of Länsförsäkringar AB. Risk Management reports regularly to both the Board and the President.

### Meetings and attendance

The table below shows the number of meetings held in each body in 2017, and the attendance by each Board member:

	Board of Directors	Audit Committee	Risk and Capital Committee	Remuneration Committee
<b>Total number of meetings</b>	<b>14</b>	<b>7</b>	<b>6</b>	<b>4</b>
Maria Engholm	13	7	-	-
Jan Fock	14	7	6	4
Tomas Hansson, deputy	0	-	-	-
Bengt-Erik Jansson <sup>1)</sup>	8	-	-	-
Susanne Lindberg	11	-	-	-
Göran Lindell <sup>2)</sup>	14	7	-	2
Linnéa Niklasson	14	-	-	-
Susanne Petersson	14	-	-	-
Jonas Rosman	14	7	-	4
Anna Sandqvist	14	-	-	-
Mirek Swartz, deputy	0	-	-	-
Mikael Sundquist	14	-	-	-
Christer Villard	14	-	5	-
Caesar Áfors <sup>3)</sup>	14	-	6	2

<sup>1)</sup>Board member from Annual General Meeting on 12 May 2017.

<sup>2)</sup>Member of Remuneration Committee until 12 May 2017.

<sup>3)</sup>Member of Remuneration Committee from 12 May 2017.

## **Suitability assessment of Board and President**

A suitability assessment is conducted in conjunction with the appointment of Board members and the President. An assessment is also conducted annually, and when necessary, to ensure that the individuals in the above-mentioned positions are, at any given time, suitable for their assignments. The suitability assessment is conducted following established guidelines and with regard to the person's qualifications, expertise and experience as well as reputation and integrity.

Board members are assessed on the basis of material received from the person to whom the suitability assessment pertains. Based on the company's operations, stage of development and other circumstances, the assessment also considers relevant training and experience, as well as professional experience in senior positions. In addition to the qualifications, knowledge and experience of individual members, the Board is assessed in its entirety to ensure that it possesses the competence required for leading and managing the company.

A person considered unsuitable according to an assessment will not be appointed or employed. If an already appointed person is considered no longer suitable for his or her duties according to a suitability assessment, the company is to adopt measures to ensure that the person in question either meets the suitability requirements or is replaced.

The assessment is that all Board members and the President fully satisfy the suitability requirements.

## **Deviations from the Code**

Länsförsäkringar AB complies with the Code, where applicable. The main reasons for the deviations are the limitations under the rules for financial companies, the federal structure of the Länsförsäkringar Alliance and that Länsförsäkringar AB is not a stock-market company. The major deviations from the provisions of the Code and explanations for such deviations are presented below.

### **Notice**

Deviation regarding the notice and publication of information about and prior to an Annual General Meeting. These deviations from the provisions of the Code are due to the fact that the company is not a stock-market company and has only a limited number of shareholders.

### **Nomination Committee**

A deviation from the provisions of the Code regards the independence of a majority of the members of the Nomination Committee in relation to the company. Another deviation from the provisions of the Code is the publication of information about and from the Nomination Committee on the company's website. These deviations are due to the fact that the company is not a stock-market company and has only a limited number of shareholders.

### **Composition of Board**

A deviation from the provisions of the Code exists regarding independence of a majority of the Board members elected by the Annual General Meeting in relation to

the company and that not less than two Board members must be independent in relation to the company's large shareholders. According to the instruction for the Nomination Committee, the Board of Directors is to be appropriately composed, with respect to the company's operations, stage of development and other circumstances, and characterised by diversity and breadth in terms of the members competencies, experience and background. It has been decided that these requirements can be fulfilled within the framework of the Länsförsäkringar Alliance.

### **Mandate period for Board members**

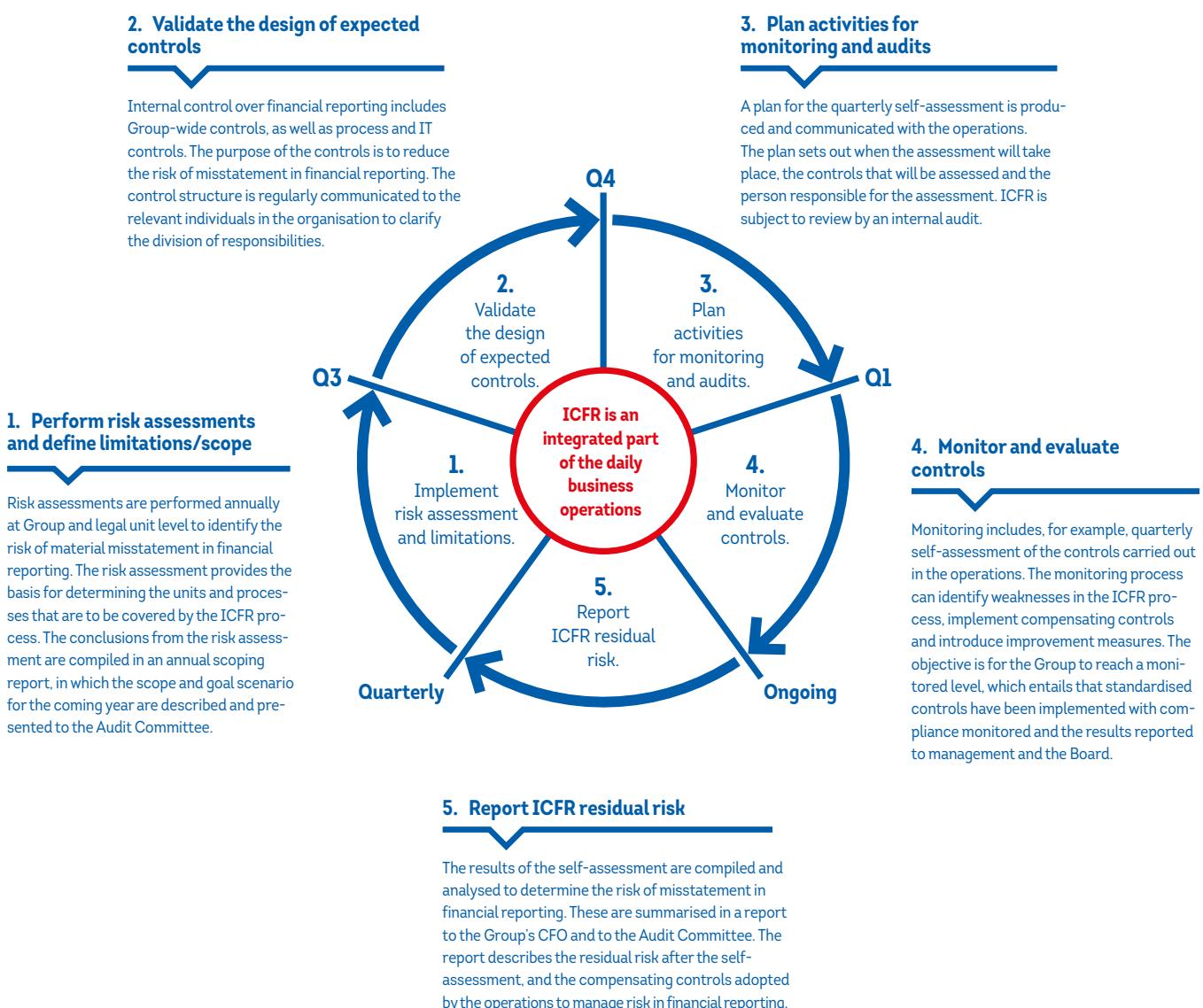
The mandate period for Board members is two years. The company deviates from the Code's provision of a maximum mandate period of one year due to the supremacy of the Annual General Meeting to dismiss and appoint a Board member irrespective of their term. A mandate period of more than one year contributes to ensuring continuity and establishing competence within the Board.

### **Composition of Audit Committee and Remuneration Committee**

A deviation from the provisions of the Code regarding the independence of a majority of the members of the Committees in relation to the company and corporate management due to the federal structure, governance and working methods of the Länsförsäkringar Alliance. Refer also to the comments above on the deviation from the Code's provision on composition of the Board.

# Internal control over financial reporting

The Board of Directors is responsible for ensuring that efficient systems are in place to monitor and control the company's operations and financial position. Internal control over financial reporting (ICFR) is a process aimed at giving the Group's highest management and Board a reasonable assurance of the reliability of financial reporting. The process is performed in an annual cycle as shown in the diagram below.



In addition to the process described above, Internal Audit also performs an independent review of selected ICFR risks and controls, in accordance with the plan adopted by the Audit Committee. The results of Internal Audit's review, and recommendations, are reported regularly to the Audit Committee.

## Five-year summary

Länsförsäkringar AB Group Amounts in SEK M unless otherwise stated.	2017	2016	2015	2014	2013
<b>GROUP</b>					
Operating profit	2,825	2,286	2,155	1,469	923
Net profit for the year	2,250	1,845	1,765	1,159	682
Return on equity, % <sup>1)</sup>	11	10	11	7	5
Total assets, SEK billion	474	422	385	356	323
Number of shares, 000s	10,425	10,425	10,425	10,066	9,750
Equity per share, SEK	2,269	2,046	1,858	1,675	1,557
<b>Solvency capital</b>					
Equity	24,857	22,529	20,538	16,857	15,183
Tier 1 capital issued	-1,200	-1,200	-1,173	-	-
Subordinated debt	2,596	2,595	2,300	2,000	2,000
Deferred tax	1,486	1,320	1,109	910	848
<b>Total solvency capital</b>	<b>27,740</b>	<b>25,244</b>	<b>22,774</b>	<b>19,767</b>	<b>18,031</b>
Solvency margin, % <sup>2)</sup>	467	452	428	455	420
Own funds for the group (FRL) <sup>3)</sup>	44,172	40,602	36,905	-	-
Solvency capital requirement for the group (FRL) <sup>3)</sup>	33,441	30,121	28,233	-	-
Own funds for the financial conglomerate <sup>4)</sup>	44,172	40,352	-	-	-
Capital requirement for the financial conglomerate <sup>4)</sup>	33,441	30,121	-	-	-
Own funds for the financial conglomerate <sup>5)</sup>	-	-	21,548	17,802	16,391
Necessary capital requirement for the financial conglomerate	-	-	15,897	14,988	12,754
Average number of employees	1,915	1,786	1,676	1,596	1,503
<b>INSURANCE OPERATIONS<sup>6)</sup></b>					
<i>Non-life insurance operations</i>					
Premiums earned (after ceded reinsurance)	5,353	5,090	4,836	3,880	3,905
Investment income transferred from financial operations	26	15	44	130	152
Claims payments (after ceded reinsurance) <sup>7)</sup>	-3,272	-3,336	-2,776	-2,251	-2,613
<b>Technical result for non-life insurance operations<sup>8)</sup></b>	<b>916</b>	<b>390</b>	<b>808</b>	<b>604</b>	<b>351</b>
<i>Premium income, non-life insurance</i>					
Premium income before ceded reinsurance	7,124	6,753	6,534	8,444	5,949
Premium income after ceded reinsurance	5,498	5,195	4,959	4,050	4,009
<i>Life-assurance operations</i>					
Premium income after ceded reinsurance	477	432	383	329	279
Fees pertaining to financial agreements	724	659	649	570	501
Investment income, net	121	144	-21	108	62
Claims payments (after ceded reinsurance)	-266	-267	-262	-206	-91
<b>Technical result, life-assurance operations</b>	<b>700</b>	<b>541</b>	<b>540</b>	<b>621</b>	<b>484</b>
<b>Operating profit for insurance operations<sup>9)</sup></b>	<b>1,628</b>	<b>1,194</b>	<b>1,424</b>	<b>1,164</b>	<b>675</b>
<i>Key figures</i>					
Cost ratio <sup>10)</sup>	27	27	27	29	28
Expense ratio <sup>11)</sup>	21	21	21	22	21
Claims ratio <sup>12)</sup>	67	71	63	65	73
Combined ratio	88	93	84	87	95
Management cost ratio, life-assurance operations <sup>13)</sup>	0.9	0.9	1.0	1.1	1.2
Direct yield, % <sup>14)</sup>	-0.2	1.4	0.7	2.0	0.8
Total return, % <sup>15)</sup>	4.3	4.2	3.9	4.9	-0.6
<i>Financial position</i>					
Investment assets, SEK billion <sup>16)</sup>	14	14	12	12	17
Unit-linked insurance assets for which the policyholder bears the risk, SEK billion	125	112	100	91	76
Technical provisions (after ceded reinsurance), SEK billion	8	8	8	7	14
Own funds for the insurance group <sup>17)</sup>	-	-	9,436	7,618	-
Solvency margin for the insurance group <sup>17)</sup>	-	-	6,072	6,293	-

## Five-year summary, cont.

Länsförsäkringar AB Group	2017	2016	2015	2014	2013
<b>BANKING OPERATIONS</b>					
Net interest income	3,996	3,464	2,994	2,580	2,230
Operating profit	1,599	1,467	1,175	935	647
Net profit for the year	1,237	1,137	911	712	479
Return on equity, % <sup>18)</sup>	10.0	10.1	8.9	8.3	6.7
Total assets, SEK billion	315	276	251	232	214
Equity	14,328	13,182	12,057	9,597	8,288
Cost/income ratio before loan losses <sup>19)</sup>	0.49	0.48	0.57	0.62	0.63
Investment margin, % <sup>20)</sup>	1.32	1.28	1.22	1.15	1.06
Core Tier 1 ratio, Bank Group	24.3	24.8	23.7	16.2	-
Tier 1 ratio, Bank Group, % <sup>21)</sup>	26.8	27.5	26.6	16.2	-
Capital adequacy ratio, Bank Group, % <sup>22)</sup>	32.1	33.4	32.0	20.6	-
Core Tier 1 ratio, consolidated situation, %	23.3	21.2	21.4	13.9	-
Tier 1 ratio, consolidated situation, % <sup>21)</sup>	24.8	23.2	23.7	13.9	-
Capital adequacy ratio, consolidated situation, % <sup>22)</sup>	28.1	27.6	28.2	17.5	-
Loan losses in relation to loans, % <sup>23)</sup>	0.02	0.02	0.00	0.00	0.08

1) Operating profit and revaluations of owner-occupied property less standard tax at 22.0% in relation to average equity, adjusted for items in equity recognised in other comprehensive income excluding revaluations of owner-occupied property, and adjusted for Additional Tier 1 Capital loans.

2) Solvency capital as a percentage of premium income after ceded reinsurance.

3) The group under the insurance-operation rules comprises the Parent Company Länsförsäkringar AB, all of the insurance companies in the Group. Länsförsäkringar Bank AB, Wasa Kredit AB, Länsförsäkringar Hypotek AB and Länsförsäkringar Fondförvaltning AB. Länsförsäkringar Liv Försäkrings AB is also included in the group, despite the Länsförsäkringar Liv Group not being consolidated in the Länsförsäkringar AB Group. As stated in the EU Solvency II Directive, the calculations are made in accordance with the consolidation method, but with Länsförsäkringar Liv included in accordance with the deduction and aggregation method as permitted by the Swedish Financial Supervisory Authority. Information for 2015 refers to the opening balance on 1 January 2016 under Solvency II.

4) The financial conglomerate comprises the same companies as the group according to the insurance-operation rules, see footnote 3). The calculations for the financial conglomerate are made using the same methods as for the group in accordance with the insurance-operation rules. Unlike the group under the insurance-operation rules, the transferability of profits for the financial conglomerate is to also be tested in other regulated companies than the group's insurance companies.

5) Effective 2014, an EU Regulation (342/2014) applies to methods of calculation for solvency testing. This means that special consideration is to be made of whether there is any practical or legal impediment to transferring the profits in a company. Given this, the companies of the Bank Group have been included by company in the calculations in order to support consideration of the transferability of profits per company. The capital requirement is affected since the transition rules under Basel I are taken into account for each company individually instead of for the Bank Group as a whole.

6) The earnings, financial position and key figures of the insurance operations are recognised in accordance with the Swedish Annual Accounts Act for Insurance Companies and FFFS 2015:12, the regulation of the Swedish Financial Supervisory Authority.

7) Excluding claims adjustment costs.

8) The Länsförsäkringar Sak Group's technical result amounted to SEK 977 M (435) in 2017. The Länsförsäkringar Sak Group includes Länsförsäkringar Gruppliv Försäkrings AB, which is recognised in the life-assurance operations. The technical result for Länsförsäkringar Gruppliv Försäkrings AB amounted to SEK 62 M (44) in 2017.

9) Operating profit for the insurance operations includes the Länsförsäkringar Sak Group and Länsförsäkringar Fondliv's investment income and other non-technical income and expenses.

10) Operating expenses and claims adjustment costs as a percentage of premiums earned after ceded reinsurance. Pertains only to non-life insurance.

11) Operating expenses as a percentage of premiums earned after ceded reinsurance. Pertains only to non-life insurance. Excluding claims adjustment costs in accordance with the regulations of the Swedish Financial Supervisory Authority.

12) Claims payments as a percentage of premiums earned after ceded reinsurance. Pertains only to non-life insurance. Includes claims adjustment costs in accordance with the regulation of the Swedish Financial Supervisory Authority.

13) Operating expenses and claims adjustment costs in relation to the average value of investment assets, investment assets for which the policyholder bears the investment risk and cash and cash equivalents.

14) Direct yield refers to the total of rental income from properties, interest income, interest expense, dividends on shares and participations, administration costs for asset management and operating expenses for properties in relation to the average value of the investment assets during the year.

15) Total return is calculated as the sum of all direct yields and changes in the value of the investment portfolio in relation to the average value of the investment assets during the year.

16) Investment assets comprise owner-occupied property, shares and participations in associated companies, investment property, loans to Group companies, shares and participations, bonds and other interest-bearing securities, derivatives (assets and liabilities), cash and cash equivalents, and interest-bearing liabilities.

17) The insurance group comprises the Parent Company Länsförsäkringar AB and all insurance companies in the Group. The insurance group also includes Länsförsäkringar Liv Försäkrings AB, despite the Länsförsäkringar Liv Group is not consolidated in the Länsförsäkringar AB Group. According to the Swedish Insurance Business Act (2010:2043), in the wording 1 January 2016.

18) Operating profit plus less standard tax at 22.0% in relation to average equity adjusted for changes in value of financial assets recognised in equity and for Additional Tier 1 Capital loan.

19) Total expenses before loan losses in relation to total income.

20) Net interest income in relation to average total assets.

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

22) Closing own funds as a percentage of the closing risk-weighted amount.

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## Consolidated income statement

SEK M	Note	2017	2016
Premiums before ceded reinsurance		7,420	7,018
Reinsurers' portion of premiums		-1,618	-1,533
<b>Premiums after ceded reinsurance</b>	<b>5</b>	<b>5,802</b>	<b>5,485</b>
Interest income	6	4,566	4,033
Interest expense	7	-573	-569
<b>Net interest income</b>		<b>3,994</b>	<b>3,464</b>
Change in unit-linked insurance assets policyholder bears the risk		10,177	7,916
Dividends in investment assets for which the policyholder bears the risk		6	7
Investment income, net	8	295	322
Commission income	9	2,987	2,697
Other operating income	10	2,466	2,129
<b>Total operating income</b>		<b>25,726</b>	<b>22,021</b>
Claims payments before ceded reinsurance		-4,368	-3,986
Reinsurers' portion of claims payments		851	402
<b>Claims payments after ceded reinsurance</b>	<b>11</b>	<b>-3,517</b>	<b>-3,584</b>
Change in life-assurance reserve		-8	-6
Change in unit-linked insurance liabilities policyholder bears the risk		-10,352	-8,050
Commission expense	12	-3,239	-2,926
Staff costs	13	-2,060	-1,973
Other administration expenses	14, 15	-3,667	-3,159
Loan losses	16	-58	-38
<b>Total expenses</b>		<b>-22,901</b>	<b>-19,735</b>
<b>Operating profit</b>		<b>2,825</b>	<b>2,286</b>
Tax	17	-575	-441
<b>Net profit for the year</b>		<b>2,250</b>	<b>1,845</b>
Earnings per share before and after dilution, SEK	18	216	177

## Consolidated statement of comprehensive income

SEK M	Note	2017	2016
<b>Net profit for the year</b>		<b>2,250</b>	<b>1,845</b>
<b>Other comprehensive income</b>	<b>36</b>		
<b>Items that may subsequently be transferred to profit and loss</b>			
Translation differences for the year from foreign operations		-5	-28
Cash-flow hedges		-115	-81
Change in fair value of available-for-sale financial assets		51	138
Tax attributable to items that may subsequently be transferred to profit and loss		14	-13
<b>Total</b>		<b>-55</b>	<b>16</b>
<b>Items that cannot be transferred to profit and loss</b>			
Revaluation of owner-occupied property		211	210
Revaluation of defined-benefit pension plans		3	2
Tax attributable to items that cannot be reversed to profit and loss		-47	-47
<b>Total</b>		<b>167</b>	<b>165</b>
<b>Total other comprehensive income for the year, net after tax</b>		<b>113</b>	<b>182</b>
<b>Comprehensive income for the year</b>		<b>2,362</b>	<b>2,027</b>

## Consolidated statement of financial position

SEK M	Note	2017-12-31	2016-12-31
<b>ASSETS</b>			
Goodwill	19	538	720
Other intangible assets	20	4,304	4,005
Deferred tax assets	40	47	19
Property and equipment	21	44	55
Owner-occupied property	22	2,887	2,721
Shares in Länsförsäkringar Liv Försäkrings AB	23	8	8
Shares and participations in associated companies	24	48	82
Reinsurers' portion of technical provisions	38	10,475	10,418
Loans to the public	25, 27	261,444	226,705
Unit-linked insurance assets for which the policyholder bears the risk	26	124,730	111,799
Shares and participations	28	2,570	2,024
Bonds and other interest-bearing securities	29	44,008	41,844
Treasury bills and other eligible bills	30	10,531	7,867
Derivatives	31	5,182	6,260
Change in value of hedge portfolios	32	248	636
Other receivables	33	3,576	3,734
Prepaid expenses and accrued income	34	1,936	1,747
Cash and cash equivalents	35	1,196	1,171
<b>Total assets</b>		<b>473,773</b>	<b>421,816</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	36		
Share capital		1,042	1,042
Other capital contributed		10,272	10,272
Additional Tier 1 instrument		1,200	1,200
Reserves		948	835
Retained earnings, including net profit for the year		11,394	9,179
<b>Total equity</b>		<b>24,857</b>	<b>22,529</b>
Subordinated liabilities	37	2,596	2,595
Technical provisions	38	18,903	18,817
Unit-linked insurance liabilities policyholder bears the risk	39	125,583	112,225
Deferred tax liabilities	40	1,533	1,339
Other provisions	41	115	137
Debt securities in issue	42	187,870	157,440
Deposits from the public	43	98,197	89,946
Due to credit institutions	44	3,996	3,873
Derivatives	31	1,187	1,936
Change in value of hedge portfolios	32	1,200	3,191
Other liabilities	45	3,059	3,310
Accrued expenses and deferred income	46	4,676	4,477
<b>Total equity and liabilities</b>		<b>473,773</b>	<b>421,816</b>

For information about pledged assets and contingent liabilities, see note 47.

## Consolidated statement of changes in shareholders' equity

SEK M	Share, capital	Other, capital, contributed	Tier, 1, capital,	Translation, reserve	Revaluation, reserve	Fair, value, reserve,	Hedging, reserve	Retained, earnings, including, net, profit, for, the, year	Total, equity
Opening equity, 1 January 2016	1,042	10,272	1,200	-32	653	-14	47	7,370	20,538
<b>Comprehensive income for the year</b>									
Net profit for the year	-	-	-	-	-	-	-	1,845	1,845
Other comprehensive income	-	-	-	-28	165	108	-63	-	182
<b>Comprehensive income for the year</b>									
Tier 1 capital issued	-	-	-	-	-	-	-	-36	-36
<b>Closing equity, 31 December 2016</b>	<b>1,042</b>	<b>10,272</b>	<b>1,200</b>	<b>-60</b>	<b>818</b>	<b>94</b>	<b>-16</b>	<b>9,179</b>	<b>22,529</b>
Opening equity, 1 January 2017	1,042	10,272	1,200	-60	818	94	-16	9,179	22,529
<b>Comprehensive income for the year</b>									
Net profit for the year	-	-	-	-	-	-	-	2,250	2,250
Other comprehensive income	-	-	-	-5	167	40	-90	-	113
<b>Comprehensive income for the year</b>									
Tier 1 capital issued	-	-	-	-	-	-	-	-34	-34
<b>Closing equity, 31 December 2017</b>	<b>1,042</b>	<b>10,272</b>	<b>1,200</b>	<b>-65</b>	<b>985</b>	<b>133</b>	<b>-106</b>	<b>11,394</b>	<b>24,857</b>

## Consolidated statement of cash flows

SEK M	Note	2017	2016
<b>Operating activities</b>			
Profit before tax		2,825	2,286
Adjustment for non-cash items	54	3,790	4,315
Tax paid		-215	-568
<b>Cash flow from operating activities before changes in working capital</b>		<b>6,400</b>	<b>6,033</b>
<b>Cash flow from changes in working capital</b>			
Change in shares and participations, bonds and other interest-bearing securities and derivatives		-7,625	-6,376
Increase (-)/Decrease (+) in operating receivables		-36,612	-22,960
Increase (+)/Decrease (-) in operating liabilities		8,195	7,332
<b>Cash flow from operating activities</b>		<b>-29,642</b>	<b>-15,970</b>
<b>Investing activities</b>			
Change in shares and participations in associated companies		-4	-
Purchase of intangible assets		-673	-595
Purchase of property and equipment		-28	-20
Investment in property and equipment		-31	-38
Divestment of property and equipment		8	-
<b>Cash flow from investing activities</b>		<b>-729</b>	<b>-653</b>
<b>Financing activities</b>			
Change in debt securities in issue		30,430	16,467
Distributions in Tier 1 Capital instruments		-34	-36
<b>Cash flow from financing activities</b>		<b>30,397</b>	<b>16,431</b>
Net cash flow for the year		26	-192
Cash and cash equivalents, 1 January		1,171	1,374
Exchange-rate differences in cash and cash equivalents		-1	-11
<b>Cash and cash equivalents, 31 December</b>		<b>1,196</b>	<b>1,171</b>

# Notes to the consolidated financial statements

Amounts are stated in SEK M unless specified otherwise.

Note 1	Accounting policies
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## Compliance with standards and legislation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the EU. In addition, the Swedish Annual Accounts Act for Insurance Companies (1995:1560) and the Swedish Financial Supervisory Authority's regulation and general guideline FFFS 2015:12 and its amendments were applied. Furthermore, the Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Rules for Groups was applied.

The Parent Company applies the same accounting policies as the Group except for the cases described under the Parent Company's note 1 Accounting policies.

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

The Parent Company's functional currency is Swedish kronor (SEK), which is also the presentation currency of the Parent Company and the Group. Accordingly, the financial statements are presented in SEK, rounded to the nearest million, unless otherwise stated.

The statement of financial position has been presented based on liquidity. Assets and liabilities are recognised at cost, with the exception of owner-occupied property and the major portion of the Group's holding of financial instruments that are either measured at fair value or at amortised cost.

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

## Judgements and estimates in the financial statements

Preparing financial statements requires judgements when applying accounting policies and estimates when valuing assets, liabilities, income and expenses. Estimates and assumptions are based on historical experience and other factors that are deemed to be relevant and reasonable. Estimates and assumptions are reviewed regularly and compared with actual outcome. Changes in estimates/assumptions are recognised in the period in which the change is made if the change only affects that period, or in the period in which the change is made and/or in following periods.

## Significant judgements applied to the Group's accounting policies

Länsförsäkringar AB's holding in Länsförsäkringar Liv Försäkringsaktiebolag (publ) (referred to below as "Länsförsäkringar Liv") is not classified as a holding in a subsidiary in accordance with the definition in IFRS 10 Consolidated Financial Statements and thus is not consolidated. The company is wholly owned by the Länsförsäkringar AB. The life-assurance operations, which are conducted according to mutual principles through Länsförsäkringar Liv and whose earnings accrue in their entirety to the policyholders, are not recognised in accordance with the purchase method since Länsförsäkringar AB does not have control of the company or the right to variable returns and cannot influence returns. Instead, Länsförsäkringar Liv is recognised and valued as unquoted shares in accordance with IAS 39 Financial Instruments: Recognition and Measurement. The types of category and valuation techniques selected and applied to financial instruments affect recognition in the accounts and are described below.

## Significant sources of estimation uncertainty

Significant sources of uncertainty in estimates mainly comprise impairment requirements for loan losses. Loans identified on an individual basis as impaired, and accordingly on which impairment losses are to be recognised, are measured at the present value of future cash flows discounted by the original effective interest rate. Information and data collated under the

framework of the Group's Internal Ratings-based Approach model are primarily used as support when making assessments of expected future cash flows. This information has been adjusted for a number of factors to provide a neutral estimate of expected cash flows. Secondly, other models are used based on historical experience.

Any impairment requirements on loans that are not deemed to require individual impairment loss recognition are identified and valued collectively. Firstly, a method is used which is based on the information collated and processed under the framework of capital adequacy work, and secondly, estimates are based on historical values and experience-based adjustments of these values to the current situation. Determining that a loss event has occurred for a group of receivables entails higher uncertainty since several different events may have an impact.

When calculating technical provisions, an actuarial estimate of anticipated additional costs for claims incurred and expenses for claims that may be incurred during the remaining term of the insurance policy is made. Another area that involves uncertainty in estimates is the depreciation period for prepaid acquisition costs for unit-linked insurance contracts. The assumption for the depreciation period is based on statistics relating to the terms of the insurance contracts.

## New and amended accounting policies

The following changes and reclassifications were made to the income statement and statement of financial position in 2017:

In order to conform with the classification in the Solvency II and CRR regulations, the Group has decided to recognise financial instruments measured at fair value including accrued interest from 1 January 2017. The change affects the comparative figures in the statement of financial position for 31 December 2016. The assets impacted are: treasury bills and other eligible bills by SEK 73 M, bonds and other interest-bearing securities by SEK 473, derivatives by SEK 663 M and prepaid expenses and accrued income by a negative SEK 1,209 M. The liabilities impacted are: derivatives by SEK 257 M and accrued expenses and deferred income by a negative SEK -257 M. Comparative figures and performance measures have been updated to the new reporting method. The amendment did not otherwise impact profit or equity.

Income has been reclassified between other operating income and commission income. The change entails that income for services rendered that was previously classified as other operating income is now recognised as commission income. Comparative figures have been restated and the 2016 full-year effect amounted to SEK 94 M. The amendment did not impact profit.

Administration costs have been reclassified between other administration expenses and commission expense. Comparative figures have been restated and the 2016 full-year effect amounted to SEK 169 M. The amendment did not impact profit.

The Group has changed its policy for recognising reinstatement premiums. The change affects the comparative figures in the statement of financial position for 31 December 2016. The assets impacted are: reinsurers' portion of technical provisions by SEK 5 M and other receivables by SEK 61 M. The liabilities impacted are: technical provisions by SEK 61 M and other liabilities by SEK 5 M. Comparative figures and performance measures have been updated to the new reporting method. The amendment did not impact profit.

## New IFRSs that have not yet been applied

The new or amended standards and interpretations described below come into effect for fiscal years beginning on or after 1 January 2018 and have not been applied in advance when preparing these financial statements.

## IFRS 9 Financial Instruments

IFRS 9 Financial Instruments took effect on 1 January 2018 and largely replaces IAS 39 Financial Instruments: Recognition and Measurement. The standard contains new requirements for the classification and measurement of financial instruments, new hedge accounting rules and an expected loss impairment model. In September 2016, the IASB amended IFRS 4 Insurance

Contracts to allow insurance companies to use an exception to start applying IFRS 9 on 1 January 2018. This exemption has been approved by the EU and means that insurance companies can instead choose to start applying IFRS 9 at the same time as the future standard IFRS 17 Insurance Contracts, that is from the 2021 fiscal year. Länsförsäkringar AB's insurance subsidiaries do not intend to make use of this exemption.

The Group's project to implement the new rules has been completed and the outcome is as follows:

#### **Classification and measurement**

Financial assets are to be divided into three measurement categories under IFRS 9. The division into these three categories is based on the Group's business model for the various holdings and the cash flow characteristics that the assets give rise to. The outcome for the Group is:

Financial asset	Fair value through profit and loss	Amortised cost	Fair value through other comprehensive income
Treasury bills and other eligible bills			X
Cash and cash equivalents		X	
Loans to the public		X	
Unit-linked insurance assets – policyholder bears the risk	X		
Bonds and other interest-bearing securities	X		X
Shares and participations	X		X
Shares in Länsförsäkringar Liv Försäkrings AB			X
Derivatives	X		
Other financial assets		X	

The transition to IFRS 9 does not entail any material reclassification of financial assets in the Group and thus does not impact the carrying amounts of the assets. In equity, previous impairment in Länsförsäkringar Liv Försäkrings AB that impacted retained earnings will be transferred to the fair value reserve since IFRS 9 no longer permits measurement at cost because fair value cannot be reliably determined.

The classification of financial liabilities has not been changed and financial liabilities continue to be measured at amortised cost.

#### **Hedge accounting**

In 2017, the Group further analysed the options for hedge accounting under IFRS 9 and decided to make use of the exceptions that entail that the rules in IAS 39 can continue to be applied for all hedging relationships.

#### **Expected credit losses**

The impairment model under IFRS 9 encompasses financial assets measured at amortised cost and debt instruments measured at fair value through other comprehensive income, financial guarantees and loan commitments. According to IFRS 9, provisions for credit losses are to be calculated on initial recognition, which differs from the former accounting rules in IAS 39.

The expected loss impairment model is based on dividing the financial assets in three different stages. Stage 1 comprises assets for which the credit risk has not increased significantly since initial recognition. Stage 2 comprises assets for which the credit risk has increased significantly since initial recognition, but the asset is not credit-impaired. Stage 3 comprises credit-impaired assets. Estimating expected credit losses for stage 1 is to correspond to the 12-month expected credit losses (ECL). For stages 2 and 3, estimating expected credit losses is to correspond to the full lifetime expected credit losses. The approach selected to assess the significant increase in credit risk is to compare probability of default (PD) on the reporting date in question with PD from the initial reporting date. In addition, a credit risk is

deemed to have increased significantly for assets that are more than 30 days past due.

The calculations are primarily based on existing internal ratings-based models, but the reporting standard includes the new requirement that the calculations must also take into account prospective information. The provision for the expected credit losses is achieved by calculating the expected credit loss for the asset's contractual cash flows. The present value of the expected credit loss is calculated for every date in each cash flow by multiplying the remaining exposure with the PD and the loss given default (LGD). For stage 1, the expected credit loss is calculated as the present value of the 12-month ECL, while the credit loss for stages 2 and 3 is calculated as the present value of the full lifetime expected credit losses. All calculations of the expected credit losses including estimates of exposure, PD and LGD take into account prospective information and are based on a weighting of at least three different possible macroeconomic scenarios. A number of statistical macro models have been developed to determine how each macroeconomic scenario will affect the expected future exposure, PD and LGD.

The effect of the transition from IAS 39 to IFRS 9 is recognised as an adjustment of equity (after tax) in the opening balance for 2018. A calculation of the provision for expected credit losses under IFRS 9 was performed on 1 January 2018. The change in the provision entails that the Bank Group's equity decreased by SEK 83 M. A method has been established for calculating expected credit losses for the Parent Company's and insurance companies' other receivables and cash and bank balances, which are valued at amortised cost. The assessment is that this will not have a material impact on the companies' financial statements.

The Group does not intend to restate comparative figures for IFRS 9 in the financial statements for 2018.

#### **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 Revenue from Contracts with Customers will take effect for fiscal years beginning on or after 1 January 2018 and will then replace all previously issued standards and interpretations on income. The standard contains a single model for recognising revenue from contracts with customers that is not encompassed by other standards (for example, IFRS 4 Insurance Contracts and IFRS 9 Financial Instruments).

Länsförsäkringar AB has carried out a Group-wide project on the implementation of IFRS 15 and analysed the effects. This work resulted in reclassifications being made in the income statement. Rebating of commissions and fund discounts will be recognised net instead of gross, as previously. More detailed disclosures regarding revenue from contracts with customers are also required.

The Group will apply the future-oriented retrospective transition method, which entails that the Group will recognise the effects of IFRS 15 as an adjustment to the opening balance of retained earnings on 1 January 2018. No effect of the transition to IFRS 15 that is to be recognised in equity had been identified on 31 December 2017. The method also means that comparative figures for 2017 will not be restated. The 2018 Annual Report will provide disclosures on the difference between accounting under IAS 18 and IFRS 15.

#### **IFRS 16 Leases**

IFRS 16 Leases will replace IAS 17 Leases on 1 January 2019. Early adoption is permitted provided that IFRS 15 Revenue from Contracts with Customers is also applied. The Group will not apply the standard in advance.

For lessees, the new standard means that essentially the same lease agreements are to be recognised in the statement of financial position. Leases are not to be classified as operating or finance. The standard provides certain recognition exemptions for lessees for assets of low value and for leases with a term of 12 months or less. For lessors, the rules under IAS 17 remain basically unchanged, and the classification of either operating or finance leases is to continue according to the current leasing standard. The standard contains more extensive disclosure requirements compared with the current standard. The Group currently has a project in progress to analyse the effects of IFRS 16.

## **IFRS 17 Insurance Contracts**

IFRS 17 Insurance Contracts was published on 18 May 2017 and will replace the existing standard IFRS 4 Insurance Contracts. The new standard has not yet been approved by the EU but is expected to come into effect for fiscal years beginning on or after 1 January 2021. The standard will eliminate contradictions and weaknesses in the existing method by providing a principle-based set of rules for recognising insurance contracts. The new standard will also impose expanded disclosure requirements to increase comparability between different companies.

Länsförsäkringar AB is running a Group project to analyse the effects of the new standard. The project is in the pilot study stage.

Other than those described above, no other new or revised IFRS and interpretations adopted by the IASB and not yet in force are expected to have any significant effect on the financial statements.

## **Consolidated financial statements**

### **Consolidation principles**

The consolidated financial statements encompass the accounts for the Parent Company and the companies in which the Parent Company has a controlling influence. All of the following criteria must be fulfilled in order for a controlling influence in a company to exist and thus for consolidation to be relevant. The company has power over the investee, the company is exposed to or has rights to variable returns from its involvement, and the company has the ability to use its power over the investee to affect the amount of the investor's returns.

In the consolidated financial statements, untaxed reserves are divided into deferred tax liabilities and equity.

### **Subsidiaries**

Subsidiaries are recognised in accordance with the purchase method. This method entails that the acquisition of a subsidiary is considered to be a transaction whereby the Group indirectly acquires the subsidiary's assets and assumes its liabilities.

The acquisition analysis determines the fair value of the acquired identifiable assets and assumed liabilities, as well as any non-controlling interests, on the acquisition date. Transaction costs incurred, except for transaction costs attributable to the issue of equity instruments or debt instruments, are recognised directly in profit and loss.

For business combinations whereby consideration transferred exceeds the fair value of acquired assets and assumed liabilities that are recognised separately, the difference is recognised as goodwill. A negative difference is recognised directly in profit and loss.

Contingent consideration is measured at fair value on the acquisition date and remeasured at each reporting date and the change is recognised in profit and loss.

### **Financial statements of subsidiaries in the consolidated financial statements**

The financial statements of subsidiaries are included in the consolidated financial statements from the acquisition date until the date on which the controlling influence ceases. If the subsidiary's accounting policies were not the same as the Group's accounting policies, they were adjusted to the Group's accounting policies.

### **Accounting of associated companies**

Associated companies are companies in which the Group has a significant, but not a controlling, influence over operational and financial control, usually through holdings of participations of between 20-50% of the number of votes. Participations in associated companies are recognised in the consolidated financial statements in accordance with the equity method from the date on which the significant influence was obtained. Dividends received from associated companies reduce the carrying amount of the investment.

### **Related parties**

Legal entities closely related to the Länsförsäkringar AB Group include associated companies, companies within the Länsförsäkringar Liv Group, the

regional insurance companies and other related parties. Legal entities closely related to the Parent Company Länsförsäkringar AB also include its subsidiaries. Related key persons are Board members, senior executives and their close family members.

Associated companies include all associated companies owned by the Länsförsäkringar AB Group and the Länsförsäkringar Liv Group. Other related parties comprise Länsförsäkringar Mäklarservice AB, Länsförsäkringar Fastighetsförmedling AB and Humlegården Fastigheter AB. These companies are wholly owned within the Länsförsäkringar Alliance.

The assessment of whether a close relationship exists or not is based on the financial significance of the relationship and not only ownership. Accordingly, this includes the 23 regional insurance companies, with subsidiaries, and 16 local insurance companies, which together own 100% of Länsförsäkringar AB. Länsförsäkringar AB has been assigned by the regional insurance companies to conduct operations in areas in which economies of scale constitute a decisive competitive advantage and to provide such service to the regional insurance companies, which, for reasons of efficiency, are to be produced and provided jointly within the Länsförsäkringar Alliance.

### **Operating segments**

The Group's division of operating segments corresponds to the structure of the internal reports that the company's chief operating decision maker uses to monitor the operations and allocate resources between operating segments. The Group identified Group management as the company's chief operating decision maker. Accordingly, for the Länsförsäkringar AB Group, the reports on the earnings of the various segments of the operations that are received by Group management form the basis of segment reporting. This led to accounting policies in the operating segments deviating from policies applied in the consolidated financial statements. Changes in the fair value of owner-occupied property in segments in the Länsförsäkringar AB Group are recognised in operating profit instead of in other comprehensive income.

Pricing between the Group's segments is based on market conditions for the operating segments of Non-life Insurance, Unit-linked Insurance, Banking and Parent Company. Länsförsäkringar AB's Group management establishes the service level pertaining to intra-Group transactions involving goods and services. Decisions about prices to be applied to the forthcoming year are made during the annual business planning process.

Pricing for service activities within the Länsförsäkringar Alliance is based on direct and indirect costs. Overall, pricing is intended to distribute costs fairly within the Länsförsäkringar Alliance based on consumption. Joint development projects and joint service are financed collectively and invoiced based on an established distribution key. Länsförsäkringar AB's Group management arranges the service levels and costs for the sale of goods and services to intra-Group companies jointly with a service committee comprising representatives from the regional insurance companies. Based on these discussions, the Board of Länsförsäkringar AB makes decisions on external pricing.

### **Foreign currency**

#### **Transactions in foreign currency**

Transactions in foreign currency are translated at the exchange rate on the transaction date.

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

Exchange-rate differences arising due to translations in the statement of financial position in foreign currency are recognised in profit and loss as Investment income, net.

#### **Translation of the financial statements of foreign operations**

The Group has small foreign operations in the form of branches in Denmark, Norway and Finland, a subsidiary and a branch in the UK, and an associated company in Switzerland. Assets and liabilities in branches, associated companies and subsidiaries are translated to SEK at the exchange rate prevailing on the balance-sheet date. Income and expenses are translated to the Group's presentation currency at an average exchange rate comprising an approxi-

mation of the exchange rate applicable on the date of the transaction. Translation differences arising in the translation of branches' and subsidiaries' currencies are recognised in the Group in other comprehensive income as a translation reserve.

## Impairment

The carrying amounts of the Group's assets are assessed at the end of every accounting period to determine whether there are any indications of impairment.

### ***Impairment tests for property and equipment and intangible assets and participations in subsidiaries and associated companies***

If there is an indication of an impairment requirement, the recoverable amount of the asset is calculated. The recoverable amounts of goodwill and intangible assets that are not finished for use are calculated annually, regardless of whether there is an indication of an impairment requirement. If it is not possible to determine the significantly independent cash flows for an individual asset, the assets are to be grouped when testing for impairment at the lowest value where it is possible to identify the significantly independent cash flows, known as a cash-generating unit. A cash-generating unit is the smallest group of assets that generates cash inflows that are independent of the cash inflows from other assets or groups of assets.

An impairment loss is recognised when the carrying amount of an asset or a cash-generating unit exceeds the higher of the fair value minus selling expenses and the value in use. The value in use is calculated as expected future cash flows discounted by the market-based yield requirements for the asset/cash-generating unit. Impairment losses are recognised in profit and loss. The impairment of assets attributable to a cash-generating unit is initially distributed to goodwill. Proportional impairment losses on the other assets included in the unit are subsequently recognised.

### ***Impairment tests for financial assets***

On each reporting occasion, the company assesses whether a financial asset is in need of impairment by evaluating objective evidence of a impairment of a financial asset. Objective evidence comprises observable circumstances that have occurred and have a negative effect on the possibility to recover the cost. Equity instruments classified as available-for-sale financial assets are considered to have an impairment requirement and are impaired if the fair value significantly falls below the cost or if the decline in value is prolonged.

The recoverable amount for assets belonging to the category of loans and receivables, which are recognised at amortised cost, is calculated as the present value of future cash flows discounted by the effective interest rate that applied when the asset was initially recognised. Assets with a duration of less than one year are not discounted. Impairment losses are recognised in profit and loss.

## Reversal of impairment losses

### ***Reversal of impairment losses on property and equipment and intangible assets and participations in associated companies***

Impairment losses on goodwill are not reversed. Other impairment losses are reversed when there is no longer any indication of impairment and a change has occurred in the assumptions that formed the basis for calculating the recoverable amount. A reversal is made only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been recognised, less depreciation/amortisation, if no impairment had been applied.

Impairment of property and equipment and intangible assets is recognised as Other administration expenses. Impairment of investments in associated companies is recognised as Investment income, net.

### ***Reversal of impairment on financial assets***

Impairment losses on loans and receivables recognised at amortised cost are reversed if a subsequent increase in the recoverable amount can objectively be attributed to an event occurring after the impairment loss was recognised.

Impairment of equity instruments classified as available-for-sale financial assets are not reversed through profit and loss. The impaired value is the

value from which subsequent revaluations are made, which are recognised in other comprehensive income.

Impairment of interest-bearing instruments, classified as available-for-sale financial assets, are reversed through profit and loss if the fair value increases and the increase can objectively be attributed to an event occurring after the impairment loss was recognised.

Impairment of financial assets is recognised as Investment income, net.

## Income

Income is recognised when:

- the income can be measured reliably
- it is probable that the economic benefits associated with the transaction will flow to the company
- the degree of completion on the balance-sheet date can be measured reliably
- the expenses incurred and the expenses remaining to complete the service assignment can be measured reliably.

Income is measured at the fair value of the amount that has been, or will be, received. Income is recognised in accordance with the percentage of completion method, meaning that income is recognised on the basis of the degree of completion of the assignment or the service on the balance-sheet date.

## Other income

Income from assignments is recognised when the financial outcome of performed assignments can be measured reliably and the economic benefits flow to the company (primarily on a current account basis). Income is recognised in profit and loss according to the percentage of completion method.

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

## Premiums

### ***Premium income***

Premium income in the non-life insurance operations is recognised as the total gross premium for direct insurance and assumed reinsurance deposited or can be credited to the company for insurance contracts for which the insurance period commenced prior to the end of the fiscal year. Gross premium is the contractual premium for the entire insurance period after deductions for standard customer discounts. Renewal premiums that are not confirmed by the policyholder and premiums for new insurance contracts are included at the amounts at which they are expected to be received. Cancellations reduce the premium income as soon as the amount is known. Additional premiums are included at the amounts at which they are expected to be received. Premiums for insurance periods commencing after the end of the fiscal year are also recognised as premium income, if according to contract they fall due for payment during the fiscal year. Premium income is recognised excluding tax and other public fees charged to the insurance premium.

The insurance component in the life-assurance operations is classified in the financial agreements as insurance contracts.

### ***Premiums earned***

Premiums earned are recognised as the portion of premium income attributable to the accounting period. The portion of premium income from insurance contracts pertaining to periods after the balance-sheet date is recognised as Technical provisions in the statement of financial position. Provision for unearned premiums is usually calculated by strictly allocating premium income based on the term of the underlying insurance contract. Reinsurers' portion of premium income is also allocated and the portion attributable to the period after the balance-sheet date is recognised as a receivable, Reinsurers' portion of technical provisions.

## Interest income and interest expense

Interest income and interest expense presented in the income statement comprise interest in the Bank Group on financial assets and liabilities that is

valued at amortised cost, including interest on impaired loans and interest from financial assets classified as available-for-sale financial assets. For interest-rate derivatives that hedge financial assets, paid and accrued interest is recognised as interest income, and for interest-rate derivatives that hedge financial liabilities, these are recognised as part of interest expense. Interest income on assets and interest expense on liabilities are calculated and recognised through application of the effective interest method or by calculating a reasonable estimated based on a calculation under the effective interest method. Interest income and interest expense include, where appropriate, allocated fees received, which are included in the calculation of effective interest rate, transaction costs and any discounts and other differences between the original value of the asset or liability and the amount settled at maturity. Allocated issue expenses and direct transaction costs paid when loans are raised are included in interest expense. Negative interest on assets is recognised as a decrease in interest income. Negative interest on liabilities is recognised as a decrease in interest expense.

### **Investment income, net**

The following items are recognised under Investment income, net: realised and unrealised gains/losses from investing activities, the Bank Group's net gains from financial items and effect of interest-rate revaluations on annuities in insurance operations. Realised profit and losses are calculated as the difference between the purchase consideration received and the cost of the asset. Unrealised profit and loss comprises changes for the year in the difference between cost and fair value. In the event of a sale, the accumulated unrealised change in value is reversed as an unrealised gain or loss. Gains/losses from investing activities include interest income, interest expense, exchange-rate gains and exchange-rate losses on investment assets, derivatives not included in hedge accounting, cash and cash equivalents and loans. Realised and unrealised gains/losses on investment assets and derivatives not included in hedge accounting are included in the item, as well as dividends, impairment of financial assets and external costs for asset management. Net gains from financial items from the Bank Group includes interest compensation, realised and unrealised changes in value of derivatives that are financial hedging instruments, but to which hedge accounting is not applied. Furthermore, unrealised changes in fair value of derivatives to which fair value hedge accounting is applied and unrealised changes in fair value of hedged items with regard to hedged risk in the hedging of fair value are included. The ineffective portion of hedging instruments in cash-flow hedging and exchange-rate changes is also included. In the insurance operations, provision for claims outstanding is discounted on annuities; the effect of interest-rate revaluations on annuities is recognised as Investment income, net.

### **Commission income and commission expense**

Commission income is derived from various types of services provided to customers. The manner in which the commission income is recognised depends on the purpose for which the fee was charged. Fees are recognised in income either in line with the provision of the services or in conjunction with the performance of a significant activity. Fees charged continuously, such as advising fees and financial guarantees, are recognised as income in the period in which the service was provided. Fees charged for significant activities, for example, securities commission and card commission, are recognised in income when the activity has been completed. Fees from financial agreements and commission income in the unit-linked insurance operations are recognised as commission income.

Commission expense is dependent on the transaction and is recognised in the period in which the services are received. Commission expense includes remuneration to the regional insurance companies for their work with the Group's customer-related issues in unit-linked insurance and in the banking operations. Commission expense deriving from financial assets or financial liabilities not measured at fair value through profit and loss comprises commission to the regional insurance companies.

### **Claims payments**

The expenses for claims incurred for the period, both those reported to the company and those not reported, are recognised as claims payments. Total claims payments include claims paid during the period and changes in provisions for claims outstanding and reinsurers' portion of provision for claims outstanding. Claims recoveries are recognised as a reduction of claims costs.

### **Remuneration of employees**

#### ***Current remuneration***

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

### **Remuneration after termination of employment**

#### ***Pension plans***

The Group has both defined-contribution and defined-benefit pension plans, some of which have assets in separate foundations. These plans are financed through payments from the respective Group company. The Group is generally covered by the FTP plan, which does not depend on any payments from employees.

#### ***Defined-benefit pension plans***

The Group's commitments for defined-benefit pension plans are calculated separately for each plan by making an estimate of the future remuneration that the employees will have earned over their employment in both current and previous periods. The provisions for defined-benefit pensions is discounted to a present value.

#### ***Defined-contribution pension plans***

The company pays fixed contributions to a separate legal entity and does not have a legal or informal obligation to pay additional contributions.

The company's payments of defined-contribution plans are recognised as expenses during the period in which the employee performed the services to which the contributions refer.

The pension agreement for the insurance industry, the FTP plan, is a multi-employer pension plan. The plan is a defined-benefit plan for employees born in 1971 or earlier and a defined-contribution plan for employees born in 1972 or after. The defined-benefit portion is insured through the Insurance Industry's Pension Fund (FPK). This pension plan entails that a company, as a rule, recognises its proportional share of the defined-benefit pension commitment and of the plan assets and expenses associated with the pension commitment.

The accounts should also include information in accordance with the requirements for defined-benefit pension plans.

The FPK is currently unable to provide the necessary information, which is why the pension plan above is recognised as a defined-contribution plan. Nor is any information available on future surpluses and deficits in the plan, and whether these surpluses and deficits would then affect the contributions for the plan in future years.

### ***Remuneration for termination of employment***

A cost for remuneration in connection with termination of employment of personnel is recognised at the earliest point in time at which the company can no longer withdraw the offer to the employees or when the company recognises expenses for restructuring. Remuneration expected to be paid after 12 months is recognised at its present value.

### **Loan losses**

Loan losses comprises confirmed and probable loan losses. Confirmed loan losses pertain to the entire receivable when there is no realistic possibility of recovery. Probable loan losses pertain to impairment for the year for the loan losses based on a calculated recoverable amount when there is an indication that impairment is required. Recoveries comprise reversed amounts of loan losses that were previously recognised as confirmed. Probable loan losses are reversed when no impairment requirement is deemed to exist. Only the Bank Group's share of probable and confirmed loan losses are recognised.

The regional insurance companies' share of probable and confirmed loan losses is settled against accrued commission. The settlement model regarding the commitment that the regional insurance companies have regarding loan losses related to business they have originated entails that the regional insurance companies cover 80% of the provision requirement on the date when an impairment is identified, by means of an off-set against accrued commissions.

## Taxes

Income tax comprises current tax and deferred tax. Income tax is recognised in profit and loss, except when the underlying transaction is recognised in other comprehensive income or against equity with the related tax effect recognised in other comprehensive income or in equity. Additional income tax arising on dividends is recognised at the same time as when the dividend is recognised as a liability.

### Current tax

Current tax is tax that is to be paid or received in the current year, with the application of the tax rates that are decided or decided in practice on the balance-sheet date. This also includes adjustments of current tax attributable to prior years.

### Deferred tax

Deferred tax is calculated based on temporary differences between carrying amounts and tax bases of assets and liabilities. Temporary differences are not taken into account in consolidated goodwill. The valuation of deferred tax is based on how the carrying amounts of assets and liabilities are expected to be realised or settled. Deferred tax is calculated with the application of the tax rates and tax rules established or decided in practice on the balance-sheet date.

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

### Yield tax

Yield tax is a tax paid by Länsförsäkringar Fondliv Försäkrings AB on behalf of the policyholders. Tax objects comprise the market value of the net assets managed on behalf of the policyholders at the start of the fiscal year. The yield tax attributable to the period is recognised in the consolidated income statement under change in provision for life assurance for which the policyholder bears the risk.

## Intangible assets

### Goodwill

Goodwill represents the difference between the cost of the acquisition of operations and the net of the fair value of acquired identifiable assets, assumed liabilities and contingent liabilities.

Refer also to the policies on consolidation of subsidiaries and Impairment above.

### Other intangible assets

Other intangible assets comprise proprietary and acquired intangible assets with determinable useful lives. These assets are recognised at cost less accumulated amortisation and impairment. Amortisation is commenced when the asset becomes available for use.

The Group's proprietary intangible assets are recognised only if the expenses for the asset can be reliably calculated, it is technically and commercially usable and sufficient resources exist to complete development and thereafter use or sell the intangible asset.

The carrying amount of proprietary intangible assets includes all directly attributable expenses. Other development expenses are recognised as an expense when they arise.

The period of amortisation is determined based on useful lives. Amortisation takes place through profit and loss according to the straight-line method. Impairment requirements are tested annually as described in the section on Impairment above.

Additional expenses for capitalised intangible assets are recognised as an asset in the statement of financial position only when these expenses increase the future economic benefits of the specific asset to which they pertain.

## Property and equipment

### Equipment

Equipment is recognised at cost less accumulated depreciation and accumulated impairment. Depreciation takes place according to the straight-line method over the asset's expected useful life, commencing when the asset becomes available for use. Depreciation and scrapping and divestments are recognised in profit and loss. The useful life for computer equipment is three years and five years for office equipment and cars. The depreciation method and the residual values and useful lives of the assets are re-tested every year-end.

Impairment requirements are tested annually according to the principles described in the section on Impairment above.

### Owner-occupied property

Owner-occupied property is recognised in accordance with the revaluation technique.

Land and buildings owned by the Länsförsäkringar AB Group and that are used for administrative purposes are recognised at their revalued amounts, which corresponds to fair value less accumulated depreciation and adjustments due to revaluations on the date of revaluation. Fair value is based on the prevailing prices in an active market for similar properties in the same location and of the same standard, supplemented by a cash-flow statement. The valuation is performed twice a year by an external independent appraiser. Increases in value are recognised in other comprehensive income and accumulated after tax in the revaluation reserve in equity. If the increase comprises a reversal of a previously recognised decrease in value of the same asset, the increase is recognised as a reduced cost in profit and loss. If revaluation results in a reduction in the carrying amount, the reduction is recognised in profit and loss. However, the reduction is recognised in other comprehensive income to the extent that a revaluation reserve is attributable to the asset.

Owner-occupied property comprises a number of components with various useful lives. The main division is land and buildings. The land component is not depreciated since its useful life is deemed to be unlimited. The useful lives of these components are deemed to vary between ten and 100 years. The following main groups of components have been identified and form the basis of the depreciation of buildings.

Frame	100 years
Roof, façade, windows	50 years
Frame supplementation	40 years
Fixtures and fittings	40 years
Exterior surface	20 years
Permanent equipment, service facilities etc., in buildings	10 years

The depreciation methods used and the residual values and useful lives of the assets are re-tested every year-end.

An additional expense is to be added to the cost if the expense pertains to the replacement of identified components, or parts thereof, in which case such expenses are capitalised. The expense is also added to the cost when a new component is created.

Carrying amounts of replaced components, or parts of components, that have not been depreciated are discarded and expensed in conjunction with the replacement. Repairs are continuously expensed.

## Financial assets and liabilities

### **Recognition and derecognition in the statement of financial position**

A financial asset or financial liability is recognised in the statement of financial position when the company becomes party to the agreement in accordance with the conditions of the instrument. A financial asset is derecognised from the statement of financial position when the right to receive cash flows from the instrument has expired or been transferred, and the Group has essentially transferred all risks and rewards associated with ownership. A financial liability is derecognised from the statement of financial position when the obligation in the contract is met or extinguished in another manner. Business transactions in the monetary, bond and equities markets are recognised in the statement of financial position on the transaction date, which is the time when the significant risks and rights are transferred between the parties. Deposits and lending transactions are recognised on the settlement date.

Loan receivables are recognised in the statement of financial position when the loan amount is paid to the borrower. Loan commitments are recognised as a commitment, see note on Pledged assets and contingent liabilities.

### **Offsetting financial assets and liabilities**

Financial assets and liabilities are offset and recognised in the statement of financial position on a net basis only when there is a legally enforceable right to offset the carrying amounts and an intent to settle them with a net amount or to simultaneously realise the asset and settle the liability. The legally enforceable right should not be contingent on a future event and must be legally binding for the company and the counterparty in the normal course of business, and in the event of default, insolvency or bankruptcy.

### **Recognition of repurchase transactions**

In genuine repurchase transactions (a sale of interest-bearing securities with an agreement for repurchase at a predetermined price), the asset continues to be recognised in the statement of financial position and payment received is recognised as Due to credit institutions. Sold securities are recognised as pledged assets. For a reversed repurchase transaction (a purchase of interest-bearing securities with an agreement for resale at a predetermined price), the securities are not recognised in the statement of financial position. The payment received is recognised instead in Loans to the public.

## Classification and measurement

Financial instruments measured at fair value upon initial recognition in the statement of financial position. A financial instrument is classified on initial recognition based on the purpose for which it was acquired, and determined upon initial recognition. After initial recognition, the classification determines how the financial instrument is measured. Financial instruments are initially measured at fair value plus transaction costs, which applies to all financial assets not measured at fair value through profit and loss. Financial assets measured at fair value through profit and loss are initially measured at fair value, while the attributable transaction costs are recognised in profit and loss.

### **Financial assets measured at fair value through profit and loss**

This category comprises two sub-groups: Held for trading and Financial assets measured according to fair value option. The "Held for trading" category comprises derivatives that are not included in a hedge relationship and that have a positive market value. The "Financial assets measured according to fair value option" category includes assets that are managed and valued based on the fair values of the assets. The fair value also forms the basis of internal monitoring and reporting to senior executives. Since these assets are managed and valued at fair value, the Group has chosen to classify these instruments as financial assets measured at fair value through profit and loss. In the statement of financial position, Financial assets measured according to fair value option comprises the items of Unit-linked insurance assets policyholder bears the risk, Shares and participations and Bonds and other interest-bearing securities. Changes in fair value of these assets are recognised in profit and loss as Investment income, net

## Derivatives used in hedge accounting

The Group's derivatives, which comprise interest-rate and cross-currency swaps and purchased interest caps, have been acquired in their entirety to hedge the risks of interest and exchange-rate exposure arising during the course of operations. All derivatives are measured at fair value in the statement of financial position. Changes in value are recognised depending on whether the derivative is designated as a hedging instrument and the type of hedge relationship that the derivative is included in. The Group applies both cash-flow hedges and fair-value hedges. To meet the demands of hedge accounting in accordance with IAS 39, an unequivocal connection with the hedged item is required. In addition, it is required that the hedge effectively protects the hedged item, that hedge documentation has been prepared and that the effectiveness can be measured reliably. Hedge accounting may only be applied if the hedge relationship can be expected to be highly effective. In the event that the conditions for hedge accounting are no longer met, the derivative instrument is measured at fair value with the change in value through profit and loss. Hedge relationships are evaluated monthly. Each identified hedge relationship is expected to be effective over the entire lifetime of the relationship. Effectiveness is tested by applying a forward-looking (prospective) assessment and a retrospective evaluation. Ineffectiveness is recognised in profit and loss.

### **Cash-flow hedges**

Cash-flow hedging means a hedge of the risk of changed cash flows, for example, the risk of changed interest expenses from a loan bearing variable interest. When cash-flow hedges are applied, the effective portion of the derivative's (the hedging instrument's) changes in value are recognised in Other comprehensive income and accumulated in Equity. Changes in value recognised in Equity impact profit and loss at the same time as the hedged item impacts profit and loss. The Group applies cash-flow hedges for hedging interest-rate risk in Länsförsäkringar AB's debt securities in issue bearing variable interest and for hedging currency risk in Länsförsäkringar Bank's debt securities in issue in foreign currency.

### **Fair-value hedges**

Fair-value hedges entail hedging the risk of changes in fair value of a financial asset or a financial liability. When applying fair-value hedges, the hedged item is measured at fair value regarding its hedged risk. The changes in value that arise are recognised in profit and loss and offset by the changes in value arising on the derivative (the hedging instrument). Länsförsäkringar Bank applies the fair-value hedge method to specific portfolios of funding, deposits and loans bearing fixed interest rates. Länsförsäkringar Bank also applies the fair-value hedge method to assets in the liquidity portfolio that are classified in the category of Available-for-sale financial assets. The portfolio method that is applied implies that the hedged item and the hedging instruments are distributed to various time pockets based on the contractual timing of interest renegotiation or maturity. The change in the value of the derivative is recognised in profit and loss together with the change in the value of the hedged item in Investment income, net. Unrealised changes in the value of hedging instruments are also recognised in the item Investment income, net. Interest coupons, both unrealised and realised, are recognised as interest income if the hedged item is an asset or portfolio of assets, or as interest expense if the hedged item is a liability or portfolio of liabilities.

### **Available-for-sale financial assets**

Available-for-sale financial assets are assets that have been designated in this category or not classified in any of the other categories. The Group has chosen to classify the Bank Group's liquidity surplus and holdings in Länsförsäkringar Liv Försäkrings AB in this category. Assets in the Available-for-sale financial assets category are continuously measured at fair value. Unrealised changes in value are recognised in other comprehensive income and accumulated in the fair value reserve in equity. Assets are recognised in profit and loss once the changes in value have been realised and when any impairment losses arise. The shares in Länsförsäkringar Liv Försäkrings AB are measured at fair value corresponding to cost adjusted for impairment

since the shares cannot be reliably measured at fair value. An assessment of whether the shares of Länsförsäkringar Liv Försäkrings AB require impairment takes place prior to the end of each reporting period.

#### **Loans and receivables**

Loans and receivables are financial assets that have fixed or fixable payments and that are not derivatives or quoted in an active market. Assets in this category are measured at amortised cost. Loans and receivables in the statement of financial position comprise the items of Loans to the public, Other receivables, Prepaid expenses and accrued income and Cash and cash equivalents.

#### **Equity instruments**

Instruments in which the Group does not have a contractual obligation to make payment are recognised as equity instruments. Payment to holders of these instruments is recognised in equity. Accordingly, issued shares and Tier 1 instruments are recognised as equity instruments in the statement of financial position.

#### **Financial liabilities measured at fair value through profit and loss**

This category comprises two sub-groups: Held for trading and Financial liabilities measured according to fair value option. A financial liability held for trading is classified in this category if acquired principally for the purpose of selling in the short term. The Group has chosen to classify derivatives not used for hedge accounting and that have a negative market value in the category of Held for trading. Changes in fair value of financial liabilities measured at fair value through profit and loss are recognised as Investment income, net.

#### **Other financial liabilities**

Other financial liabilities in the statement of financial position comprise Sub-ordinated liabilities, Debt securities in issue, Deposits from the public, due to credit institutions, Other liabilities and Accrued expenses and deferred income. Liabilities in this category are measured at amortised cost according to the effective interest method. When hedge accounting is applied, the value is adjusted for changes regarding the hedged risk.

#### **Loans**

These assets are measured at amortised cost. Amortised cost is determined based on the effective interest rate calculated on the acquisition date. Accounts receivable and loan receivables are recognised in the amount at which they are expected to be received, meaning after deductions for impairment of impaired loans.

#### **Impaired loans**

A loan or account receivable is considered impaired if a payment is more than 60 days overdue or if there is reason to expect that the counterparty cannot meet its undertaking. The portion covered by collateral is not deemed to be an impaired loan.

#### **Impairment of loan losses**

##### **Individual impairments**

For loans for which an individual impairment requirement has been identified, the recoverable amount is valued at the present value of expected future cash flows discounted by the effective interest rate of the receivable according to the latest interest-adjustment date.

An individual impairment loss is recognised according to either an individual assessment or a statistical model when the counterparty has a payment that is more than 60 days past due or if the counterparty, for other reasons such as bankruptcy, a decline in the value of the collateral or reduced repayment capacity, cannot fully meet its undertaking. Accordingly, the assessment of the impairment requirement for these individually identified loans is based on historical experience about cash flows from other borrowers with similar credit-risk characteristics. For leasing and hire purchase, an individual assessment is made of the future cash flows of all customer contracts terminated due to lack of solvency and of non-performing receivables for which an impairment requirement exists.

#### **Collective impairments**

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

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

#### **Confirmed losses**

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

#### **Leasing**

Leases are classified in the consolidated financial statements as either finance or operating leases. A finance leases exist if the financial risks and rewards of ownership have substantially been transferred to the lessee. All other leases are operating leases.

The Bank Group's assets that are leased under finance leases are not recognised as property and equipment since the risks associated with ownership are transferred to the lessee. Instead, the leases are recognised as loans to the lessee regarding future leasing fees. Initially, an amount corresponding to the present value of all minimum lease payments to be paid by the lessee is recognised and any guaranteed residual value accrues to the lessor. Payments received from these leases are recognised in part as repayment of lease receivables and in part as interest income.

The Group is a lessor and to a slight extent also lessee in the form of external lease contracts classified as operating lease and where expenses are recognised as rents.

#### **Prepaid acquisition costs**

Selling expenses that have a distinct link to signed insurance contracts are recognised as assets, prepaid acquisition costs, and are depreciated over their useful lives. A condition for capitalisation is that the acquisition costs are attributable to a certain insurance contract, or homogeneous groups of contracts that can be followed up, and are deemed to generate a margin that covers at least the acquisition costs capitalised. The selling expenses that are to be capitalised are commission expenses.

In the non-life insurance operations, the capitalised cost is allocated in a manner corresponding to the allocation of unearned premiums. The depreciation period does not exceed 12 months.

In the unit-linked insurance operations, the capitalised cost is allocated in accordance with the same pattern as the recognition of income, meaning in line with the service being provided. Acquisition costs are depreciated over 20 years, but not on a straight-line basis. The asset is impairment tested every year.

#### **Insurance contracts**

Insurance contracts are contracts in which the insurance company undertakes a significant insurance risk for the policyholder by agreeing to compensate the policyholder if a predetermined, insured event were to occur. Insurance contracts are divided into insurance contracts or non-insurance contracts according to insurance risk. Insurance products without significant insurance risk are to be classified as non-insurance contracts. A review of all contracts in the insurance companies was performed focusing on the insurance risk in these contracts and the financial impact of an insurance

event on the financial statements. The financial impact must be significant to be considered an insurance contract. The Group's non-life insurance companies have classified all insurance contracts as with contracts containing insurance risk. Some insurance contracts of minor financial impact were identified for which the risk is not transferred to another party. Since these are of marginal value, all contracts have been classified according to the concept of materiality as insurance contracts.

The unit-linked insurance operations have insurance contracts with significant insurance risk and contracts with limited insurance risk. The insurance component of the financial agreements and pure risk insurance are classified as insurance contracts.

### **Financial agreements**

Insurance contracts that contain limited insurance risk are classified as financial agreements in Länsförsäkringar Fondliv Försäkrings AB. In the reporting, these contracts are divided into a financial component and an insurance component. This method is known as unbundling. To provide more relevant information, the financial component and the insurance component are recognised separately for all contracts, both those classified as insurance contracts and those classified as financial agreements.

Premiums for the financial component are recognised as a deposit in the insurance operations through the statement of financial position. Correspondingly, payments of claims payments for insurance contracts with limited risk are recognised as withdrawals from the insurance operations in the statement of financial position. The fees paid by customers are recognised as income and the costs for insurance risk are recognised as expenses. The various types of fees charged to customers for the management of financial agreements are recognised in income in line with providing the management services to the policyholders. The provision of services is evenly distributed over the term of the contracts.

### **Reinsurance**

Contracts signed between the Group's insurance companies and reinsurers through which the company is compensated for losses on contracts issued by the company and that meet the classification requirements for insurance contracts as stated above are classified as ceded reinsurance. Assumed reinsurance is classified in the same manner when the company assumes risks from other companies' insurance contracts.

For ceded reinsurance, the benefits to which the company is entitled under the reinsurance contract are recognised as the reinsurers' portion of technical provisions and deposits with companies that have ceded reinsurance. Receivables from and liabilities to reinsurers are valued in the same manner as the amounts linked to the reinsurance contract and in accordance with the conditions of each reinsurance contract. Liabilities in reinsurance primarily comprise settlements against regional insurance companies and premiums to be paid for reinsurance contracts.

The reinsurers' portion of technical provisions corresponds to the reinsurers' liability for technical provisions in accordance with signed contracts. If the recoverable amount is lower than the carrying amount of the asset, the asset is impaired to the recoverable amount and the impairment loss is expensed in profit and loss.

### **Technical provisions**

Technical provisions consist of **Unearned premiums**, **Unexpired risks**, **Life-assurance reserves** and **Claims outstanding**.

Changes in technical provisions for the period are recognised in profit and loss. Changes attributable to the translation of the provisions to the exchange rate on the balance-sheet date are recognised as exchange-rate gains or exchange-rate losses in **Investment income, net**. The insurance companies in the Group perform a liability adequacy test of their insurance provisions to ensure that the carrying amount of the provisions is sufficiently high in regard to expected future cash flows.

### **Unearned premiums**

Provision for unearned premiums is intended to cover the expected claims and operating expenses during the remaining term of insurance contracts. The calculation includes an estimate of the expected costs for claims that may occur during the remaining term of the insurance policies and the administration costs during the period.

Normally, the provision is strictly proportional to time, referred to as a *pro rata temporis* calculation.

The cost estimate is based on experience, but consideration is also given to both the observed and forecast trend in relevant costs.

### **Unexpired risks**

Unexpired risks refers to the risk that the payment requirements of the insurance contracts and the costs will not be covered by unearned premiums and expected premiums after the end of the fiscal year. If the premium level of insurance contracts already entered into is deemed to be insufficient, a provision is made for unexpired risks.

### **Claims outstanding**

The provision for claims outstanding in the unit-linked insurance operations comprises provision for annuities and disability annuities, established claims and non-established claims. The provision for annuities and disability annuities corresponds to the discounted capital value of commitments in accordance with the insurance contract. The provision for established claims corresponds to the discounted, expected capital value of future expenses due to the incurred health claim. This includes reported and approved claims that have not yet been paid, future operating expenses as well as the fixed-income operations. The discount rate is determined based on current market interest rates in accordance with satisfactory practice.

The provision for non-established claims pertains to claims that have not yet been reported but which have been made using statistical methods based on previous experience for the respective products. For disability annuities at fixed amounts, the nominal interest-rate assumption was determined based on the yield curve used for the life-assurance reserves. Similarly, a real yield curve was applied to index-linked disability annuities.

In the non-life insurance operations, these provisions should cover anticipated costs for claims for which final settlement has not been completed, including claims that have occurred but have not yet been reported to the company. The provision includes anticipated future cost increases plus all expenses for claims adjustment and is based on statistical methods for most claims. An individual assessment is made in the case of major claims and claims involving complex liability conditions. With the exception of annuities, the provision for claims outstanding is not discounted. The provision for annuities is estimated in line with customary life-assurance methods and discounted to market interest rates. The effect of interest-rate revaluations is recognised as a financial expense or income.

For motor third-party liability insurance, provisions are made for claims adjustment costs according to the unit cost principle. Provisions for claims adjustment costs for other insurance classes are made proportionally against the provision for claims incurred.

The provision for claims incurred but not reported (IBNR) encompasses costs for claims that have been incurred but are unknown to the company. The amount is an estimate based on historical experience and claims outcomes.

The change in claims outstanding for the period is recognised in profit and loss. Changes attributable to the translation of the provisions to the exchange rate on the balance-sheet date are recognised as exchange-rate gains or exchange-rate losses under **Investment income, net**.

### **Life-assurance reserve**

The life-assurance reserve, pertaining to contracted benefits for guarantee management in the unit-linked insurance operations, corresponds to the anticipated capital value of the company's guaranteed commitments. The life-assurance reserve is calculated per insurance policy in accordance with standard actuarial principles based on assumptions regarding interest rates.

mortality, cancellations, expenses and yield tax. The discount rate is based on market rates on the measurement date and any future transaction is measured with consideration for the interest rate that corresponds to the duration of the transaction in relation to the calculation date. Mortality assumptions are based on statistical data representing the target group for which Länsförsäkringar Fondliv offers insurance solutions. The statistical data is based on Länsförsäkringar's insurance portfolio, but generally available information has been taken into account for comparison with observations in Länsförsäkringar's portfolio. Cancellation assumptions are based on the historical outcome in Länsförsäkringar. Yield tax will be removed from current tax legislation.

#### **Provisions for which the policyholder bears the risk**

Financial liabilities in the unit-linked insurance operations whereby the liability has a direct link to the value of a financial asset for which the company does not have any risk in the change in value of the fair value of the asset. Provisions for life assurance for which the policyholder bears the investment risk correspond to the redemption value of the fund units held on the policyholders' behalf.

The unit-linked insurance operations have chosen to attribute unit-linked insurance commitments to the measurement category of Financial liabilities measured at fair value in profit and loss. This means that the provision matches the linked assets measured at fair value.

#### **Other provisions**

A provision is recognised in the statement of financial position when the Group has an existing legal or informal obligation as a result of a past event and it is probable that an outflow of financial resources will be required to settle the obligation and a reliable estimate of the amount can be made. Where the effect of when a payment is made is significant, provisions are calculated by discounting the expected future cash flow at a pre-tax interest rate that reflects current market assessments of the time value of money and, where appropriate, the risks associated with the liability.

#### **Contingent liabilities**

A contingent liability is recognised when there is a possible commitment originating from past events and whose existence is confirmed only by one or more uncertain future events, or when there is a commitment that is not rec-

ognised as a liability or provision because it is probable that an outflow of resources will be required, or cannot be measured with sufficient reliability. Contingent liabilities are measured at the amount corresponding to the best estimate of the amount required to settle the commitment on the balance-sheet date. The measurement accounts for the expected future date of settlement.

#### **Loan commitments**

A loan commitment can be:

- a unilateral commitment by a company to issue a loan with predetermined terms and conditions in which the borrower can choose whether he/she wants to accept the loan or not
- a loan agreement in which both the company and the borrower are subject to terms and conditions for a loan that begins at a certain point in the future.

Loan commitments are not recognised in the statement of financial position. Issued irrevocable loan commitments are valid for three months and are recognised as a commitment under the note entitled Pledged assets and contingent liabilities.

#### **Financial guarantees**

Guarantee agreements issued by the Group mainly comprise leasing and credit guarantees. These entail a commitment to compensate the holder when the holder incurs a loss due to a specific debtor not making due payments to the holder in accordance with applicable contractual conditions.

Financial guarantee agreements are initially measured at fair value, which normally means the amount that the company received as compensation for the guarantee issued. In the subsequent measurement, the liability for the financial guarantee is recognised at the higher of the allocated premium, and the amount representing the expected cost of settling the commitment incurred by the guaranteee.

#### **Statement of cash flows**

The statement of cash flows was prepared in accordance with the direct method.

Conducting insurance and banking operations involves risk-taking. Knowledge about risks is a core area of expertise in the banking and insurance industries. The ultimate owners of the Länsförsäkringar Alliance are also its customers and, accordingly, efforts to govern, manage and control risks as well as management of the Group's capital are of immediate importance to customers and provide clear customer value.

The Länsförsäkringar AB Group's operations include non-life insurance, life assurance and pension insurance and banking activities. The traditional life-assurance operations are found in a wholly owned subsidiary, Länsförsäkringar Liv Försäkrings AB (referred to below as "Länsförsäkringar Liv"), which is operated according to mutual principles. The company is not consolidated in the consolidated financial statements and thus the company's risks are not included in the description provided in this note. For more information, see Länsförsäkringar Liv's Annual Report.

Länsförsäkringar AB also provides a detailed description of the Group's risk management, risk profile, capital requirements and capital management in accordance with the Swedish Insurance Business Act in its 2017 Solvency and Operations Report.

## RISKS AND RISK MANAGEMENT

The Länsförsäkringar AB Group has established a shared risk-management system, defined as the strategies, processes, procedures, internal rules, limits, controls and reporting procedures needed to ensure that the companies in the Group are able to continuously identify, measure, monitor, govern, manage, report and have control over the risks to which the companies are, or could be expected to become, exposed to, and the interdependence of these risks. Based on this Group-wide risk-management system, each subsidiary has prepared more detailed rules for managing company-specific risks. Coordinated risk control within the Group ensures that the risk-management system is consistently implemented in all of the companies in the Group and means that the targets for the operations can be achieved with a higher degree of certainty.

The Länsförsäkringar AB Group's risk strategy is an integrated component of operational governance that, given the business strategy, aims to control risk-taking. The overall risk strategy is that the operations are to be conducted following a conscious risk-taking approach. The Länsförsäkringar AB Group's mission is to conduct profitable business in non-life insurance, life assurance, unit-linked insurance and banking, which means that insurance risk, credit risk and market risk are consciously assumed as part of carrying out the business strategy. Liquidity risk is limited by robust handling of liquidity flows in the operations. The counterparty risks that arise from conducting the business activities are kept at a low level by selecting counterparties with high credit ratings. Concentration risks are kept at a low level by limiting exposure to individual counterparties, types of investment, etc. and by the Group conducting well-diversified operations encompassing non-life insurance, life assurance, health insurance and banking. Climate risks are limited by taking proactive measures regarding the climate impact of the company's own operations and climate risks in the management of the Group's investment assets. Operational risks are managed such that the customer confidence and that of other stakeholders in Länsförsäkringar AB and its subsidiaries remains high. The estimated risk level and the organisation's expertise in managing specific risks are taken into consideration in decisions on, for example, the products that the company offers, the customer groups to which sales are directed, the instruments that the company's assets are invested in and how the operations are otherwise conducted.

Prospective analyses in the form of own risk and solvency assessments (ORSA), recovery plans and internal capital and internal liquidity adequacy assessment processes are performed every year. Ongoing activities include handling known risks and identifying new risks. Internal models are used in the first instance to quantitatively measure risks. Länsförsäkringar AB has developed a partial internal model to measure risk and has received approval from the Swedish Financial Supervisory Authority to use the model to calculate capital requirements under the Swedish Insurance Business Act for Länsförsäkringar AB and its insurance subsidiaries. The internal model measures risk as Value at Risk at a 99.5% confidence level over a 1-year time horizon, based on historical simulation. The model is used to manage and calcu-

late capital requirements for all risks corresponding to the standard formula in Chapter 8 of the Insurance Business Act, of which market risk excluding concentration risk, premium risk, reserve risk and, to a certain extent, catastrophe risk are modelled internally. Risks not encompassed by the model, such as business risk and liquidity risk, are monitored following internally established policies. Länsförsäkringar Bank has developed an internal ratings-based model for measuring credit risk and has received approval from the Financial Supervisory Authority to use the model to calculate capital requirements in accordance with the Swedish Special Supervision of Credit Institutions and Investment Firms Act.

The regulatory capital requirements are also supplemented with other risk measures and stress tests. Operational risks and business risks are mainly assessed on a qualitative basis. Qualitative risk measurement makes use of an overall assessment of the risk's potential consequences for the operations and the probability or frequency of the risk occurring. The management and monitoring of individual risks in the operating activities takes place within the frameworks established by the Board in governance documents and are broken down into more detailed regulations regarding authorisation to take risks and obligations to monitor risk. Control activities are performed regularly and incidents are continuously reported and monitored.

A complete report of all risks in the company's operations is submitted every quarter to, where appropriate, the Risk and Capital Committee, Audit Committee and Board.

## Risk management organisation

The risk-management system is an integrated part of the Länsförsäkringar AB Group's organisational structure and decision-making processes. In addition to risk management in the operations, it also encompasses the independent risk-management function, the Compliance function and the Actuarial function.

The Board is ultimately responsible for ensuring that an effective risk-management system is in place and adopting frameworks for the Länsförsäkringar AB Group's risk-management system in the Group's risk policy. The risk policy defines the risks to which the Group's operations are exposed and how these risks are identified, measured, monitored, governed, managed and reported. The Board expresses its risk appetite in the risk policy by stating the risk levels and focus that can be accepted to achieve strategic targets. The Board also states in the risk policy the strategies that are to be applied for significant types of risk. Furthermore, the Board adopts an annual permissible level of capitalisation following recommendations from the Chief Risk Officer Group (CRO Group).

The President is responsible for incorporating the governance documents adopted by the Board into the operations. The CRO Group is responsible for the design of the risk-management system and coordination within the Länsförsäkringar AB Group, while each manager in the Länsförsäkringar AB Group is responsible for the risks in their own operations. All employees also have an individual responsibility for working towards a healthy risk culture by complying with internal rules on the Group's risk-management system.

The risk management function has the operational responsibility for the independent risk control, which includes identifying, measuring, monitoring and reporting risks in the company's and the Group's operations. The function controls the risk management in the operations to ensure that they are conducted with satisfactory risk management and risk control, and reports the results of its controls directly to the President, management and, where appropriate, the Risk and Capital Committee, Audit Committee and the Board. This function is affiliated to Länsförsäkringar AB in the organisation and is independent from the operations that are controlled. The CRO Group reports directly to the President. Länsförsäkringar Bank has a separate Risk Management function, where the head of the function, CRO Bank, reports to the President.

The Actuarial function helps ensure the efficient operation of the risk-management system, for example, by ensuring that data for calculating capital requirements for insurance risks correctly reflects the operations. The Compliance function identifies and reports on risks that may arise as a result of non-compliance with regulations.

## Risk profile

The Länsförsäkringar AB Group's risk profile is dominated by the major risks of each company, meaning the bank's credit risk, the unit-linked life-assur-

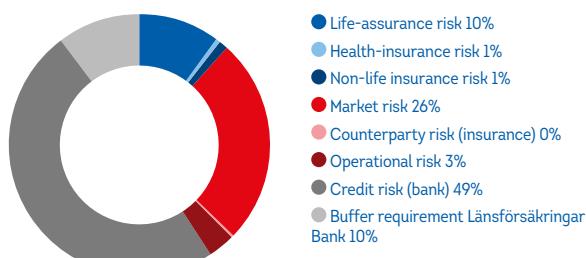
ance company's market and cancellation risk, and the non-life insurance companies' market and insurance risk. The following factors characterise the Länsförsäkringar AB Group's risk-taking:

- the operations are conducted in Sweden. An exception is made for pet insurance where the subsidiary Agria strives to utilise its experience and strong position in the Swedish market to successively develop profitable operations also in certain other countries
- all 23 regional insurance companies broker the Länsförsäkringar AB Group's products, which thereby creates a geographic distribution throughout Sweden
- the operations primarily focus on private individuals and small and medium-sized businesses, directly or mediated by the regional insurance companies, and have few major commitments entailing risk with large companies
- for the unit-linked insurance operations, future earnings are affected by the trend in insurance capital, and an unfavourable trend in cancellations, repurchases and transfers can adversely impact long-term profitability
- the non-life insurance operations are well-diversified, including pet insurance, health care, accident and health insurance, some commercial insurance and international reinsurance. The risks taken in non-life insurance are reinsured to a relatively high extent and retention levels are relatively low
- extensive reinsurance operations are conducted on behalf of the Länsförsäkringar Alliance
- the risks in the investment assets managed by the Parent Company and insurance subsidiaries for own account are held at a relatively low level
- loans in the Länsförsäkringar AB Group's banking operations primarily pertain to households and to a smaller extent to agricultural customers and businesses.

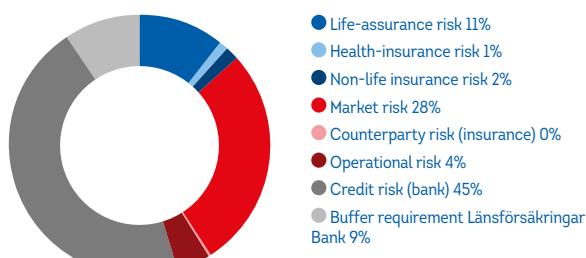
The risk profile, measured as a capital requirement in accordance with the Insurance Business Act and the Swedish Special Supervision of Financial

Conglomerates Act, calculated using internal models, and excluding Länsförsäkringar Liv, at year-end 2016 and 2017 is presented in figure 1.

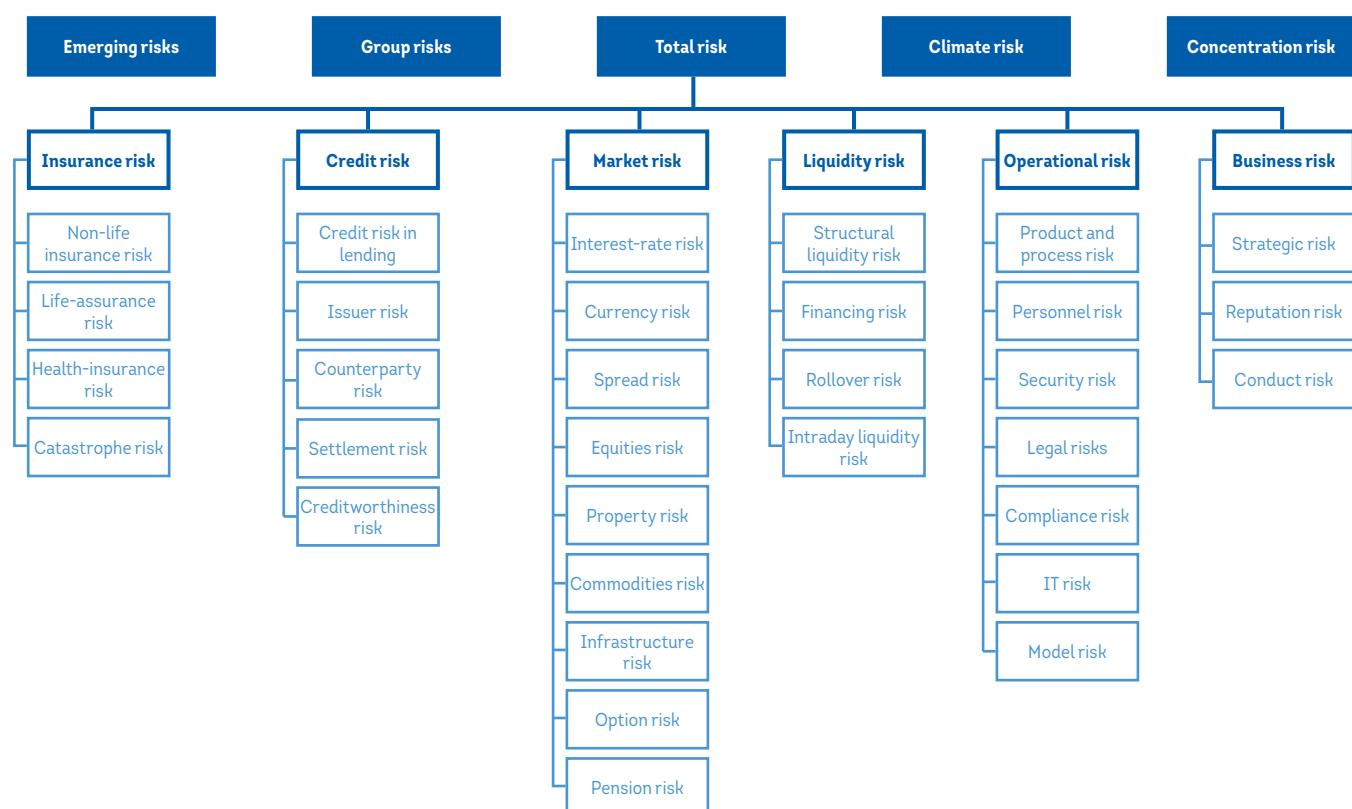
**Figure 1. Risk profile Länsförsäkringar AB Group excluding Länsförsäkringar Liv on 31 December 2017**



**Risk profile Länsförsäkringar AB Group excluding Länsförsäkringar Liv on 31 December 2016**



**Figure 2. Classification of risk in the Länsförsäkringar AB Group including Länsförsäkringar Liv**



Länsförsäkringar AB applies a joint risk division and definitions of risks to which the operations are exposed. An outline is provided in figure 2.

The following section describes the Länsförsäkringar AB Group's total risks and how they are controlled and managed. Information is provided on the size of the exposure for specific risks. The disclosures in this note refer to the Länsförsäkringar AB Group. The Parent Company has a separate note on risk and risk management found under the Parent Company's financial statements

### Insurance risk

Insurance risk (underwriting risk) refers to the risk of loss or negative change in the value of underwriting liabilities due to incorrect tariffs and provisions assumptions. The Länsförsäkringar AB Group's insurance risk includes non-life insurance risk, life-assurance and health-insurance risks that arise in insurance subsidiaries.

- Non-life insurance risk refers to the risk of losses arising due to claims costs being higher than expected.
- Life-assurance risk refers to the risk of losses in connection with the insurance of a specific person's life and health.
- Health-insurance risk refers to the risk of losses arising due to the insured's disability and morbidity being higher than assumed.
- Catastrophe risk refers to the risk of losses arising due to natural disasters, epidemics or disasters caused by human activities leading to very large claims payments.

### Risk exposure

The Group's non-life insurance risk arises in the Länsförsäkringar Sak Group. Premium risk is the largest risk in non-life insurance risk, followed by reserve risk. Catastrophe risk comprises minor exposure since the low retention of the reinsurance cover limits catastrophe exposure.

The exposure to life-assurance risks primarily derives from the operations in Länsförsäkringar Fondliv and to a lesser extent from Länsförsäkringar Grupplivförsäkring and annuities in Länsförsäkringar Sak. Länsförsäkringar Fondliv's product range has two different investment orientations. It has unit-linked insurance that entails that customers decide the investment orientation and risk level themselves, and it has guarantee management where the company is responsible for the investment orientation and a portion of the customer's savings are guaranteed. Unit-linked insurance operations comprises about 98% of total managed assets.

The dominating life-assurance risk in the Länsförsäkringar AB Group derives from the unit-linked insurance operations and the risk of customers choosing to transfer their insurance capital. Since trends indicate more or less full transfer options, both inward and outward transfers can be expected to increase. Increased mobility in the labour market could entail an increase in the number of occupational pensions with paid-up policies, where premium payments cease, which reduce the insurance capital.

The Länsförsäkringar AB Group's exposure to health-insurance risk derives from health care insurance and group health and group accident insurance in Länsförsäkringar Sak, and from health and premium exemption and accident and invalidity benefit insurance in Länsförsäkringar Fondliv.

The Group has low exposure to catastrophe risk for own account. The Group manages common reinsurance cover for the Länsförsäkringar Alliance with respect to storms and natural disasters where Länsförsäkringar Sak assumes a certain level of risk for own account. The other operational area where Länsförsäkringar Sak, for own account, is exposed to a certain level of catastrophe risk is in the internationally assumed reinsurance.

### Risk concentrations

The Länsförsäkringar AB Group conducts diversified operations in non-life, life assurance and health insurance. The market for Länsförsäkringar AB's insurance subsidiaries is primarily Sweden, but Agria has branches and conducts sales in the Nordic region and UK.

The Länsförsäkringar Sak Group conducts well-diversified business, including pet insurance, health care, accident and health insurance, some

commercial insurance and international reinsurance. The business is divided into 25 reporting classes that make the operations highly diverse with few or minor elements of risk concentration inherent in non-life insurance risk. The subsidiary Agria's business comprises insurance for pets (dogs, cats and other pets), horses, farm animals and crop insurance. The operations are conducted in Sweden, Norway, Denmark, Finland and the UK, and from 2018 in France. Operations in the Länsförsäkringar Gruppliv subsidiary are concentrated to purely death benefit insurance that is well-differentiated with insurance groups representing all of society. Länsförsäkringar Sak's main risk concentration in underwriting risk comprises assumed reinsurance from Nordic Nuclear Insurers and from individual regional insurance companies. Länsförsäkringar Sak assumes reinsurance from these individual companies in a number of pools and subsequently immediately retrocedes the risk back to the regional insurance companies. The majority of this exposure is motor third-party liability claims.

Länsförsäkringar Fondliv conducts unit-linked insurance operations and offers various forms of pension savings and risk insurance that can be taken out together with savings insurance. Länsförsäkringar Fondliv primarily targets private individuals and small and medium-sized businesses. A geographic distribution throughout Sweden is created since all 23 regional insurance companies broker the company's products. As a result, Länsförsäkringar Fondliv's individual concentrations of life-assurance health-insurance risk are considered to be limited.

### Risk management and risk-reduction techniques

Reinsurance agreements with both internal reinsurers within the Länsförsäkringar Alliance and external reinsurers are used to cover the companies in the event of insurance claims. Other factors that affect risks are the product composition including diversification, structure of insurance terms and conditions, underwriting limits, risk selection rules and risk inspections.

### Risk sensitivity

Table 1 shows the sensitivity in the Länsförsäkringar AB Group's equity to changes in operating expenses and changes in assumptions for non-life, life assurance and health insurance. Table 2 shows the Group's reinsurance cover and retention per claim incident. Table 2 shows the distribution of terms of the technical provisions for non-life insurance risk.

Table 1. Sensitivity analysis, insurance risk

SEK M	Impact on profit before tax	Impact on equity			
		2017	2016	2017	2016
Operating expenses	10% increase in administrative operating expenses in Länsförsäkringar Fondliv	-43	-40	-43	-40
Non-life insurance - premiums	10% lower premium level	-253	-220	-197	-172
Non-life insurance risk - claims	10% increased claims frequency or higher average claim	-159	-167	-124	-130
Non-life insurance - claims inflation	1% higher annual claims inflation	-157	-186	-122	-145
Life assurance - life expectancy	The most unfavourable outcome if mortality were to increase or decrease (decrease in this case) by 10% per year	-5	-4	-5	-4
Life assurance - customer behaviour	Effect on equity of a 10% momentary external transfer for Länsförsäkringar Fondliv	-98	-88	-98	-88
Health insurance - morbidity	10% increase in morbidity in Länsförsäkringar Fondliv	-37	-28	-37	-28

**Table 2. Estimated claims costs before and after reinsurance for the Länsförsäkringar Sak Group, per claim year**

SEK M	2011	2012	2013	2014	2015	2016	2017	Total
At end of claim year	1,024	913	1,003	1,059	1,109	1,179	1,104	-
One year later	1,095	915	884	882	960	1,010	-	-
Two years later	1,036	963	917	996	949	-	-	-
Three years later	1,038	924	939	917	-	-	-	-
Four years later	997	935	893	-	-	-	-	-
Five years later	998	937	-	-	-	-	-	-
Six years later	1,003	-	-	-	-	-	-	-
Estimated claims costs	1,003	937	893	917	949	1,010	1,104	-
Accumulated claims payments	901	811	803	779	804	710	666	-
Provision for claims payments	103	126	90	138	145	300	437	1,339
Provision for claims payments, older year classes	-	-	-	-	-	-	-	1,057
Provision for claims payments for assumed reinsurance	-	-	-	-	-	-	-	9,348
<b>Total provision for claims payments, gross</b>	-	-	-	-	-	-	-	<b>11,744</b>
Annuity reserve, gross	-	-	-	-	-	-	-	1,651
Claims adjustment reserve, gross	-	-	-	-	-	-	-	208
<b>Provision for claims outstanding, gross</b>	-	-	-	-	-	-	-	<b>13,603</b>
Provision for claims payments, reinsurers' portion	-	-	-	-	-	-	-	8,935
Annuity reserve, reinsurers' portion	-	-	-	-	-	-	-	1,414
<b>Provision for claims outstanding, reinsurers' portion</b>	-	-	-	-	-	-	-	<b>10,349</b>
<b>Provision for claims outstanding, for own account</b>	-	-	-	-	-	-	-	<b>3,254</b>

For a more detailed description of premium and reserve risk, mortality risk, longevity risk, disability and morbidity risk, expenses risk, cancellation risk and catastrophe risk, refer to the annual reports of the subsidiaries.

### Market risk

Market risk pertains to the risk of loss arising that are directly or indirectly caused by changes in the level or volatility in the market price of assets, liabilities and financial instruments, including losses caused by shortcomings in the matching between assets and liabilities.

### Risk exposure

Market risk arises in the Länsförsäkringar AB Group due to investment decisions made concerning management of the insurance companies' and the Parent Company's investment assets. Market risk also arises in the Bank Group's operations to a certain extent in the form of differences in fixed-interest periods between assets and liabilities and in the form of pension risk, which is the risk of fluctuations in the market value of defined-benefit pension plans. This risk comprises a small portion of the Länsförsäkringar AB Group's total market risks.

Market risks in the Länsförsäkringar AB Group's investment assets for own account are moderately high and primarily comprise holdings in Länsförsäkringar Sak's and the Parent Company's investments in property-related assets and certain other investments in Länsförsäkringar Sak. There is also a sensitivity to market risk since earnings in the unit-linked insurance operations and in Länsförsäkringar Fondförvaltning's operations are sensitive to trends in fund values that are largely affected by the performance of equity indexes. However, in the following, only the market risk that occurs through direct exposures in the Group's assets and liabilities is quantified. This risk is recognised in the Consolidated statement of financial position for the Group above, with accompanying notes.

### Risk concentrations

The dominating portion of the Group's market risk is found in the insurance subsidiaries' investment assets. Market risks can also be found to a lesser extent in the Parent Company's investment assets and in the Länsförsäkringar Bank Group. The main asset classes in portfolio management are inter-

est-bearing securities, equities, property and alternative investments. Concentration risk in market risk is deemed to be small in relation to other market risks.

However, from time to time, there may be individual investments that may comprise a certain concentration of market risk. The properties that the Länsförsäkringar AB Group uses on Tegeluddsvägen in Stockholm can be considered to be a risk concentration. The value of the properties on 31 December 2017 amounted to SEK 2,887 M.

### Risk management and risk-reduction techniques

Insurance assets are invested in the best interests of the policyholders and the management of the companies' own assets is conducted in the best interests of the owners, meaning ultimately the interests of the customers of the local regional insurance companies. In turn, this imposes demands on ensuring adequate expertise and following clear, structured and documented processes that take into account prudence, risk diversification and the situation in the financial markets.

Investments are made only in assets that can be fairly valued and whose risks can be identified, measured, managed, monitored and reported. Investment assets that are not traded on a regulated market, that contain a significant element of model valuation or that show a lack of liquidity or transparency are kept at prudent levels. The main asset classes are interest-bearing securities, equities, alternative investments, property and a large portion of the holdings are owned indirectly via funds.

The main risk-reduction technique applied to the management of assets is diversification. The companies' investments are spread over several classes of assets and segment in these classes, leading to exposure to various risk factors that react in different ways to fluctuations in the financial markets. This means that as a whole the portfolio is less sensitive to market fluctuations than its portfolio components.

Insurance contracts under Guarantee Management extend over long periods and provisions for Guarantee Management are thus less sensitive to interest-rate fluctuations. The degree of matching between assets and commitments together with forecasts of the insurance operations' performance are therefore taken into account and assets are invested with respect to the nature and term of the commitments.

The Bank Group has established a limit for the highest permissible interest-rate risk, which is relatively low compared with the normal total interest-rate risk in the entire Group. Firstly, fixed-interest periods are matched and secondly interest-rate derivatives are used.

#### **Use of derivative instruments**

Derivative instruments are utilised in the management of investment assets in order to reduce risks or enhance management efficiency. Each new type of derivative instrument undergoes an approval process before it can be used in management. In connection with this, assurances are made that there is understanding of the characteristics of the instruments in the relevant parts of the organisation, that valuations, risk measurement and follow-ups are satisfactory and that risks are adequately identified.

Fixed-income futures and interest-rate swaps are used in management to reduce interest-rate risk. Using these instruments helps to enhance the efficiency of portfolio management by reducing the interest-rate sensitivity without selling the underlying bonds, and thus any coupons and excess returns can be kept. The effect of these derivative strategies is continuously monitored by measuring the interest-rate duration and interest-rate sensitivity of the portfolio.

Management uses equity index forward contracts when it needs to temporarily reduce equities risk. In this way, the portfolio is protected from sharp price drops in the equities market without needing to sell the underlying equities and equities fund holdings, which improves the efficiency of the portfolio management. The effect of this risk-reducing strategy is measured by equities allocation (including derivatives) being reconciled on a daily basis.

Management makes regular use of derivative instruments to reduce currency risk in the portfolio. This means that established limits on currency exposure can be considered without having to refrain from investing in desirable assets that have a different currency risk than SEK. Currency exposure (total and individual currencies) is monitored on a daily basis.

#### **Risk sensitivity**

**Table 3. Sensitivity analysis, market risks**

Effect on equity, SEK M <sup>1)</sup>	2017	2016	
Interest-rate risk assets and liabilities net <sup>2)</sup>	The most unfavourable outcome if nominal market interest rates were to increase or decrease (increase in this case) by 100 bp.	-56	-93
Credit-spread risk <sup>3)</sup>	100 bp increased credit spread	-244	-209
Equities risk	10% low share prices including hedge funds	-257	-202
Property risk	10% lower property prices	-289	-272
Currency risk	10% change in negative focus of all foreign currencies towards SEK	-24	20

<sup>1)</sup> For the insurance subsidiaries, the table shows the effect on profit before tax of changes in the value of share prices including hedge funds, foreign currencies, changed credit spread and market interest rates and the effect on equity of changed property prices. For Länsförsäkringar AB Parent Company, the effects of changes credit spreads and the price effect of changed market interest rates are recognised in equity. The effect of changed property prices can be seen directly in equity in the Group.

<sup>2)</sup> Interest-rate risk refers to both cash-flow risk and price risk. Bond holdings are stressed including accrued interest.

<sup>3)</sup> Sensitivity to credit-spread risk in the Group's insurance companies and Länsförsäkringar AB Parent Company. For credit risk exposure in the Bank Group, refer to table 7.

#### **Interest-rate risk**

The interest-bearing asset portfolio includes interest-rate risk from covered bonds, government bonds, corporate bonds, fixed-income funds and derivative instruments. Interest-rate risk is also inherent in insurance liabilities by discounting provisions by the current market interest rate.

#### **Credit-spread risk**

The Group has exposure to credit-spread risk in Swedish mortgage bond and based on its holdings in mainly global and US Investment Grade and High Yield funds.

Table 5 shows that most of the interest-bearing investments have an AAA rating.

#### **Equities risk**

The Group's primary equities exposure is to Swedish, European and US equities but also Japanese equities and equities in emerging markets. Länsförsäkringar Fondliv's exposure regarding directly owned assets derives from Guarantee Management and fund units in the trading book. Since about 82% of the unit-linked insurance capital is exposed to equities risk, Länsförsäkringar Fondliv is also exposed to equities risk in future earnings.

#### **Property risk**

The Group's property risk is mainly from the ownership of the office properties in Stockholm that the Group utilises for its operations. The Parent Company owns about 46% of the properties and Länsförsäkringar Sak owns about 54% and the market value is SEK 2,887 M (2,721).

#### **Currency risk**

The Group faces currency exposure from insurance liabilities and investment assets in other currencies and the risk being limited by the use of currency derivatives. The Bank Group is exposed to currency risk through funding. Risk that arises is managed using currencies and currency interest-rate swaps.

**Table 4. Impact on earnings of a 10% increase in the exchange rate with SEK on 31 December in the Länsförsäkringar AB Group**

Currency	Impact on earnings before tax, SEK M <sup>1)</sup>	
	2017	2016
CHF	-2	2
DKK	1	0
EUR	5	3
GBP	-6	2
HKD	-2	-1
KRW	-1	-2
NOK	-2	6
JPY	-6	0
USD	-11	12

<sup>1)</sup> For 2017, currency exposure pertains to directly-owned holdings quoted in each currency. 2016 also includes a certain portion of indirect exposure, for example, via analysis of funds.

#### **Credit risk in the Parent Company and insurance subsidiaries**

Credit risk pertains to the risk of losses arising due to counterparties being unable to fulfil their undertakings and of any collateral provided not covering the receivable. The Parent Company and insurance subsidiaries are exposed to credit risk from counterparties in financial derivatives, ceded reinsurance and from bank balances and issuers of securities.

#### **Risk exposure**

The Länsförsäkringar AB Group's exposure to credit risk primarily arises through the use of financial derivatives in the insurance subsidiaries' investment portfolios. Derivatives are purchased to enhance the efficiency of the portfolio management in the investment portfolio and to protect the balance sheet against, for example, interest-rate risk, equities risk and currency risk and entail that the counterparty undertakes, through derivative contracts, to compensate for negative results arising from changes in, for example, market interest rates, share prices or exchange rates. As a result, a receivable from the counterparty may arise in the event of market changes. Counterparty risk pertains to the risk of losses arising due to counterparties being unable to fulfil their undertakings and that part of the receivable can thus not be paid.

The insurance subsidiaries are also exposed to credit risk from reinsurers. The insurance subsidiaries take out reinsurance to avoid assuming greater individual liability than that stated in the insurance guidelines and reinsurance policy of each subsidiary. Reinsured risks instead become the responsibility of the reinsurers. However, there is the risk that the reinsurer is unable to fulfil its obligations, which in such a case revert to become a liability for the company to meet.

Länsförsäkringar AB's and the insurance subsidiaries' holdings of bonds and other interest-bearing securities and financial derivatives per credit quality level are presented in table 5.

**Table 5. Parent Company's and insurance subsidiaries' interest-bearing securities per credit quality level**

SEK M	2017	2016
<b>Bonds and other interest-bearing securities<sup>1)</sup></b>		
AAA – Swedish Government	209	1,313
AAA – other	5,867	6,006
AA	77	130
A	149	291
BBB or lower	156	1,080
No rating available	89	347
<b>Total</b>	<b>6,546</b>	<b>9,168</b>
<b>Financial derivatives<sup>2)</sup> (exposure according to market values)</b>		
AA	28	-18
A	7	18
<b>Total</b>	<b>35</b>	<b>-1</b>

<sup>1)</sup> For 2017 and 2016, market values include accrued interest. 2017 refers only to directly-owned holdings. 2016 also includes a certain portion of indirect exposure, for example, via analysis of funds.

<sup>2)</sup> Included non-exchange cleared derivatives.

In addition, the Group has pledged assets for bonds, derivatives, repurchase agreements and pledged securities for a total amount of SEK 5,602.2 M on 31 December 2017. The credit risk from these is not deemed to be material.

#### Risk management and risk-reduction techniques

The credit risk that arises through counterparties in financial derivatives is primarily reduced by diversifying the counterparties that the company used for trading in financial derivatives, and is managed by applying limits to derivative exposures per counterparty and by signing agreements with all counterparties for OTC derivatives. These agreements regulate receivables in derivatives contracts between the contract parties, for example, the amount of receivables permitted, how they are to be paid and at what frequency. In practice, this means that for the majority of cases the collection and provision of collateral takes place on a daily basis. The size of the permitted exposure depends on the credit rating of the counterparty.

Credit risk from counterparties in ceded reinsurance is limited in the first instance by selecting counterparties with high credit ratings and by applying limits for maximum exposure to each counterparty.

#### Risk sensitivity

Table 6 presents the total potential losses if these counterparties were to default on financial derivatives and cash in hand, and on reinsurers.

**Table 6. Expected loss per credit quality level on counterparty default**

Expected loss at default, %	2017	2016
<b>Derivatives and bank accounts</b>		
- AA	4	1
- A	93	97
<BBB	3	2

Expected loss at default, %	2017	2016
<b>Reinsurance</b>		
- Regional insurance companies	63	60
- AA	21	22
- A	13	15
<BBB	3	3

#### Credit risks in the Länsförsäkringar Bank Group

Credit risk is defined as the risk of losses arising due to a counterparty not being able to fulfil its commitments to entities in the consolidated situation and the risk that the counterparty's collateral provided will not cover the company's receivables. Credit risk in the lending operations pertains only to the Bank Group. The lending operations of the Bank Group are conducted only with borrowers in Sweden and mainly comprise mortgages, loans to agricultural customers, hire purchase and leasing operations. The vast majority of the Bank Group's loan portfolio comprises loans for residential properties in the form of single-family homes and tenant-owned apartments. First-lien mortgages with loan-to-value ratios up to 75% of the market value at the time the mortgage is granted account for the largest percentage of retail mortgages. Lending takes place through the 23 regional insurance companies, which provides a local presence and close customer relationships. Low loan-to-value ratios, combined with a well-diversified geographic spread and local presence, are the core pillars in ensuring that the loan portfolio maintains high credit quality.

The banking operations carry out balanced and consistent loan origination, with advanced system support. The banking operations' loan origination is to achieve favourable and homogeneous credit quality. The maximum lending levels for various types of loans and limits for the local regional insurance companies' loan origination are stipulated in the guidelines of the bank's Board of Directors. The banking operations impose strict requirements in terms of customer selection and customers' repayment capacity.

The regional insurance companies cover 80% of the provision requirement on the date when an impairment is identified, by means of an off-set against accrued commissions.

The Bank Group calculates all retail exposures in accordance with the advanced Internal Ratings-based Approach (IRB), which corresponds to predominant proportion of the Bank Group's loan portfolio. This means that a considerable portion of its credit risk exposure is calculated using a method that aims to identify and classify risk for each individual counterparty. The distribution of the Bank Group's loans is shown in table 9.

**Table 7. Bank Group's credit risk exposure**

Credit risk exposure, SEK M	31 Dec 2017	31 Dec 2016
<i>Credit risk exposure for items recognised in the balance sheet</i>		
Cash and balances with central banks	17	22
Treasury bills and other eligible bills, etc.	10,531	7,867
Loans to credit institutions	265	280
<i>of which collateral in repurchase agreements</i>	-	-
Loans to the public	261,444	226,705
<i>of which collateral in properties and tenant-owned apartments</i>	231,362	200,058
Bonds and other interest-bearing securities	35,718	32,810
Derivative instruments	5,125	6,217
Other assets	547	505
<i>Credit risk exposure for memorandum items</i>		
Guarantees	34	39
Loan commitments and other credit commitments	21,979	19,366
<b>Total</b>	<b>335,660</b>	<b>293,811</b>

**Table 8. The credit quality of the Bank Group's holdings of bonds and other interest-bearing securities**

SEK M	31 Dec 2017	31 Dec 2016
<b>Cash and balances with the Riksbank</b>	<b>17</b>	<b>22</b>
<b>Treasury bills and other eligible bills, etc.</b>	<b>10,531</b>	<b>7,794</b>
AAA	10,081	7,215
AA+	450	579
<b>Loans to credit institutions</b>	<b>265</b>	<b>280</b>
AA	52	5
A	213	275
<b>Bonds and other interest-bearing securities</b>	<b>35,718</b>	<b>32,422</b>
AAA	35,718	32,422
<b>Derivatives<sup>1)</sup></b>	<b>1,276</b>	<b>1,481</b>
AA	1,122	1,243
A	154	238

<sup>1)</sup>Refers to derivatives and pledged assets per counterparty and legal entity in the Bank Group that result in positive exposure. Exposure according to market values.

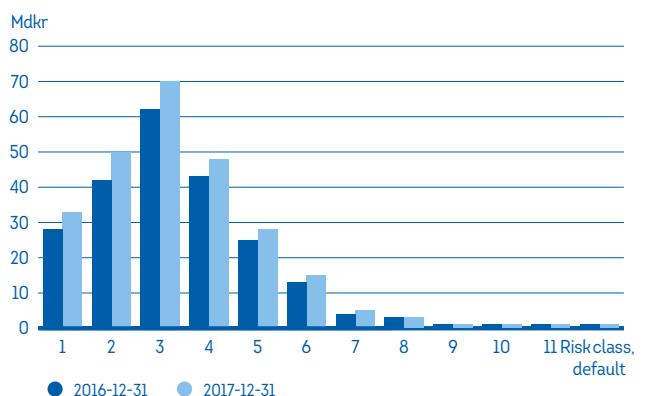
The Bank Group's loan portfolio largely comprises mortgages to private individuals and in other respects primarily comprises other loans to private individuals and agricultural customers, and is not considered to contain any significant concentration risk.

**Table 9. Bank Group loans by segment**

Loan receivables, SEK M	31 Dec 2017	31 Dec 2016
Retail mortgages	198,068	168,928
Agricultural loans	26,823	25,261
Unsecured loans	8,581	7,937
Leasing	7,319	6,727
Hire purchase	9,362	7,582
Multi-family housing	7,760	7,897
Industrial properties	754	712
Other	3,045	1,911
Loans to the public, gross	261,712	226,955
Provisions	-268	-250
<b>Total</b>	<b>261,444</b>	<b>226,705</b>

Figure 3 presents the Group's credit exposure according to risk class. The results show a distribution of exposure, with 79% (78) found in the best grades 1–4. Exposure is increasing, particularly in the lowest PD grades 1–4. Overall, on 31 December 2017 the distribution of exposure had shifted slightly towards the lower PD grades compared with the year-earlier period, which means a year-on-year improvement in credit quality.

**Figure 3. Credit exposure by risk class**



In addition to the above credit exposure, SEK 5,514 M (4,865) is included in gross loans to the public which are not graded under the IRB Approach, and which include a time-limited exemption that pertains to exposure in one customer segment with Wasa Kredit.

The average loan commitment for each borrower is low and the relationship between the loan portfolio and the underlying assets expressed as the weighted average loan-to-value (LTV) ratio was 60% (61). Essentially all lending that occurs in Länsförsäkringar Hypotek qualifies for inclusion in the covered-bond operations, which are regulated by the Swedish Covered Bonds (Issuance) Act (2003:1223).

**Table 10. Bank Group's impaired loans**

Impaired loans by product, SEK M	31 Dec 2017	31 Dec 2016
Agricultural loans	8	16
Unsecured loans	164	132
Leasing	70	58
Hire purchase	34	32
Other	2	1
<b>Total</b>	<b>278</b>	<b>240</b>

**Table 11. Bank Group's non-performing loan receivables not included in impaired loans**

Non-performing receivables not included in impaired loans, SEK M	31 Dec 2017	31 Dec 2016
Receivables overdue by 1–39 days	414	276
Receivables overdue by 40–60 days	8	4
<b>Total</b>	<b>423</b>	<b>280</b>

A loan receivable is considered impaired if a payment is more than 60 days past due or if there is reason to expect that the counterparty cannot meet its undertaking. The loan receivable is considered impaired to the extent that its whole amount is not covered by collateral. A non-performing loan receivable has a non-performing payment that is more than 9 days and up to 60 days past due. This analysis pertains exclusively to loans to the public. The Bank Group's individual impairments are made for loans in default and for loans where an individual assessment indicates a need for impairment. The main rule is that when a loss is confirmed for a loan/borrower, a corresponding separate impairment of the confirmed loss is to be made as far as possible for the loan/borrower. Individual impairment is decided by the Central Credit Committee and/or the Credit Manager and based on an individual assessment of an expected loss.

#### Liquidity risk including financing risk

Liquidity risk is defined as the risk that payment commitments cannot be fulfilled due to insufficient cash funds.

#### Risk exposure

For the Group's insurance subsidiaries, a lack of liquidity could lead to the companies not being able to fulfil their commitments to customers. The business activities of the insurance companies are based on premiums being paid in advance and being managed until insurance compensation is to be paid out. The Bank Group's cash flow is characterised by small flows where the customers are primarily retail customers together with well-known, larger flows in the financing activities.

#### Risk management and risk-reduction techniques

Management of liquidity risk is based on management taking place in each subsidiary and in the Parent Company, rather than at Group level. The nature of the operations differs between the banking and insurance operations and there are legal restrictions on for the scope of internal loans. In practice, liquidity risk is primarily an issue for the Länsförsäkringar Bank Group.

Länsförsäkringar Sak's liquidity risks are low since premiums are received in advance and large individual claims and payouts outside normal cash flows are known well in advance of when they fall due.

Länsförsäkringar Fondliv's liquidity is relatively stable, since fund units are divested in line with payments being made to policyholders. The company's liquidity was primarily affected by fund changes and costs for sale. Liquidity risk is managed by continuously adjusting the need for cash and surplus liquidity based on established liquidity forecasts for the payment of securities transactions and claims payments and, where necessary, other inward and outward payments, such as premiums and operating expenses. The majority of the funds in the trading book are liquid in the short term and purchases on behalf of the insured are not performed until payment has been received for the sales transaction.

The Länsförsäkringar Bank Group has low risk tolerance for liquidity risk and conducts active liquidity risk management to ensure that the Group's commitments can be fulfilled under both normal and stressed market conditions. The aim is to attain a favourable spread of financing sources. Liquidity is continuously planned and a satisfactory liquidity reserve ensures that sufficient liquidity is always available. The liquidity reserve is invested in securities with very high credit quality, the vast majority of which are eligible for transactions with the Riksbank and, where appropriate, with the ECB or the Federal Reserve. All in all, this means that the reserve can be quickly converted to cash and cash equivalents. On 31 December 2017, the liquidity reserve amounted to SEK 48.1 billion (41.6) and 58% (61) of the reserve comprised Swedish covered bonds.

**Table 12. Maturity analysis for financial assets and liabilities and insurance undertakings**

The table shows the actual cash flows that will occur in each period, based on the remaining contractual maturities. The amounts presented in maturities are undiscounted cash flows.

SEK M	2017					2016				
	<3 months	3 months-1 year	1-5 years	> 5 years	Total	<3 months	3 months-1 year	1-5 years	> 5 years	Total
<b>Assets</b>										
Loans to the public	5,205	8,664	28,843	218,732	261,444	2,558	5,539	12,406	206,773	227,275
Bonds and other interest-bearing securities <sup>1)</sup>	3,226	8,057	26,097	2,068	39,447	2,054	7,171	29,296	618	39,139
Treasury bills and other eligible bills	5,206	295	4,149	200	9,850	1,700	2,475	2,005	1,100	7,279
Other assets	7,989	-	-	-	7,989	9,518	-	-	-	9,518
<b>Liabilities</b>										
Subordinated liabilities	-	-	-	2,600	2,600	-	-	2,600	-	2,600
Technical provisions <sup>2)</sup>	1,476	2,994	4,361	10,072	18,903	1,444	2,799	4,523	9,990	18,757
Debt securities in issue	3,266	18,103	123,501	38,890	183,760	3,177	17,777	107,985	27,959	156,898
Deposits from the public	93,264	4,404	525	0	98,197	82,341	8,223	643	1	91,207
Due to credit institutions	3,996	-	-	-	3,996	3,925	-	-	-	3,925
Other liabilities	7,265	-	-	-	7,265	1,949	296	71	-	2,316
<b>Total cash flows, net</b>	<b>-87,641</b>	<b>-8,485</b>	<b>-69,302</b>	<b>169,438</b>	<b>4,010</b>	<b>-77,006</b>	<b>-13,910</b>	<b>-72,117</b>	<b>170,542</b>	<b>7,509</b>
Loans approved but not disbursed	17,721	-	-	-	17,721	15,531	-	-	-	15,531
Derivatives, in and outflows, net	27	4	15	19	65	26	-55	14	20	5
<b>Total cash flows for financial assets and liabilities and insurance undertakings</b>	<b>-69,894</b>	<b>-8,481</b>	<b>-69,287</b>	<b>169,457</b>	<b>21,795</b>	<b>-61,450</b>	<b>-13,965</b>	<b>-72,103</b>	<b>170,562</b>	<b>23,045</b>

<sup>1)</sup>Bonds and other interest-bearing securities in the statement of financial position include fixed-income funds. These have no contractual maturities and have been excluded from the table.

<sup>2)</sup>Technical provisions are recognised gross, before ceded reinsurance.

## Operational risk

Operational risk refers to the risk of losses arising due to inappropriate or faulty internal processes, human error, faulty systems and external events, and includes legal and compliance risks.

## Risk exposure

Länsförsäkringar AB divides its operational risks into product and process risks, personnel risks, security risks, IT risks, legal risks, compliance risks and model risks.

The Länsförsäkringar Bank Group's funding takes place in a manner that creates a sound maturity profile and avoids maturity concentrations. The refinancing activities are based on broad diversification in terms of a variety of investors and markets. Diversification is achieved, for example, through proactive work on creating long-term investor relations. Funding takes place primarily through covered bonds since the majority of the Bank Group's assets comprise Swedish mortgages, although senior debt and short-term commercial paper programmes are also used. Refinancing primarily takes place in the market for SEK, EUR, CHF and NOK. The Bank Group endeavours to regularly launch issuances in these markets to create long-term confidence in the international capital markets.

The Parent Company's liquidity is mainly affected by dividends and Group contributions from subsidiaries, any requirements for contributions to be made to subsidiaries, dividends to owners and interest payments on issued bonds. To meet liquidity requirements, the Parent Company's maintained cash and cash equivalents, which at year-end amounted to SEK 254 M (251).

Länsförsäkringar AB established a Swedish MTN programme with a loan framework of SEK 2,500 M in 2012. The MTN programme gives the company the option of issuing bonds in EUR and SEK with accruing and fixed interest in the capital market. On 9 October 2017, Länsförsäkringar AB had repaid its bond loan of SEK 1,700 M and the Medium Term Note programme had matured. The loan was not refinanced and on 31 December 2017 there were no outstanding bonds issued under the programme.

## Risk management and risk-reduction techniques

Work on operational risk is based on Group-wide methods that encompass business-critical processes and key controls as well as reported incidents and the operations' self-assessment of operational risk. All employees are responsible for actively managing operational risk within their individual operations. The department that takes the risk owns the risk, which means that the daily management of operational risk primarily takes place in the business operations. Risks are minimised by proactive preventive measures and awareness of operational risk in every decision-making situation.

The process of managing and controlling operational risk includes identifying, measuring, monitoring, managing and reporting. Business-critical processes and risks have been analysed and documented. Controls of process risks are performed every quarter and reported to each company Board. Operational risk analyses are performed annually. Operational risks are identified, the potential consequences evaluated and probability of the risk occurring assessed. Action plans are prepared for material risks, which are followed up every quarter at management level.

The Länsförsäkringar AB Group has a process for approving new or significantly changed products, services, markets, processes, IT systems and for major changes to operations and organisation. The purpose of the approval process is to achieve efficient and appropriate management of the risks that may arise in connection with change work, to ensure compliance with applicable regulations and to create customer value. Furthermore, the organisation applies a special process for the approval of new investment assets that aims to highlight and manage potential risks prior to investments in a new class of asset, type of instrument or fund.

The Group's continuity management involves preparing business continuity, continuity and restoration plans to manage incidents before, during and after a crisis has occurred. The overall goal for security work is to protect the organisation's assets from all types of threats – internal or external, intentional or unintentional. Security activities are conducted in accordance with the information security standards SS-ISO/IEC 27001:2014 and 27002:2014 and the normative standard in business continuity management SS-ISO/IEC 22301.

The companies in the Länsförsäkringar AB Group may, from time to time, outsource parts of the operations to external contractors, for example, to enhance the efficiency of operations. In order to maintain a high level of control, the companies' guidelines address issues including the procurement skills of the companies, suitability assessment, impact analysis and business contingency plans.

#### **Risk sensitivity**

The Group and subsidiaries regularly carry out exercises to ensure that every company is highly capable of managing crisis situations. Exercises and testing comprise both manual response procedures and automated IT support. Desktop and technological testing of applications and administration objects are carried out annually. Large-scale crisis management exercises are conducted at least every three years. Desktop and technological testing of applications and administration objects were performed during the year according to plan. The result of the tests showed that the companies have a sound ability and business contingency to manage crises that arise.

#### **Other material risks**

In addition to the risks described above, the Länsförsäkringar AB Group is also exposed to business risks, emerging risks, climate risks and group risks.

- Business risk pertains to the risk of lower earnings, higher expenses or loss of confidence from customers or other stakeholders.
- Emerging risks refers to new or changed behaviour patterns, situations or trends that may have a material impact on the company's financial situation, market position or brand in a negative direction within the company's business planning horizon.
- Climate risk refers to risks arising from the direct and indirect consequences of climate change, such as a higher average temperature on earth, more instances of extreme weather conditions and gradually rising sea levels.
- Group risk refers to the risks associated with the complexity of conducting both banking operations and life-assurance and non-life insurance operations in the same group.

#### **Risk exposure**

The Länsförsäkringar AB Group's exposure to business risks follows the business strategies decided where the business planning process and results from business risk analyses comprise important instruments in managing

challenges associated with harmonising the subsidiaries' strategies and objectives with each other at Group level. Due to the strong brand connection between the companies in the Group, diminished confidence in one of the companies could entail a reputation risk that damages the brand and thus other companies in the Länsförsäkringar AB Group as well as the entire Länsförsäkringar Alliance.

Exposure to group risks arises by the Group conducting both insurance and banking operations that are subject to different regulations. Simultaneously operating under rules for financial conglomerates, capital adequacy rules for banks (CRR/CRDIV) and regulations for insurance companies (Solvency II) leads to higher costs and could affect the Länsförsäkringar AB Group's competitiveness in relation to its competitors that do not have the same group structure.

Climate risk could directly or indirectly increase other risks, such as insurance, market or brand risks. Global warming and the resulting extreme weather events, such as storms, torrential rain, flooding and drought, could increase insurance claims. Länsförsäkringar AB invests in companies all over the world, through its own management and via externally managed funds and mandates. There is a market risk and a business risk for Länsförsäkringar AB that these companies are associated with violations of human rights, corruption and environmental conventions.

New risks, emerging risks, can arise over time due to changed conditions in the external business environment or internal circumstances. This could be a brand new behaviour pattern that presents a new risk or a risk that changes its nature and thus should be managed in a new way, but could also be a risk that has previously been deemed to be immaterial that has become material. Examples could be the emergence of new economies, technological advances and social-political changes, etc.

#### **Risk management and risk-reduction techniques**

Business risks are managed at Board and management level through analyses and decisions prior to making strategic choices on the direction of the operations. Business risk analyses are carried out in the annual business planning process, but can also be performed in the interim if required due to changes in the external environment or in connection with business decisions. The specific business risks that are deemed to be the most important at any given time are continuously monitored at management level.

Group risks are identified and managed as part of the continuous risk-management activities and in the Länsförsäkringar AB Group's annual Own Risk and Solvency Assessment (ORSA) and in the Group's recovery plan. Continuous monitoring of regulatory developments and efficient processes for identifying, measuring and reporting risks are key tools for keeping group risks at a low level.

Climate risks are analysed as part of the Group-wide annual strategy and business planning process and are limited by taking proactive measures. To reduce this risk, the Group engages an external ethics consultant that analyses all listed equities and credit bonds in the investment portfolios based on international conventions, including human rights, and has reduced the risk in its investments since 2016 by divesting a large number of coal companies. Länsförsäkringar works actively on claims-prevention measures to reduce insurance claims caused by climate risks.

Emerging risks are identified and managed as part of the continuous risk-management activities, in the Länsförsäkringar AB Group's annual Own Risk and Solvency Assessment (ORSA) and in the internal capital and liquidity adequacy assessment process (ICAAP and ILAAP) for the consolidated situation. The materiality of the risk determines whether action is to be taken and the nature of the risk governs the appropriate course of action.

#### **CAPITAL MANAGEMENT**

It is of central importance that the Länsförsäkringar AB Group and its separate licensable operations have a sufficient amount of capital in relation to the level of the Group's risks, regulatory capital requirements and stakeholder expectations.

## Targets and guidelines

The business activities of the companies consolidated in the Länsförsäkringar AB Group are conducted for profit-making purposes to enable Länsförsäkringar AB to pay returns through value growth and dividends to the owners. All capital that is not required for operations that the Group is commissioned to conduct by the regional insurance companies is to be paid as a dividend over time, on the condition that a credit rating of A for the Group's credit-rated units can be justified.

Länsförsäkringar Liv is a subsidiary that is operated according to mutual principles and is not consolidated in the Länsförsäkringar AB Group. For this reason, specific considerations apply to capital management for this company and are described in Länsförsäkringar Liv's annual report.

Quantitative capital targets are set at both Group level and for each subsidiary Group and legal entity. These capital targets are decided every year by each Board. For the Länsförsäkringar AB Group and its insurance companies, these capital targets are expressed so that the solvency ratio is to be at a certain level but with a tolerance down to a limit for acceptable capitalisation. This limit clearly exceeds the regulatory requirement. The solvency ratio refers to own funds divided by the solvency capital requirement, as defined in the Insurance Business Act. At the Länsförsäkringar AB Group level, the capital target is set based on the contributions to own funds and capital requirements made by the operations in Länsförsäkringar Bank and its subsidiaries. A change to the capital target for Länsförsäkringar AB Group was decided at year-end so that the target encompasses total own funds and total capital requirements, rather than as previously only Common Equity Tier 1 capital and the capital requirements that must be covered by such capital.

The Länsförsäkringar AB Group applies Group-wide guidelines for financial and capital governance that apply to all the Group's companies.

## Process

The Group's capital planning is conducted annually and is integrated into the business planning. These plans include the current year and three years in the future, and are prepared during the autumn. The process analyses the level of the capital requirement and the access to capital based on sales and profitability forecasts.

The purpose of the Group's capital planning is to ensure that own funds are sufficient for bearing the risks associated with realising the business plan in every subsidiary and at Group level. The analysis is based on the business plan activities and its fundamental scenario, but also includes a demanding but realistic negative scenario and stress tests. The capital situation of the entire Länsförsäkringar AB Group can be highlighted by performing analyses of shared scenarios and stress tests. In addition, unit-specific stress tests are performed in the Group's insurance companies and in the banking operations to provide supplementary data on the capital situation of each subsidiary. The analysis is to be performed in such a manner that the Board and management of each subsidiary – and for the Group, the Board of the Parent Company – gain greater joint understanding of issues relating to capital structure, capital requirement and business contingency to reduce risks and acquire new capital.

Capital planning results in, for example, forecasts for the income statement and balance sheets at Group and subsidiary level, and the capital situation in relation to regulatory requirements. Capital is allocated internally within the Group based on plans for the business activities and forecasts for risk-based capital requirements. The process also creates a plan for dividends and contributions within the Group, and a plan for capital transactions between the Parent Company and its owners and issues of capital instruments to external investors.

After the capital planning has been document and decided on by each subsidiary Board for its company, and the Parent Company's Board for the Group, the plans are regularly monitored throughout the year in quarterly reports. The plans are continuously updated during the fiscal year as required.

## Capital situation under group solvency rules

The Länsförsäkringar AB Group and its units are subject to regulatory requirements for the minimum permitted amount of capital in accordance with rules for banks, rules for insurance companies and rules for financial conglomerates. As the holding company for operations in both the banking sector and the insurance sector – known as a mixed financial holding company – Länsförsäkringar AB is, along with its licensable subsidiaries, encompassed by the abovementioned rules on minimum permitted capital in groups.

The capital requirement rules for financial conglomerates and the rules on capital requirements for groups in the insurance sector are based on a joint approach that can be said to be adapted to a financial group with both banking and insurance operations. Both of these sets of rules entail that combined own funds in the group are to cover the total of the capital requirement for the banking operations and the capital requirement for the insurance operations. All companies in the Länsförsäkringar AB Group, including Länsförsäkringar Liv, are included in the group defined by these regulations.

The rules of capital requirements for groups in the banking sector primarily entails that the value of shares in companies in the insurance sector are to be deducted from own funds and the remaining net amount is to cover the capital requirements for the banking operations. These rules can be said to disregard the surplus capital found in the group's insurance companies. The group formed under the rules for groups in the banking sector thus includes Länsförsäkringar Bank and its subsidiaries together with the Parent Company Länsförsäkringar AB, but does not include the insurance companies in the Länsförsäkringar AB Group.

## Capital situation under rules on financial conglomerates and rules on groups in insurance sector

Under the rules for financial conglomerates, the insurance sector is considered to be the largest sector in the Länsförsäkringar AB Group. A measure is calculated using information on total assets and capital requirements that shows that the insurance sector is larger than the banking sector by a certain margin, which is important to the calculation of the capital requirements on a consolidated basis for the Parent Company's operations.

Own funds and capital requirements are calculated for both financial conglomerates and for groups in the insurance sector by using the rules of each sector (banking and insurance).

In calculating capital requirements, an aggregate capital requirement is calculated for the parts of the Länsförsäkringar AB Group's insurance operations that are consolidated, meaning the Länsförsäkringar Sak Group's companies, Länsförsäkringar Fondliv and Länsförsäkringar AB. The capital requirement for the companies in the Länsförsäkringar Bank Group is added. For the banking sector, the most rigorous of the capital requirement rules based on Basel III and the transition rules under Basel I are applied. The capital requirement for Länsförsäkringar Liv is also added. Länsförsäkringar Liv, which is operated according to mutual principles, is included in the calculations in accordance with the deduction and aggregation method, with the consent of the Financial Supervisory Authority. Länsförsäkringar Liv's surplus capital is not included in the surplus capital on a consolidated basis; only the amount of the company's own funds that corresponds to its capital requirement is included in the calculation of own funds on a consolidated basis.

The rules on own funds in financial conglomerates and on groups in the insurance sector state that an assessment is to be made as to whether there is any practical or legal impediment to transferring the surplus capital in one unit to another unit within the same group. If such an impediment exists, a deduction is to be made from the group own funds so that the surplus capital cannot be transferred. For groups in the insurance sector, this assessment is limited to encompassing only the transferability from the group's insurance companies.

The rules for calculating capital requirements for financial conglomerates and for groups under the insurance rules have been re-interpreted since the transition rules for capital requirements in the banking operations ceased to apply on 1 January 2018. In these calculations, Pillar II requirements for the banking operations are now treated as capital requirements. In previous calculations under the rules on financial conglomerates, the Pillar II requirements were considered only as a hindrance to the transferability of capital between legal entities. This was of limited significance while the transition rules for capital requirements in banking operations applied.

The result of the calculations according to the rules on financial conglomerates and rules on groups in the insurance sector are presented in table 13.

**Table 13. Financial conglomerate and Group under the insurance rules:  
Solvency situation 2017**

SEK M	31 Dec 2017	31 Dec 2016
Own funds before deductions for non-transferable surplus capital	44,308	40,880
<i>of which own funds included from Länsförsäkringar Liv</i>	12,168	11,433
Deductions, non-transferable surplus capital in other insurance subsidiaries than Länsförsäkringar Liv	-136	-278
Own funds, group according to insurance rules	44,172	40,602
Deductions, non-transferable surplus capital in other companies than insurance subsidiaries	-	-249
Own funds, financial conglomerate	44,172	40,352
Capital requirement	33,441	30,121
<i>of which capital requirement Länsförsäkringar Liv</i>	12,168	11,433
Surplus capital, group according to insurance rules	10,731	10,480
Surplus capital, financial conglomerate	10,731	10,231

Deductions for non-transferable surplus capital refer to the existence of relatively large contingency reserves in Länsförsäkringar Sak and Agria preventing all of the surplus capital in the companies from being transferred.

The capital situation strengthened slightly during the year. Earnings and larger contributions to own funds from the revaluation of technical provisions in unit-linked insurance more than compensated for the higher capital requirement from increased business volumes.

#### Capital situation under bank group rules

The rules on reporting capital situations in bank groups entail that the Länsförsäkringar Bank Group is to be consolidated with Länsförsäkringar AB and the capital situation is to be tested for the combined financial group (named "consolidated situation" in table 14).

The capital requirements on a consolidated basis are to be fulfilled both under the EU rules as introduced in Basel III and under the Basel I transition rules.

After the European Banking Authority published an opinion on an interpretation in November 2017, the calculation of own funds for the consolidated situation under the group rules for banking operations has been re-interpreted. This re-interpretation entails that own funds instruments externally issued by Länsförsäkringar Bank cannot be fully included in own funds, but only to the portion of capital required to cover the capital requirements of Länsförsäkringar Bank AB and its subsidiaries. Accordingly, eligible Tier 1 capital amounted to SEK 944 M (1,200) and eligible Tier 2 capital to SEK 2,163 M (2,592) on 31 December 2017.

Table 14 shows the capital adequacy at group level for the Länsförsäkringar Bank Group consolidated with Länsförsäkringar AB.

**Table 14. Capital adequacy Länsförsäkringar Bank consolidated situation**

SEK M	Consolidated situation 2017	Consolidated situation 2016
Common Equity Tier 1 capital	14,992	12,617
Tier 1 capital	15,936	13,817
Own funds	18,100	16,409
Risk Exposure Amount	64,379	59,513
Common Equity Tier 1 capital ratio, %	23.3	21.2
Tier 1 ratio, %	24.8	23.2
Capital adequacy ratio, %	28.1	27.6
<i>Transition rules from Basel I</i>		
Own funds according to transition rules	18,544	16,802
Capital requirement according to transition rules	12,880	11,254
Surplus capital according to transition rules	5,663	5,548

The capital situation for Länsförsäkringar Bank in the consolidated situation strengthened during the year.

Earnings per operating segment						
	Non-life insurance	Unit-linked insurance	Bank	Parent company	Eliminations and adjustments	Total
<b>2017</b>						
Premiums after ceded reinsurance	5,623	198	-	-	-20	5,802
Net interest income	-	-	3,996	-	-3	3,994
Change in unit-linked insurance assets, policyholder bears the risk	-	10,177	-	-	-	10,177
Dividends in unit-linked insurance assets, policyholder bears the risk	-	6	-	-	-	6
Investment income, net	26	164	-7	1,875	-1,763	295
Commission income	23	1,583	1,789	-	-409	2,987
Other operating income	639	248	19	2,946	-1,386	2,466
<b>Total operating income</b>	<b>6,312</b>	<b>12,377</b>	<b>5,797</b>	<b>4,821</b>	<b>-3,580</b>	<b>25,726</b>
Claims payments after ceded reinsurance	-3,764	-98	-	-	345	-3,517
Change in life assurance provision	-	-	-	-	-8	-8
Change in unit-linked insurance liabilities, policyholder bears the risk	-	-10,352	-	-	-	-10,352
Commission expense	-475	-643	-2,540	-	419	-3,239
Staff costs	-454	-177	-549	-906	26	-2,060
Other administration expenses	-642	-469	-1,052	-2,276	772	-3,667
Loan losses	-	-	-58	-	-	-58
<b>Total expenses</b>	<b>-5,335</b>	<b>-11,739</b>	<b>-4,198</b>	<b>-3,182</b>	<b>1,553</b>	<b>-22,901</b>
<b>Technical result</b>	<b>977</b>	<b>638</b>	<b>-</b>	<b>-</b>	<b>-1,615</b>	<b>-</b>
Non-technical income/expenses	51	-38	-	-	-13	-
<b>Operating profit</b>	<b>1,028</b>	<b>600</b>	<b>1,599</b>	<b>1,638</b>	<b>-2,040</b>	<b>2,825</b>
Tax	-	-	-	-	-	-575
<b>Net profit for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,250</b>
<b>Income distribution</b>						
External income	6,136	11,980	5,802	1,598	209	25,726
Internal income	176	397	-5	3,222	-3,790	-
<b>Total operating income</b>	<b>6,312</b>	<b>12,377</b>	<b>5,797</b>	<b>4,821</b>	<b>-3,580</b>	<b>25,726</b>
<b>2016</b>						
Premiums after ceded reinsurance	5,342	173	-	-	-30	5,485
Net interest income	-	-	3,464	-	1	3,464
Change in unit-linked insurance assets, policyholder bears the risk	-	7,916	-	-	-	7,916
Dividends in unit-linked insurance assets, policyholder bears the risk	-	7	-	-	-	7
Investment income, net	15	54	69	603	-419	322
Commission income	15	1,412	1,616	-	-346	2,697
Other operating income	389	265	34	2,891	-1,449	2,129
<b>Total operating income</b>	<b>5,760</b>	<b>9,828</b>	<b>5,182</b>	<b>3,494</b>	<b>-2,243</b>	<b>22,021</b>
Claims payments after ceded reinsurance	-3,793	-104	-	-	314	-3,584
Change in life assurance provision	-	-	-	-	-6	-6
Change in unit-linked insurance liabilities, policyholder bears the risk	-	-8,050	-	-	-	-8,050
Commission expense	-430	-575	-2,278	-	357	-2,926
Staff costs	-422	-167	-470	-927	13	-1,973
Other administration expenses	-680	-435	-929	-2,114	998	-3,159
Loan losses	-	-	-38	-	-	-38
<b>Total expenses</b>	<b>-5,326</b>	<b>-9,331</b>	<b>-3,715</b>	<b>-3,040</b>	<b>1,676</b>	<b>-19,735</b>
<b>Technical result</b>	<b>435</b>	<b>497</b>	<b>-</b>	<b>-</b>	<b>-932</b>	<b>-</b>
Non-technical income/expenses	210	15	-	-	-224	-
<b>Operating profit</b>	<b>644</b>	<b>512</b>	<b>1,467</b>	<b>453</b>	<b>-791</b>	<b>2,286</b>
Tax	-	-	-	-	-	-441
<b>Net profit for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,845</b>
<b>Income distribution</b>						
External income	5,524	9,474	5,189	1,687	147	22,021
Internal income	236	353	-7	1,807	-2,390	-
<b>Total operating income</b>	<b>5,760</b>	<b>9,828</b>	<b>5,182</b>	<b>3,494</b>	<b>-2,243</b>	<b>22,021</b>

### Note 3 Earnings per operating segment, cont.

The distribution into operating segments matches how the Group is organised and is monitored by Group management. The technical result is presented for Non-life Insurance and Unit-linked Life Assurance since the result is followed up by Group management.

Income is primarily attributable to Sweden, with a small portion from Denmark, Finland, Norway and the UK.

The Non-life Insurance operating segment pertains to non-life and group life assurance; group life assurance comprises a minor portion only. The Länsförsäkringar Alliance's internal and external reinsurance are also included. The Non-life Insurance operating segment comprises non-life insurance with income from external customers totalling SEK 5,866 M (5,272) and group life assurance with income from external customers totalling SEK 270 M (252).

The Unit-linked Life Assurance operating segment pertains to life assurance with links to mutual funds. The Unit-linked Life Assurance operating segment comprises life assurance linked to mutual funds with income from external customers totalling SEK 11,980 M (9,474).

The Banking operating segment pertains to deposits and lending operations. For the Banking operating segment, the product offering to external customers is in line with the legal structure within the Länsförsäkringar Bank Group. Income from external customers pertains to bank products totalling SEK 1,979 M (1,752), for mortgage products totalling SEK 1,453 M (1,253), for leasing and installment totalling SEK 1,206 M (1,082) and for fund products totalling SEK 1,164 M (1,101).

The Parent Company operating segment pertains to service, IT and development for the Länsförsäkringar Alliance, administration of mutual funds and costs for shared functions.

Depreciation of property and equipment and amortisation of intangible assets in Non-Life Insurance is included in Other administration expenses. Amortisation pertaining to acquired intangible assets under Unit-linked Life Assurance is included in eliminations and adjustments of administration expenses.

Impairment of goodwill and intangible assets is included in other administration expenses and amounted to SEK -282 M (-). Impairment is distributed between the operating segments as follows: Non-life Insurance SEK -179 M, Unit-linked Insurance SEK -5 M, Bank SEK -8 M and the Parent Company SEK -89 M.

Investment income transferred from financial operations to insurance operations is recognised Investment income, net in the Non-life Insurance operating segment.

Note 4	Acquisitions of operations
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#### Acquisitions of operations 2017

During 2017, the Länsförsäkringar AB Group did not acquire any operations.

#### Change in additional purchase price 2017

In 2011, Länsförsäkringar AB acquired Länsförsäkringar Fondliv Försäkrings AB from Länsförsäkringar Liv Försäkrings AB. The acquisition agreement states an additional purchase price of SEK 950 M is to be paid in seven annual part payments to Länsförsäkringar Liv Försäkrings AB. The adopted acquisition analysis was recognised in the 2012 Annual Report.

In 2017, an installment of the additional purchase price was paid to Länsförsäkringar Liv Försäkrings AB. The installment totalled SEK 136 M (136). The value of the additional purchase price was SEK 130 M (255) on 31 December 2017.

Note 5	Premiums after ceded reinsurance
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	2017	2016
<b>Non-life insurance</b>		
Premium income, direct insurance, Sweden	4,965	4,744
Premium income, direct insurance, other EEA	7	5
Premium income, received reinsurance	2,109	1,965
Change in provision for unearned premiums	-172	-150
Change in provision for unexpired risks	-	3
<b>Total premiums earned before ceded reinsurance</b>	<b>6,908</b>	<b>6,566</b>
Premiums for ceded reinsurance	-1,626	-1,559
Reinsurers' portion of change in provision for unearned premiums and unexpired risks	28	42
<b>Total reinsurers' portion of premiums earned</b>	<b>-1,598</b>	<b>-1,516</b>
<b>Total premiums earned after ceded reinsurance</b>	<b>5,309</b>	<b>5,050</b>
<b>Life assurance</b>		
Premium income, group insurance, direct life assurance in Sweden	512	448
<b>Total premium income before ceded reinsurance</b>	<b>512</b>	<b>448</b>
Premiums for ceded reinsurance	-20	-13
<b>Total premiums after ceded reinsurance</b>	<b>492</b>	<b>435</b>
<b>Total premiums after ceded reinsurance</b>	<b>5,802</b>	<b>5,485</b>

Note 6	Interest income
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	2017	2016
Loans to credit institutions	-51 <sup>1)</sup>	-41 <sup>1)</sup>
Loans to the public	5,267	4,926
Interest-bearing securities	224 <sup>1)</sup>	331 <sup>1)</sup>
Derivatives	-920	-1,220
Other interest income	0	0
<b>Total interest income</b>	<b>4,566</b>	<b>4,033</b>
of which interest income on impaired loans	11	15
of which interest income from financial items not measured at fair value	5,262	4,923
Average interest rate on loans to the public during the year, %	2.2	2.3

Note 7	Interest expense
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	2017	2016
Due to credit institutions	26 <sup>1)</sup>	20 <sup>1)</sup>
Deposits and borrowing from the public	-133	-186
Interest-bearing securities	-1,982 <sup>1)</sup>	-2,010 <sup>1)</sup>
Subordinated liabilities	-55	-72
Derivatives	1,791	1,781
Other interest expense	-220	-103
<b>Total interest expense</b>	<b>-573</b>	<b>-569</b>
of which interest expense from financial items not measured at fair value	-2,364	-2,349
Average interest rate on deposits from the public during the year, %	0.1	0.2

<sup>1)</sup> Of which negative interest on Loans to credit institutions of SEK 16 M (20) and Interest-bearing securities of SEK 58 M (31), and also Liabilities to credit institutions of SEK 27 M (38) and Deposits and borrowing from the public of SEK 3 M (-).

<b>Note 8 Investment income, net</b>		
	<b>2017</b>	<b>2016</b>
Interest income	4 <sup>1)</sup>	46 <sup>1)</sup>
Dividends	48	4
<b>Realised profit, net</b>		
Interest compensation	34	45
Shares and participations	234	-2
Interest-bearing securities	19	-90
Derivatives	40	149
Change in claims annuities reserve	-5	-4
Other financial assets	4	3
<b>Total realised profit, net</b>	<b>326</b>	<b>101</b>
<b>Unrealised profit, net</b>		
Shares and participations	78	191
Interest-bearing securities	746	-474
Derivatives	-786	634
Other financial assets	-6	-5
<b>Total unrealised profit, net</b>	<b>33</b>	<b>346</b>
Exchange-rate gains/losses, net	17	-48
Interest expense	-60	-109
Participations in associated companies	-3	9
Depreciation/amortisation and impairment shares and participations	-35	-
Asset management expenses	-34	-26
<b>Investment income, net</b>	<b>295</b>	<b>322</b>
<b>Investment income, net, by valuation category</b>		
Financial assets held for trading	102	-138
Financial assets measured according to fair value option	144	357
Financial liabilities measured according to fair value option	-19	-24
Available-for-sale financial assets	23	21
Loan receivables and accounts receivable	27	40
Other financial liabilities	-57	-95
Change in fair value of derivatives that are hedging instruments in a hedge of fair value	-706	782
Change in fair value of hedged items with regard to the hedged risk in hedges of fair value	627	-736
<b>Non-financial items included in investment income, net</b>		
Translation, non-life annuity reserve	-1	-2
Value-preserving interest rates claims annuities reserve	-5	-4
Dividends from group and associated companies	2	1
Depreciation/amortisation and impairment shares and participations	-35	-
Other non-financial items	194	120
<b>Total investment income, net</b>	<b>295</b>	<b>322</b>

<sup>1)</sup> Of which negative interest on Cash and Bank of SEK 5 M (4) and also Interest-bearing securities of SEK 7 M (7).

<b>Note 9 Commission income</b>		
	<b>2017</b>	<b>2016</b>
Payment mediation commission	87	84
Lending commission	232	211
Securities commission	1,179	1,134
Card operations	213	174
Commission and profit shares in ceded reinsurance	23	15
Fees pertaining to financial agreements		
unit-linked insurance	724	659
Other commission	528	420
<b>Total commission income</b>	<b>2,987</b>	<b>2,697</b>

<b>Note 10 Other operating income</b>		
	<b>2017</b>	<b>2016</b>
Service income, regional insurance companies	1,417	1,366
Other service income	500	489
Other income	549	274
<b>Total other operating income</b>	<b>2,466</b>	<b>2,129</b>

**Note 11** **Claims payments**

	2017			2016		
	Before ceded reinsurance	Ceded reinsurance	After ceded reinsurance	Before ceded reinsurance	Ceded reinsurance	After ceded reinsurance
<b>Non-life insurance</b>						
Claims paid	-4,245	826	-3,419	-4,070	886	-3,184
Claims annuities paid	-37	-	-37	-29	-	-29
Change in provision for claims incurred and reported	-167	-125	-293	415	-460	-45
Change in provision for claims incurred but not reported	341	135	476	-53	-26	-80
<b>Total</b>	<b>-4,107</b>	<b>836</b>	<b>-3,272</b>	<b>-3,735</b>	<b>399</b>	<b>-3,336</b>
<b>Life assurance</b>						
Claims paid	-221	3	-218	-186	2	-184
Change in provision for claims outstanding	-39	12	-28	-65	1	-64
<b>Total</b>	<b>-261</b>	<b>15</b>	<b>-246</b>	<b>-251</b>	<b>3</b>	<b>-248</b>
<b>Total non-life insurance and life assurance</b>	<b>-4,368</b>	<b>851</b>	<b>-3,517</b>	<b>-3,986</b>	<b>402</b>	<b>-3,584</b>

**Note 12** **Commission expense**

	2017	2016
Payment mediation commission	-125	-104
Management costs	-107	-169
Securities commission	-258	-269
Card operations	-118	-107
Compensation to the regional insurance companies	-2,150	-1,838
Commission, direct insurance	-323	-297
Commission, received reinsurance	-96	-81
Other commission	-62	-61
<b>Total commission expense</b>	<b>-3,239</b>	<b>-2,926</b>

**Note 13** **Employees, staff costs and remuneration to senior executives**

Average number of employees	2017	2016
<b>Sweden</b>		
Men	765	706
Women	985	935
<b>Total Sweden</b>	<b>1,750</b>	<b>1,641</b>
<b>Denmark</b>		
Men	1	1
Women	12	9
<b>Total Denmark</b>	<b>13</b>	<b>10</b>
<b>Finland</b>		
Men	-	-
Women	9	4
<b>Total Finland</b>	<b>9</b>	<b>4</b>
<b>Norway</b>		
Men	6	2
Women	23	23
<b>Total Norway</b>	<b>29</b>	<b>25</b>
<b>UK</b>		
Men	35	39
Women	79	67
<b>Total UK</b>	<b>114</b>	<b>106</b>
<b>Total number of employees</b>		
Men	807	748
Women	1,108	1,038
<b>Total</b>	<b>1,915</b>	<b>1,786</b>

Salaries, other remuneration and social security expenses	2017	2016
<b>Other employees</b>		
Salaries and remuneration	1,186	1,116
of which variable remuneration	1	1
Social security expenses	673	664
of which pension costs	253	264
<b>Total</b>	<b>1,859</b>	<b>1,780</b>
<b>Board of Directors and senior executives, 34 (30)</b>	<b>2017</b>	<b>2016</b>
Salaries and remuneration	67	58
of which variable remuneration	-	-
Social security expenses	50	45
of which pension costs	23	20
<b>Total</b>	<b>117</b>	<b>103</b>
<b>Total salaries, other remuneration and social security expenses</b>	<b>2017</b>	<b>2016</b>
Salaries and remuneration	1,253	1,174
of which variable remuneration	1	1
Social security expenses	723	709
of which pension costs	276	285
<b>Total</b>	<b>1,976</b>	<b>1,883</b>

Länsförsäkringar AB has about 1,400 individuals who are also employed at Länsförsäkringar Bank and the regional insurance companies. The regional insurance companies pay the entire remuneration of their respective employees.

## Note 13 Employees, staff costs and remuneration to senior executives, cont.

### Variable remuneration

Variable remuneration is a rarely utilised form of remuneration at the Länsförsäkringar AB Group and, accordingly, comprises an extremely minor part of total salaries. Commission-based remuneration is used for some functions. Commission-based remuneration is proportionate to sales effort and is regulated by local collective agreements.

The variable remuneration above pertains to the recognised expense for the year. The amount includes estimated variable remuneration for 2017, and deviations pertaining to estimated costs for 2016.

Of the above amount pertaining to variable remuneration, SEK 0.6 M (0.5) is attributable to the insurance operations.

### Remuneration of senior executives

Remuneration of the President and other senior executives comprises basic salary and other benefits. Pension benefits and other benefits paid to the President and other senior executives are included as part of total remuneration. For remuneration of specific senior executives, refer to note 6 Employees, staff costs and remuneration of senior executives in the Parent Company.

### Severance pay

A mutual period of notice of six months applies for the President and other senior executives. If termination of employment is issued by the company, severance pay corresponding to 12 monthly salaries will be paid, in addition to the period of notice. Alternatively, a mutual period of notice of three or six months is applied for other senior executives, and if termination of employment is issued by the company, severance pay corresponding to 12, 18 or 24 monthly salaries will be paid in addition to the period of notice.

### Pensions

The retirement age for the President is 65 years. The pension is a defined-contribution plan and the pension premium is to amount to 35% of the monthly salary. The retirement age for one Executive Vice President is 60 years. The pension between the age of 60 and 65 is a defined-contribution plan. The pension premium is to amount to 18% of pensionable salary. Pensionable salary refers to fixed salary. Pension from the age of 65 is subject to the terms of the pension agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (FTF) and the Swedish Confederation of Professional Associations (SACO). The retirement age for other senior executives is 60, 62 or 65 years. If the retirement age is 65, the pension is a defined-contribution plan and the pension premium is to amount to 35% of the monthly salary. If the retirement age is 60 or 62, the pensions between 60 or 62 and 65 are defined-contribution pensions and are expected to be paid at approximately 70% of the pensionable salary. Pension from the age of 65 is subject to the terms of the pension agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (FTF) and the Swedish Confederation of Professional Associations (SACO).

### Preparation and decision-making process applied in relation to the issue of remuneration of corporate management

A Remuneration Policy for the Länsförsäkringar AB Group regulates the preparation and decision-making process for remuneration of corporate management. The remuneration Committee prepares important remuneration decisions and decisions on measures for following up the application of the Remuneration Policy. The Board decides on remuneration and other terms of employment for corporate management and employees with overall responsibility for one of the company's control functions.

### Composition and mandate of Remuneration Committee

The composition and duties of the Remuneration Committee are regulated in the Board's formal work plan.

### Policies for remuneration of corporate management

Senior executives in the Länsförsäkringar AB Group are to have market-based employment terms and conditions. The total remuneration must be on par with the industry. The structure and level of remuneration should correspond to the company's values, meaning that it should be reasonable, moderate and well-balanced, and also contribute to good ethics and organisational culture, characterised by openness and transparency.

### Fixed remuneration

Fixed remuneration is paid according to the general policy above.

### Pensions

The pension solution for senior executives shall be premium-based with a premium provision of 35% of the monthly salary.

### Other benefits

In addition to the above benefits, personal are offered a company car in accordance with applicable conditions, individual health insurance and other benefits offered to all employees.

Loans to the Board of Directors, Presidents/Executive Vice Presidents and other senior executives	31 Dec 2017	31 Dec 2016
Board members	58	73
President and Executive Vice President	18	16
Other senior executives	77	69
<b>Total loans to the Board of Directors, Presidents/Executive Vice Presidents and other senior executives</b>	<b>153</b>	<b>159</b>

Loans granted comprise personnel loans and other loans. Personnel loans are maximised at SEK 500,000 and carry loan terms comparable to what applies to other employees in the Group. The interest rate for employees is the repo rate less 0.5 percentage points, but can never be lower than 0.5%. The interest benefit is calculated in accordance with the Swedish Tax Agency's rules and is included in the amount for other benefits as above. The terms and conditions of other loans are market-based.

Number of women among senior executives, %	31 Dec 2017	31 Dec 2016
Board members	41	42
Other senior executives	49	44

### Note 14 Fees and remuneration to auditors

	2017	2016
<b>KPMG AB</b>		
- Audit assignments	-12	-10
- audit operations in addition to the audit assignment	-2	-3
- tax consulting	-2	-1
- other assignments	-1	-1
<b>Total fees and cost reimbursements to auditors</b>	<b>-18</b>	<b>-14</b>

Audit assignment pertains to a review of the Annual Report and accounting, as well as the Board's and President's administration. Audit activities other than audit assignment pertain to various types of quality-assurance services, such as reviews of the administration, Articles of Associations, regulations or agreements that result in reports and certificates. Other assignments pertain to activities that are not included in the above-mentioned items, for example, legal consultations alongside audit activities and that are not attributable to tax consultancy services.

### Note 15 Other administration expenses

	2017	2016
<b>Other administration expenses</b>		
Costs for premises	-114	21
Depreciation/amortisation and impairment	-599	-330
IT costs	-1,638	-1,769
Consultant costs	-442	-224
Marketing	-260	-252
Telephone and postage	-99	-99
Other administration expenses	-515	-506
<b>Total other administration expenses</b>	<b>-3,667</b>	<b>-3,159</b>

Note 16	Loan losses	
	2017	2016
<b>Specific reserve for individually assessed loan receivables</b>		
Write-off of confirmed loan losses during the year	-131	-135
Reversed earlier impairment of loan losses recognised in the year-end accounts as confirmed losses	118	133
Impairment of loan losses during the year	-148	-141
Payment received for prior confirmed loan losses	90	67
Reversed impairment of loan losses no longer required	10	67
<b>Net expense for the year for individually assessed receivables</b>	<b>-60</b>	<b>-9</b>
<b>Collectively assessed homogenous groups of loan receivables with limited value and similar credit risk</b>		
Provision/reversal of impairment for loan losses	2	-29
<b>Net expense for the year for collectively assessed receivables</b>	<b>2</b>	<b>-29</b>
Net expense for the year for fulfilment of guarantees	0	0
<b>Net expense of loan losses for the year</b>	<b>-58</b>	<b>-38</b>

The settlement model, which was introduced on 1 January 2014, regarding the commitment that the regional insurance companies have regarding loan losses related to business they have generated entails that the regional insurance companies cover 80% of the provision requirement on the date when an impairment is identified, by means of an offset against accrued commissions. On 31 December 2017, the total credit reserve requirement amounted to SEK 355 M (380), of which the Bank Group's recognised credit reserve accounted for SEK 267 M (250) and the remainder of SEK 88 M (130) was offset against the regional insurance companies' withheld funds, according to the model described above.

Note 17	Tax	
	2017	2016
<b>Current tax</b>		
Tax expenses for the period	-420	-271
Adjustment of tax expense pertaining to prior years	-10	-8
<b>Total current tax</b>	<b>-430</b>	<b>-279</b>
<b>Deferred tax</b>		
Deferred tax pertaining to temporary differences	-150	-165
Deferred tax pertaining to capitalised tax value in loss carryforwards	4	4
<b>Total deferred tax</b>	<b>-146</b>	<b>-162</b>
<b>Total recognised tax expense</b>	<b>-575</b>	<b>-441</b>
<b>Reconciliation of effective tax rate</b>		
Profit before tax	2,825	2,286
Tax in accordance with applicable tax rate for Parent Company	-622	-503
Effect of other tax rates for foreign companies	-3	-2
Tax on non-deductible costs	-605	-63
Tax on non-taxable income	658	137
Tax attributable to earlier years	-6	-8
Resolution of deferred tax	3	-1
<b>Recognised effective tax on profit for the year</b>	<b>-575</b>	<b>-441</b>
Applicable tax rate, %	22.0	22.0
Effective tax rate, %	20.4	19.3
<b>Tax attributable to other comprehensive income</b>		
Cash-flow hedges	25	18
Available-for-sale financial assets	-11	-30
Revaluation of owner-occupied property	-46	-46
Revaluation of defined-benefit pension plans	-1	-0
<b>Total tax attributable to other comprehensive income</b>	<b>-33</b>	<b>-59</b>

Note 18	Earnings per share	
	2017	2016
Net profit/loss attributable to Parent Company's shareholders, SEK M	2,250	1,845
Number of shares with a quotient value of SEK 100	10,424,582	10,424,582
<b>Earnings per share before and after dilution, SEK</b>	<b>216</b>	<b>177</b>

Earnings per share has been calculated as net profit for the year attributable to the Parent Company's shareholders divided by the average number of shares. No previous or future dilution exists since potential ordinary shares did not occur in reported periods nor were in existence on the balance-sheet date.

Note 19	Goodwill	
	2017	2016
<b>Cost</b>		
Opening cost, 1 January	720	738
Impairment	-179	-
Exchange-rate differences	-3	-18
<b>Closing cost, 31 December</b>	<b>538</b>	<b>720</b>
	2017	2016
Länsförsäkringar Fondliv Försäkrings AB	372	372
Länsförsäkringar Gruppliv Försäkrings AB	-	35
Insurance portfolio	-	144
Agria Pet Insurance Ltd	166	169
<b>Closing cost, 31 December</b>	<b>538</b>	<b>720</b>

Assumptions for testing of value	2017	2016
Long-term growth, %	2.0	2.0
Discount rate, %	8.0	7.9
Exchange rate SEK/GBP	11.1	11.2

Goodwill testing is based on the value in use. The value of the business is based on discounting the future cash flows. Future cash flows are based on historical data about income and expenses with adjustments to future assumptions regarding growth and the cost trend, with deductions for capital requirements. The long-term growth assumption was set on a level with long-term inflation expectations and the discount rate corresponds to the yield requirement for equity. Operating risk in underlying operations can display a certain variation, but risk is assessed for each cash-generating unit together with other parameters that completely correspond to the discount rate. A market value is calculated for Länsförsäkringar Fondliv according to market consistent embedded value (MCEV). The calculation is performed based on the present value of future gains in the insurance portfolio. The future gains are measured and discounted using a market-based, risk-free yield curve.

**Note 20 Other intangible assets**

Capitalised expenditure for development and acquired intangible assets	Internally developed IT systems	Acquired IT systems	Acquired customer- based assets	Total
<b>Capitalised expenses</b>				
<b>Cost</b>				
Opening cost, 1 January 2016	1,819	249	4,197	6,265
Acquisitions	566	29	-	595
Divestments/disposals	-4	-	-	-4
Exchange-rate differences	-3	-	-	-3
<b>Closing cost, 31 December 2016</b>	<b>2,379</b>	<b>278</b>	<b>4,197</b>	<b>6,854</b>
Opening cost, 1 January 2017	2,379	278	4,197	6,854
Acquisitions	673	-	-	673
Divestments/disposals	-9	-	-	-9
Reclassification	-	5	-	5
Exchange-rate differences	-1	-	-	-1
<b>Closing cost, 31 December 2017</b>	<b>3,042</b>	<b>283</b>	<b>4,197</b>	<b>7,523</b>
<b>Amortisation</b>				
Opening accumulated amortisation, 1 January 2016	-953	-97	-1,201	-2,252
Amortisation	-91	-16	-153	-259
Divestments/disposals	3	-	-	3
Exchange-rate differences	2	-	-1	1
<b>Closing accumulated amortisation, 31 December 2016</b>	<b>-1,039</b>	<b>-113</b>	<b>-1,355</b>	<b>-2,507</b>
Opening accumulated amortisation, 1 January 2017	-1,039	-113	-1,355	-2,507
Amortisation	-109	-21	-144	-274
Divestments/disposals	9	-	-	9
Reclassification	-	-2	-	-2
Exchange-rate differences	0	-	-0	-0
<b>Closing accumulated amortisation, 31 December 2017</b>	<b>-1,139</b>	<b>-137</b>	<b>-1,499</b>	<b>-2,774</b>
<b>Impairment</b>				
Opening accumulated impairment, 1 January 2016	-297	-45	-	-342
<b>Closing accumulated impairment, 31 December 2016</b>	<b>-297</b>	<b>-45</b>	<b>-</b>	<b>-342</b>
Opening accumulated impairment, 1 January 2017	-297	-45	-	-342
Impairment	-102	-	-	-102
<b>Closing accumulated impairment, 31 December 2017</b>	<b>-400</b>	<b>-45</b>	<b>-</b>	<b>-445</b>
<b>Carrying amount, 31 December</b>				
2016	1,042	120	2,843	4,005
<b>2017</b>	<b>1,503</b>	<b>102</b>	<b>2,699</b>	<b>4,304</b>

The periods of amortisation for internally developed and acquired IT systems are determined based on a useful life that varies between 3 and 15 years. Acquired customer-based assets are depreciated over a period of 8 or 25 years. Straight-line depreciation is applied consistently and all amortisation and impairment losses are recognised in profit and loss as Other administration expenses.

During the year, impairment of other intangible assets amounting to SEK 102 M (-) has been made.

Note 21		Property and equipment	
		2017	2016
<b>Cost</b>			
Opening cost, 1 January		219	259
Reclassification		-19	6
Acquisitions		28	20
Divestments/disposals		-18	-63
Exchange-rate differences		-0	-3
<b>Closing cost, 31 December</b>		<b>210</b>	<b>219</b>
<b>Depreciation</b>			
Opening accumulated depreciation, 1 January		-164	-206
Reclassification		2	-
Depreciation		-15	-16
Divestments/disposals		11	56
Exchange-rate differences		0	2
<b>Closing accumulated depreciation, 31 December</b>		<b>-166</b>	<b>-164</b>
<b>Carrying amount, 31 December</b>		<b>44</b>	<b>55</b>

Note 22		Owner-occupied property			
		After revaluation 31 Dec 2017	Before revaluation 31 Dec 2017	After revaluation 31 Dec 2016	Before revaluation 31 Dec 2016
Cost, reclassified		3,731	3,532	3,487	3,291
Accumulated amortisation		-845	-800	-766	-723
Carrying amount		2,887	2,733	2,721	2,568
<b>Fair value</b>			<b>2,887</b>		<b>2,721</b>
<b>Revalued depreciated cost</b>				<b>2017</b>	<b>2016</b>
Opening balance, 1 January				2,721	2,545
Capitalised improvements				31	38
Depreciation for the year according to plan before revaluation				-76.5	-72
Revaluation of owner-occupied property				211	210
<b>Closing balance, 31 December</b>			<b>2,887</b>		<b>2,721</b>
Historical cost reduced by depreciation according to plan				1,655	1,700
Revaluation effect against revaluation reserve				165	164
<b>Assumption on valuation at fair value</b>				<b>2017</b>	<b>2016</b>
Current rental income/market rent, SEK M				152/157	149/156
Computed interest in discounting, %				6.6	6.8
Direct yield requirement, %				4.5	4.8

The Group applies the revaluation technique to the Group's owner-occupied property. The properties were assessed externally by valuation company CB Richard Ellis. Fair value was calculated by applying the location-price method, based on reported purchases of comparable properties, and a return-based cash flow method. The cash-flow method is based on 10 year calculation of the present value of future cash flows in the form of operating net, which has been successively adjusted to market. A residual value was estimated by performing a constant capitalisation of an estimated market-adjusted operating net year 11. The Group has no borrowing costs for owner-occupied property. For information on valuation method for fair value, see Note 50.

Note 23 Shares in Länsförsäkringar Liv Försäkringsaktiebolag (publ)

	Corporate Registration Number	Registered office	Number of shares	Share of equity %	Equity	Earnings	Carrying amount 31 Dec 2017	Carrying amount 31 Dec 2016
Länsförsäkringar Liv Försäkringsaktiebolag (publ)	516401-6627	Stockholm	8,000	100	24,405	2,579	8	8

Länsförsäkringar AB owns 100% of the shares in Länsförsäkringar Liv Försäkrings AB (publ) but it is not consolidated in the Group. Subsidiaries are companies subject to a controlling influence from Länsförsäkringar AB. A controlling influence means the direct or indirect right to formulate a company's financial and operational strategies in order to receive financial benefits. The life-assurance operations, which are conducted according to mutual principles through Länsförsäkringar Liv Försäkrings AB and whose earnings accrue in their entirety to the policyholders, are not recognised in accordance with the purchase method since it is not possible to exercise control in order to receive financial benefits from such a life-assurance company.

Shares in Länsförsäkringar Liv Försäkrings AB are classified as holdings available for sale. Since there is no active market for these shares, the fair value cannot be calculated reliably based on such a listing. The holding is thus measured at cost. The value is tested annually to determine whether impairment is required.

Equity and earnings pertain to the Länsförsäkringar Liv Group.

Note 24	Shares and participations in associated companies	
	31 Dec 2017	31 Dec 2016
Carrying amount at beginning of the year	82	74
Profit shares in the associated company	4	4
Other changes in the associated company's equity	-1	2
Impairment	-35	-
Reclassification	-2	2
<b>Total shares and participations in associated companies</b>	<b>48</b>	<b>82</b>

**Note 24 Shares and participations in associated companies, cont.**

	Corporate Registration Number	Registered office	Number of shares	Share of equity %	Carrying amount 31 Dec 2017	Carrying amount 31 Dec 2016
CAB Group AB	556131-2223	Örebro	1,582	28.8	37	39
European Alliance Partners Company AG	CH-0203026423-1	Zurich, Switzerland	9,248	12.5	9	10
FörsäkringsGirot Sverige AB	556482-4471	Solna	5,000,000	25.0	-	29
Länsförsäkringsbolagens Fastighets HB Humlegården	916604-6459	Stockholm	188,722	29.1	0	0
Svenska Andelshästar AB	556536-9633	Uppsala	400	40.0	1	2
Trofast Veterinär IT-stöd AB	556598-0983	Hallstahammar	-	-	-	3
<b>Total</b>					<b>48</b>	<b>82</b>

The amounts presented above refer only to the Group's participating interests in associated companies. The shares and participations are unlisted. All associated companies apply the calendar year as the fiscal year. The share of profit in all associated companies is included in the Non-life insurance and in the Unit-linked insurance operating segments. Länsförsäkringar Sak Försäkrings AB (publ) is considered to have a significant influence in the European Alliance Partners Company AG despite owning a participating

interest of less than 20%. The reason is because Länsförsäkringar Sak Försäkrings AB (publ) is represented in the company's Board and, thereby, has the right (but not a duty) to participate in all decisions made in the company, including strategic issues and issues regarding guidelines, budget, business plans and similar matters. Furthermore, a large amount of information is exchanged with the company.

**Note 25 Loans to the public**

	31 Dec 2017	31 Dec 2016
Loan receivables, gross	261,712	226,955
Provisions	-268	-250
<b>Loan receivables, net</b>	<b>261,444</b>	<b>226,705</b>
Impaired loans	278	226
<b>Reconciliation of provisions of loan losses</b>	<b>2017</b>	<b>2016</b>
Opening balance, 1 January	-250	-281
Reversed earlier provisions of loan losses recognised in the year-end accounts as confirmed losses	118	133
Reversed provisions of loan losses no longer required	12	38
Provisions of loan losses during the year	-148	-141
<b>Closing balance, 31 December</b>	<b>-268</b>	<b>-250</b>

Loan receivables are geographically attributable in their entirety to Sweden.

**Note 26 Unit-linked insurance assets, policyholder bears the risk**

	31 Dec 2017	31 Dec 2016
Equity funds	113,121	93,500
Fixed-income funds	11,609	18,299
<b>Total unit-linked insurance assets</b>	<b>124,730</b>	<b>111,799</b>
Amortised cost	95,490	88,722

**Note 27 Financial leasing**

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

31 Dec 2017	Up to 1 year	1-5 years	More than 5 years	Total
Present value of future minimum lease fees	2,404	4,102	754	7,260
Unearned financial income <sup>1)</sup>	473	641	72	1,186
<b>Gross investment</b>	<b>2,877</b>	<b>4,743</b>	<b>826</b>	<b>8,446</b>
31 Dec 2016	Up to 1 year	1-5 years	More than 5 years	Total
Present value of future minimum lease fees	2,315	3,740	630	6,685
Unearned financial income <sup>1)</sup>	417	530	53	999
<b>Gross investment</b>	<b>2,732</b>	<b>4,270</b>	<b>683</b>	<b>7,684</b>

<sup>1)</sup> Attributable to present value calculation.

	2017	2016
Provision for impaired loans pertaining to minimum lease fees	59	42
Variable portion of leasing fees included in net profit for the year	7	1

Minimum lease fees are payments, excluding variable fees, service charges and taxes that are made by the lessee to the lessor over the leasing period, with additions for any amount that is guaranteed by the lessee or a related party to the lessee.

Variable fees comprise the portion of leasing fees that are not fixed and that are calculated based on factors other than only the passage of time.

Financial leasing is included in loans to the public.

**Note 28 Shares and participations**

Carrying amount	31 Dec 2017	31 Dec 2016
Listed shares and participations	1,603	1,218
Unlisted shares and participations	967	806
<b>Total shares and participations</b>	<b>2,570</b>	<b>2,024</b>
31 Dec 2017	31 Dec 2016	
Fair value	2,570	2,024
Cost	1,804	1,491

Note 29 Bonds and other interest-bearing securities		31 Dec 2017	31 Dec 2016
Carrying amounts			
Swedish government	209	1,313	
Swedish mortgage institutions	31,503	29,739	
Other Swedish issuers	6,922	6,072	
Foreign states	885	1,089	
Other issuers	4,489	3,631	
<b>Total bonds and other interest-bearing securities</b>	<b>44,008</b>	<b>41,844</b>	
Fair value	44,008	41,844	
Amortised cost	43,099	40,580	
Nominal value	39,761	37,781	
Listed securities	43,820	41,844	
Unlisted securities	188	-	
<b>Carrying amounts of the securities compared with their nominal amounts</b>			
Total fixed income funds	2,146	1,591	
Total surplus	2,098	2,067	
Total deficit	-0	-1	

Note 30 Treasury bills and other eligible bills		31 Dec 2017	31 Dec 2016
Carrying amount			
Swedish government	10,081	7,283	
Finnish government	450	584	
<b>Total treasury bills and other eligible bills</b>	<b>10,531</b>	<b>7,867</b>	
Fair value	10,531	7,867	
Amortised cost	10,346	7,637	
Nominal value	9,850	7,279	

Note 31 Derivatives		Carrying amounts	Nominal amounts	
		31 Dec 2017	31 Dec 2016	31 Dec 2017
<b>Derivative instruments with positive values or valued at zero</b>		.		
<i>Derivatives in hedge accounting</i>				
Interest	1,900	2,894	117,811	98,286
Currency	3,211	3,281	35,829	26,514
<i>Derivatives not in hedge accounting</i>				
Interest	8	9	1,319	2,334
Currency	63	77	3,590	2,740
Equity-related	-	-	-	-
<b>Total derivatives with positive values</b>	<b>5,182</b>	<b>6,260</b>	<b>158,549</b>	<b>129,874</b>
<b>Derivatives with negative values</b>				
<i>Derivatives in hedge accounting</i>				
Interest	805	1,492	102,307	98,790
Currency	361	418	4,734	4,936
<i>Derivatives not in hedge accounting</i>				
Interest	0	0	679	14
Currency	20	26	1,021	1,356
Equity-related	0	0	0	0
<b>Total derivatives with negative values</b>	<b>1,187</b>	<b>1,936</b>	<b>108,740</b>	<b>105,095</b>

Note 32 Fair value adjustment of interest-rate-risk hedged items in portfolio hedge		2017	2016
<b>Assets</b>			
Carrying amount, 1 January	636	815	
Changes during the year pertaining to lending	-388	-179	
<b>Carrying amount, 31 December</b>	<b>248</b>	<b>636</b>	
<b>Liabilities</b>			
Carrying amount, 1 January	3,191	2,899	
Changes during the year pertaining to lending	-4	-3	
Changes during the year pertaining to borrowing	-1,987	296	
<b>Carrying amount, 31 December</b>	<b>1,200</b>	<b>3,191</b>	

Note 33 Other receivables		31 Dec 2017	31 Dec 2016
Receivables pertaining to direct insurance	1,706	1,502	
Accounts receivable	370	329	
Receivables pertaining to reinsurance	281	225	
Deposits with companies that have ceded reinsurance	52	40	
Other receivables	1,168	1,639	
<b>Total other receivables</b>	<b>3,576</b>	<b>3,735</b>	

Note 34 Prepaid expenses and accrued income		31 Dec 2017	31 Dec 2016
Accrued interest and rental income	57	101	
Prepaid acquisition costs	1,299	1,246	
Other accrued income	290	176	
Other prepaid expenses	291	223	
<b>Total prepaid expenses and accrued income</b>	<b>1,936</b>	<b>1,747</b>	

Note 35 Cash and cash equivalents		31 Dec 2017	31 Dec 2016
Cash and balances with central banks	17	21	
Balances with other banks	1,179	1,150	
<b>Total cash and cash equivalents</b>	<b>1,196</b>	<b>1,171</b>	

	Restricted equity		Non-restricted equity including comprehensive income for the year	Total equity
	Share capital	Restricted reserves		
Opening equity, 1 January 2016	1,042	6,560	12,935	20,538
Net profit for the year	-	-	1,845	1,845
Change in translation reserve	-	-22	-6	-28
Change in revaluation reserve	-	-	212	212
Change in fair value reserve	-	-	138	138
Change in hedging reserve	-	-	-81	-81
Tax on items recognised in other comprehensive income	-	-	-59	-59
<b>Total other comprehensive income</b>	<b>-</b>	<b>-22</b>	<b>204</b>	<b>182</b>
<b>Comprehensive income for the year</b>	<b>-</b>	<b>-22</b>	<b>2,049</b>	<b>2,027</b>
Tier 1 capital issued	-	-	-36	-36
Transfer between restricted and non-restricted equity	-	22	-22	-
<b>Closing equity, 31 December 2016</b>	<b>1,042</b>	<b>6,560</b>	<b>14,926</b>	<b>22,529</b>
Opening equity, 1 January 2017	1,042	6,560	14,926	22,529
Net profit for the year	-	-	2,250	2,250
Change in translation reserve	-	-3	-2	-5
Change in revaluation reserve	-	-	215	215
Change in fair value reserve	-	-	51	51
Change in hedging reserve	-	-	-115	-115
Tax on items recognised in other comprehensive income	-	-	-33	-33
<b>Total other comprehensive income</b>	<b>-</b>	<b>-3</b>	<b>116</b>	<b>113</b>
<b>Comprehensive income for the year</b>	<b>-</b>	<b>-3</b>	<b>2,366</b>	<b>2,362</b>
Tier 1 capital issued	-	-	-34	-34
Transfer between restricted and non-restricted equity	-	-3	3	-
<b>Closing equity, 31 December 2017</b>	<b>1,042</b>	<b>6,554</b>	<b>17,261</b>	<b>24,857</b>

The quotient value per share is SEK 100. All shares are ordinary shares. Of the shares issued on 31 December 2017, 1,532,678 were Series A shares (carrying ten votes each), 8,885,949 were Series B shares and 5,955 were Series C shares (carrying one vote each).

#### Specification of the capital item Reserves in the statement of financial position

Changes in these reserves are included in comprehensive income for the year.

	2017	2016
<b>Translation reserve</b>		
Opening translation reserve, 1 January	-60	-32
Translation differences for the year	-5	-28
<b>Closing translation reserve, 31 December</b>	<b>-65</b>	<b>-60</b>
<b>Revaluation reserve</b>		
Opening revaluation reserve, 1 January	818	653
Revaluation of owner-occupied property	211	210
Revaluation of defined-benefit pension plans	3	2
Tax attributable to revaluation for the year	-47	-47
<b>Closing revaluation reserve, 31 December</b>	<b>985</b>	<b>818</b>
<b>Fair value reserve</b>		
Opening fair value reserve, 1 January	94	-14
Change for the year in fair value of available-for-sale financial assets	51	138
Tax attributable to change for the year	-11	-30
<b>Closing fair value reserve, 31 December</b>	<b>133</b>	<b>94</b>
<b>Hedging reserve</b>		
Opening hedging reserve, 1 January	-16	47
Change for the year in cash-flow hedges	-115	-81
Tax attributable to change for the year	25	18
<b>Closing hedging reserve, 31 December</b>	<b>-106</b>	<b>-16</b>

## Note 36 Equity, cont.

### Translation reserve

The translation reserve includes all exchange-rate differences arising on the translation of the financial statements from foreign operations that have prepared their financial statements in a different currency to the currency in which the consolidated financial statements are presented. The Parent Company and Group present their financial statements in Swedish kronor (SEK).

### Revaluation reserve

The revaluation reserve includes changes in value attributable to owner-occupied property and a provision for defined-benefit pensions.

### Fair value reserve

The fair value reserve comprises the accumulated net change in fair value of available-for-sale financial assets until the asset is derecognised from the statement of financial position.

### Hedging reserve

The hedging reserve comprises hedges of variable interest rates against fixed interest rates pertaining to the Parent Company's debt securities in issue and hedges of exchange rate risks in future cash flows pertaining to the Bank Group's debt securities in issue in foreign currency.

### Other capital contributed

Refers to equity that has been provided by the owners. The item includes surpluses paid in conjunction with issues.

### Restricted reserves

Restricted reserves may not be reduced through profit distribution. The statement of changes in equity for the Group includes some restricted reserves in other contributed equity and the remainder in retained earnings.

### Retained earnings, including net profit for the year

Retained earnings, including net profit for the year, includes profit in the Parent Company, subsidiaries and associated companies.

### Dividends

The Board of Directors proposes that of the unappropriated earnings in the Parent Company SEK 28.75 per share be paid to the shareholder, totalling SEK 299,706,733 for 2017. All capital that is not required for Länsförsäkringar AB's operations is returned over time to the shareholders in the form of dividends. A prerequisite for the payment of dividends is that a credit rating of A can be justified for the Group's credit-rated companies.

Note 37	Subordinated liabilities	31 Dec 2017	31 Dec 2016
Subordinated debts with three-month floating interest rates	2,098	2,097	
Subordinated debts with a fixed interest rate	499	498	
<b>Total subordinated liabilities</b>	<b>2,596</b>	<b>2,595</b>	

All subordinated debts at 31 December 2017 are listed and due on 28 March 2023 and 26 April 2026. On 31 December 2017 the interest rates on the variable loans were 1.8% and 1.9%. The interest rate on fixed loans is 2.7%.

	2017			2016		
	Gross	Reinsurers' portion	Net	Gross	Reinsurers' portion	Net
<b>Unearned premiums</b>						
Opening balance, 1 January	2,013	63	1,950	1,801	15	1,785
Provisions during the period	173	28	145	211	48	163
Exchange-rate changes	-15	0	-15	2	0	2
<b>Closing balance, 31 December</b>	<b>2,171</b>	<b>91</b>	<b>2,080</b>	<b>2,013</b>	<b>63</b>	<b>1,950</b>
of which non-life insurance	2,171	91	2,080	2,013	63	1,950
<b>Unexpired risk</b>						
Opening balance, 1 January	2	-	2	5	-	5
Provisions during the period	-0	-	-0	-3	-	-3
<b>Closing balance, 31 December</b>	<b>1</b>	<b>-</b>	<b>1</b>	<b>2</b>	<b>-</b>	<b>2</b>
of which non-life insurance	1	-	1	2	-	2
<b>Life-assurance provision</b>						
Opening balance, 1 January	2,264	-	2,264	1,791	-	1,791
Provisions during the period	8	-	8	6	-	6
Deposits	424	-	424	383	-	383
Payments	-97	-	-97	-92	-	-92
Difference between premiums paid and provisions for new operation	-56	-	-56	-61	-	-61
Costs withdrawn	-19	-	-19	-5	-	-5
Investment income contributed to life-assurance provisions	-	-	-	-7	-	-7
Change in provision due to change in interest-rate assumption	-5	-	-5	110	-	110
Change due to changed cost assumption	-14	-	-14	105	-	105
Change due to amended transfer assumption	-25	-	-25	-	-	-
Other changes	28	-	28	34	-	34
<b>Closing balance, 31 December</b>	<b>2,508</b>	<b>-</b>	<b>2,508</b>	<b>2,264</b>	<b>-</b>	<b>2,264</b>
of which life assurance	2,508	-	2,508	2,264	-	2,264
<b>Claims outstanding</b>						
Claims incurred and reported	5,101	3,187	1,914	5,587	3,761	1,826
Claims incurred but not reported	7,534	5,748	1,785	7,441	5,762	1,678
Claims annuities	1,662	1,419	243	1,515	1,306	210
Claims adjustment costs	242	-	242	238	-	238
<b>Total opening balance, 1 January</b>	<b>14,539</b>	<b>10,355</b>	<b>4,184</b>	<b>14,780</b>	<b>10,829</b>	<b>3,951</b>
Provisions for the period	-138	22	-159	-289	-485	196
Interest-rate translation of provision for claim annuities	6	-	6	6	-	6
Transferred insurance portfolio	-182	-	-182	-	-	-
Exchange-rate changes	-2	7	-10	42	11	30
<b>Closing balance, 31 December</b>	<b>14,222</b>	<b>10,384</b>	<b>3,838</b>	<b>14,539</b>	<b>10,355</b>	<b>4,184</b>
of which non-life insurance	13,869	10,355	3,513	14,422	10,355	4,067
of which life assurance	354	29	325	117	0	117
<b>Specification of closing balance claims outstanding</b>						
Claims incurred and reported	4,800	4,491	309	5,101	3,187	1,914
Claims incurred but not reported	7,545	5,893	1,652	7,534	5,748	1,785
Claims annuities	1,665	-	1,665	1,662	1,419	243
Claims adjustment costs	212	-	212	242	-	242
<b>Total closing balance, 31 December</b>	<b>14,222</b>	<b>10,384</b>	<b>3,838</b>	<b>14,539</b>	<b>10,355</b>	<b>4,184</b>
<b>Carrying amount at year-end</b>	<b>18,903</b>	<b>10,475</b>	<b>8,427</b>	<b>18,817</b>	<b>10,418</b>	<b>8,399</b>
of which non-life insurance	16,041	10,447	5,594	16,437	10,418	6,019
of which life assurance	2,862	29	2,833	2,380	0	2,380
<b>Run-off profit/loss, non-life insurance</b>	<b>502</b>	<b>-188</b>	<b>314</b>	<b>802</b>	<b>-644</b>	<b>158</b>

The discount rate curve defined by the EIOPA is used to calculate the provision for claims outstanding for annuities, including assumed reinsurance for annuities. This curve has been produced to correspond to interest rates for relevant durations and is based on market data for Swedish swap rates. A macroeconomic assumption of a long-term interest rate of 4.2% is also included. Other non-life insurance is not discounted.

A discount rate is used to determine life-assurance reserves in accordance with the Swedish Financial Supervisory Authority regulation FFFS 2013:23 (regulation repealed on 1 January 2016). The transition to the discount rate defined by the EIOPA will take place in 2017. The assessment is that this will have a limited impact on the life-assurance reserve.

**Note 39 Unit-linked insurance liabilities, policyholder bears the risk**

Unit-linked insurance commitments	31 Dec 2017	31 Dec 2016
Opening balance	111,801	100,496
Payments	8,526	8,100
Migrations, repurchases and cancellations	-2,546	-2,044
Paid remuneration	-2,226	-1,956
Costs withdrawn	-694	-632
Change in value	10,202	7,936
Yield tax	-98	-101
Other changes	4	2
<b>Closed balance, unit-linked insurance commitments</b>	<b>124,969</b>	<b>111,801</b>
Conditional bonus	614	424
<b>Total</b>	<b>125,583</b>	<b>112,225</b>

**Note 40 Deferred tax assets and liabilities**

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

	Deferred tax assets		Deferred tax liabilities		Net	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Intangible assets	-2	-2	9	10	7	8
Property	2	-	337	304	339	304
Financial assets	1	-1	179	145	180	144
Receivables	-5	-3	-	-	-5	-3
Other assets	-	-0	1	-0	1	-0
Liabilities	-37	-15	3	5	-34	-10
Loss carryforwards	-8	-4	-	-	-8	-4
Untaxed reserves	-	-	1,007	881	1,007	881
<b>Deferred tax asset (-)/deferred tax liability (+)</b>	<b>-49</b>	<b>-25</b>	<b>1,535</b>	<b>1,345</b>	<b>1,486</b>	<b>1,320</b>
Offset	2	6	-2	-6	-	-
<b>Net deferred tax asset (-)/deferred tax liability (+)</b>	<b>-47</b>	<b>-19</b>	<b>1,533</b>	<b>1,339</b>	<b>1,486</b>	<b>1,320</b>

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

Deferred tax assets have been recognised for tax loss carryforwards. It is anticipated that the loss will be utilised within one year.

**Change in deferred tax in temporary differences and loss carryforwards**

2017	Amount at 1 January	Currency translation	Recognised in profit and loss	Recognised in other comprehensive income	Amount at 31 December
Intangible assets	8	-0	-1	-	7
Property	304	-	-11	46	339
Financial assets	144	-	34	2	180
Receivables	-3	-	-2	-	-5
Other assets	-0	-	1	-	1
Liabilities	-10	-	4	-28	-34
Loss carryforwards	-4	-	-4	-	-8
Untaxed reserves	881	-	126	-	1,007
<b>Deferred tax assets (-)/deferred tax liabilities (+)</b>	<b>1,320</b>	<b>-0</b>	<b>146</b>	<b>20</b>	<b>1,486</b>

2016	Amount at 1 January	Currency translation	Recognised in profit and loss	Recognised in other comprehensive income	Amount at 31 December
Intangible assets	11	-0	-3	-	8
Property	268	-	-10	46	304
Financial assets	104	-	32	8	144
Receivables	-9	-	6	-	-3
Other assets	0	-	-	-	0
Liabilities	-6	-	-3	-1	-10
Loss carryforwards	-	-	-4	-	-4
Untaxed reserves	738	-	143	-	881
<b>Deferred tax assets (-)/deferred tax liabilities (+)</b>	<b>1,104</b>	<b>-0</b>	<b>162</b>	<b>54</b>	<b>1,320</b>

Note 41 Other provisions		
	31 Dec 2017	31 Dec 2016
Provision for pensions being paid	38	42
Provisions for early retirement in accordance with pension agreement	9	20
Other provisions	69	75
<b>Total other provisions</b>	<b>115</b>	<b>137</b>

#### Defined-benefit pension plans

The Group has a number of defined-benefit pension plans. One of these plans is a pension agreement for the insurance sector whereby persons born in 1955 or earlier are entitled to voluntarily retire from the age of 62. The terms and conditions of this plan are designed such that the pension comprises about 65% of the pensionable salary from the age of 62.

In addition to this plan, there are a number of minor plans that almost only encompass employees who have already reached retirement age. These plans cover old-age pensions and in some cases also survivor's pension. The pension amounts are paid in relation to the final salary level when the employee retires and in the vast majority of cases are life annuities. In the event that upward adjustment of the pension has been agreed, the Group follows the norms applied by the Insurance Industry's Pension Fund (FPK).

Significant calculation assumptions, %	2017	2016
Discount rate	0.5	0.4
Expected rate of salary increase	2.5	2.5
Percentage expected to retire voluntarily at the age of 62	50	50

#### Defined-contribution pension plans

Defined-contribution pension plans are plans according to which the company pays fixed contributions to a separate legal entity and does not have a legal or informal obligation to pay additional contributions. The Group's payments to defined-contribution plans are recognised as expenses during the period in which the employee performed the services to which the contributions refer. Primarily, contributions to the Insurance Industry's Pension Fund (FPK) are recognised here. This plan encompasses all employees except for a few individuals who have individual solutions.

The pension agreement for the insurance industry, the FTP plan, through insurance with the Insurance Industry's Pension Fund (FPK) is a multi-employer defined-benefit pension plan. According to IAS 19 Employee Benefits, the main rule under this pension plan entails that a company recognises its proportional share of the defined-benefit pension commitment and the plan assets and expenses associated with the pension commitment. Disclosures are also presented in the accounts pursuant to the requirements for defined-benefit pension plan. FPK is unable to provide necessary information which is why the pension plans above are recognised as defined-contribution plans in accordance of IAS 19. Nor is any information available on future surpluses and deficits in the plan or whether these surpluses and deficits would then affect the contributions for the plan in future years.

FTP plan contributions for 2018 are expected to total SEK 135 M.

	2017	2016
Expenses for defined-contribution plans	254	245

Note 42 Debt securities in issue		
	31 Dec 2017	31 Dec 2016
Commercial papers	967	1,126
Bond loans <sup>1)</sup>	186,845	156,252
Cashier's cheques issued	58	63
<b>Total debt securities in issue</b>	<b>187,870</b>	<b>157,440</b>
Remaining term of note up to 1 year	20,976	18,272
Remaining term of note more than 1 year	166,835	139,168

<sup>1)</sup> Covered bonds in the Group amount to SEK 152,812 M (126,888).

Note 43 Deposits from the public		
	31 Dec 2017	31 Dec 2016
Deposits from insurance companies	2,668	2,503
Deposits from households	84,169	77,421
Deposits from other Swedish public	11,360	10,022
<b>Total deposits from the public</b>	<b>98,197</b>	<b>89,946</b>

Note 44 Due to credit institutions		
	31 Dec 2017	31 Dec 2016
Swedish banks	3,943	3,753
Other Swedish credit institutions	53	120
<b>Total liabilities due to credit institutions</b>	<b>3,996</b>	<b>3,873</b>

Genuine repurchase transactions amounted to SEK 53 M (16).

Note 45	Other liabilities	31 Dec 2017	31 Dec 2016
Liabilities pertaining to direct insurance	838	829	
Due to Länsförsäkringar Liv Försäkrings AB	165	279	
Liabilities, reinsurance	287	316	
Accounts payable	279	168	
Tax liabilities	230	103	
Deposits from reinsurers	44	38	
Other liabilities	1,216	1,575	
<b>Total other liabilities</b>	<b>3,059</b>	<b>3,304</b>	

Note 46	Accrued expenses and deferred income	31 Dec 2017	31 Dec 2016
Accrued interest expense	1,241	1,386	
Other accrued expenses	1,979	1,891	
Prepaid rent	244	237	
Other deferred income	1,212	963	
<b>Total accrued expenses and deferred income</b>	<b>4,676</b>	<b>4,477</b>	

Note 47	Pledged assets and contingent liabilities	31 Dec 2017	31 Dec 2016
<b>Pledged assets</b>			
Total registered investment assets on behalf of policyholders	134,039	120,586	
Pledged securities in the Riksbank	2,638	2,500	
Pledged securities in Euroclear	2,092	2,000	
Pledged shares in subsidiaries	335	702	
Loan receivables, covered bonds	188,396	159,446	
Loan receivables, substitute collaterals	9,275	8,675	
Collateral paid due to repurchase agreement	53	16	
Securities collateral paid, derivatives	798	-	
Other collateral for securities	22	225	
Chattel mortgages, associated companies	0	0	
<b>Total pledged assets</b>	<b>337,648</b>	<b>294,150</b>	
<b>Contingent liabilities</b>			
Guarantees	37	41	
<b>Total contingent liabilities</b>	<b>37</b>	<b>41</b>	
<b>Other commitments</b>			
Loans approved but not disbursed	17,721	15,530	
Unutilised portion of overdraft facilities	2,601	2,309	
Remaining amount to invest in investment assets	185	179	
Unutilised portion of credit card facilities	1,657	1,526	
<b>Total other commitments</b>	<b>22,165</b>	<b>19,544</b>	

Registered assets follow the regulations stipulated in the Swedish Insurance Business Act. In the event of insolvency, the policyholders have a priority right to the registered assets. During the course of the operations, the company has the right to add and withdraw assets from the register as long as all insurance undertakings are covered for liabilities in accordance with the Insurance Business Act.

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

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

Note 48	Anticipated recovery and settlement periods for assets and liabilities	31 Dec 2017	31 Dec 2016			
Amount expected to be recovered	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
<b>Assets</b>						
Goodwill	-	538	538	-	720	720
Other intangible assets	91	4,213	4,304	48	3,957	4,005
Deferred tax assets	40	7	47	13	6	19
Property and equipment	31	13	44	37	18	55
Owner-occupied property	62	2,824	2,887	58	2,663	2,721
Shares in Länsförsäkringar Liv Försäkrings AB	-	8	8	-	8	8
Shares and participations in associated companies	-	48	48	-	82	82
Reinsurers' portion of technical provisions	1,083	9,393	10,475	908	9,511	10,418
Loans to the public	9,272	252,172	261,444	15,828	210,877	226,705
Unit-linked insurance assets, policyholder bears the risk	11,609	113,120	124,730	7,289	104,510	111,799
Shares and participations	38	2,532	2,570	97	1,927	2,024
Bonds and other interest-bearing securities	10,294	33,714	44,008	9,229	32,615	41,844
Treasury bills and other eligible bills	5,512	5,019	10,531	4,278	3,590	7,867
Derivatives	436	4,745	5,182	301	5,959	6,260
Change in value of hedge portfolios	216	32	248	184	452	636
Other receivables	2,882	695	3,576	3,734	-	3,734
Prepaid expenses and accrued income	931	1,005	1,936	818	929	1,747
Cash and cash equivalents	1,196	-	1,196	1,171	-	1,171
<b>Total assets</b>	<b>43,693</b>	<b>430,079</b>	<b>473,773</b>	<b>43,993</b>	<b>377,823</b>	<b>421,815</b>

**Note 48 Anticipated recovery and settlement periods for assets and liabilities, cont.**

Amount expected to be settled	31 Dec 2017			31 Dec 2016		
	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
<b>Liabilities</b>						
Subordinated liabilities	–	2,596	2,596	–	2,595	2,595
Technical provisions	4,470	14,433	18,903	4,304	14,513	18,817
Unit-linked insurance liabilities, policyholder bears the risk	8,031	117,552	125,583	7,289	104,935	112,225
Deferred tax liabilities	3	1,531	1,533	–	1,339	1,339
Other provisions	6	109	115	8	129	137
Debt securities in issue	21,034	166,836	187,870	18,273	139,168	157,440
Deposits from the public	92,916	5,281	98,197	89,313	633	89,946
Due to credit institutions	3,996	–	3,996	3,873	–	3,873
Derivatives	274	913	1,187	507	1,429	1,969
Change in value of hedge portfolios	83	1,117	1,200	79	3,113	3,191
Other liabilities	3,028	31	3,059	3,141	168	3,309
Accrued expenses and deferred income	4,676	–	4,676	4,156	321	4,477
<b>Total liabilities</b>	<b>138,516</b>	<b>310,399</b>	<b>448,916</b>	<b>130,943</b>	<b>268,343</b>	<b>399,287</b>

**Note 49 Classification of financial assets and liabilities**

31 Dec 2017	Financial assets measured at fair value in profit and loss						Fair value
	Financial assets measured according to fair value option	Held for trading	Derivatives used in hedge accounting	Available-for-sale financial assets	Loan receivables and accounts receivable	Total	
<b>Assets</b>							
Shares in Länsförsäkringar Liv Försäkrings AB	–	–	–	8	–	8	8
Loans to the public	–	–	–	–	261,444	261,444	262,346
Unit-linked insurance assets, policyholder bears the risk	124,730	–	–	–	–	124,730	124,730
Shares and participations	2,532	–	–	38	–	2,570	2,570
Bonds and other interest-bearing securities	7,570	–	–	36,438	–	44,008	44,008
Treasury bills and other eligible bills	–	–	–	10,531	–	10,531	10,531
Derivatives	–	71	5,111	–	–	5,182	5,182
Other receivables	–	–	–	6	386	392	–
Cash and cash equivalents	–	–	–	–	1,196	1,196	–
<b>Total assets</b>	<b>134,831</b>	<b>71</b>	<b>5,111</b>	<b>47,022</b>	<b>263,026</b>	<b>450,061</b>	
Financial liabilities measured at fair value in profit and loss							
31 Dec 2017	Financial liabilities measured according to fair value option			Derivatives used in hedge accounting		Other financial liabilities	Fair value
	Held for trading					Total	
<b>Liabilities</b>							
Subordinated liabilities	–	–	–	–	2,596	2,596	2,681
Debt securities in issue	–	–	–	187,870	187,870	191,829	
Deposits from the public	–	–	–	98,197	98,197	99,962	
Due to credit institutions	–	–	–	3,996	3,996	3,996	
Derivatives	–	20	1166	–	–	1,187	1,187
Other liabilities	–	–	–	875	875	–	–
<b>Total liabilities</b>	<b>–</b>	<b>20</b>	<b>1166</b>	<b>293,534</b>	<b>294,721</b>		

Gains and losses are recognised in profit and loss in Investment income, net.

The fair value of shares in Länsförsäkringar Liv Försäkrings AB comprises cost adjusted for impairment.

The carrying amount of other receivables, cash and cash equivalents, due to credit institutions and other liabilities is deemed to comprise a reasonable approximation of their fair value since these assets and liabilities have short terms.

**Note 49 Classification of financial assets and liabilities, cont.**

Financial assets measured at fair value in profit and loss							
31 Dec 2016	Financial assets measured according to fair value option	Held for trading	Derivatives used in hedge accounting	Available-for-sale financial assets	Loan receivables and accounts receivable	Total	Fair value
<b>Assets</b>							
Shares in Länsförsäkringar Liv Försäkrings AB	-	-	-	8	-	8	8
Loans to the public	-	-	-	-	226,705	226,705	227,784
Unit-linked insurance assets, policyholder bears the risk	111,799	-	-	-	-	111,799	111,799
Shares and participations	1,999	-	-	25	-	2,024	2,024
Bonds and other interest-bearing securities	8,117	-	-	33,254	-	41,371	41,371
Treasury bills and other eligible bills	-	-	-	7,794	-	7,794	7,794
Derivatives	-	81	5,516	-	-	5,597	5,597
Other receivables	20	-	-	-	595	615	-
Cash and cash equivalents	-	-	-	-	1,171	1,171	-
<b>Total assets</b>	<b>121,935</b>	<b>81</b>	<b>5,516</b>	<b>41,082</b>	<b>228,471</b>	<b>397,085</b>	
Financial liabilities measured at fair value in profit and loss							
31 Dec 2016	Financial liabilities measured according to fair value option	Held for trading	Derivatives used in hedge accounting	Other financial liabilities	Total	Fair value	
<b>Liabilities</b>							
Subordinated liabilities	-	-	-	2,595	2,595	2,675	
Debt securities in issue	-	-	-	157,440	157,440	162,655	
Deposits from the public	-	-	-	89,946	89,946	91,644	
Due to credit institutions	-	-	-	3,873	3,873	-	
Derivatives	-	27	1,653	-	1,680	1,680	
Other liabilities	0	-	-	817	817	-	
<b>Total liabilities</b>	<b>0</b>	<b>27</b>	<b>1,653</b>	<b>254,672</b>	<b>256,351</b>		

## Note 50 Fair value valuation techniques

Financial assets and liabilities measured at fair value in the statement of financial position are presented in the table based on the valuation techniques applied:

Level 1 refers to prices determined from prices listed in an active market.

Level 2 refers to prices determined by calculated prices of observable market listings.

Level 3 refers to prices based on own assumptions and judgements.

31 Dec 2017	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Owner-occupied property	-	-	2,887	2,887
Unit-linked insurance assets, policyholder bears the risk	124,730	-	-	124,730
Shares and participations	1,603	13	954	2,570
Bonds and other interest-bearing securities	43,820	-	188	44,008
Treasury bills and other eligible bills	10,531	-	-	10,531
Derivatives	1	5,181	-	5,182
<b>Liabilities</b>				
Derivatives	0	1,187	-	1,187

31 Dec 2016	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Owner-occupied property	-	-	2,721	2,721
Unit-linked insurance assets, policyholder bears the risk	111,799	-	-	111,799
Shares and participations	1,218	20	786	2,024
Bonds and other interest-bearing securities	41,222	-	149	41,371
Treasury bills and other eligible bills	7,794	-	-	7,794
Derivatives	2	5,595	-	5,597
Other receivables	-	-	20	20
<b>Liabilities</b>				
Derivatives	0	1,680	-	1,680

Change level 3	Owner-occupied property	Shares and participations	Bonds and other interest-bearing securities	Other receivables	Total
Opening balance, 1 January 2017	2,721	786	149	20	3,675
Acquisitions	31	21	35	-	87
Divestments	-	-10	-	-20	-30
Recognised in net profit/loss for the year	-77	158	4	-	85
Recognised in other comprehensive income	211	-	-	-	211
<b>Closing balance, 31 December 2016</b>	<b>2,887</b>	<b>954</b>	<b>188</b>	<b>-</b>	<b>4,029</b>
Opening balance, 1 January 2016	2,545	650	100	-	3,295
Acquisitions	38	6	35	20	98
Recognised in net profit/loss for the year	-72	129	15	-	72
Recognised in other comprehensive income	210	-	-	-	210
<b>Closing balance, 31 December 2016</b>	<b>2,721</b>	<b>786</b>	<b>149</b>	<b>20</b>	<b>3,675</b>

There were no significant transfers between Level 1 and Level 2 during 2017 or during 2016. There were no transfers from Level 3 in 2017 or 2016.

Normally, there are no active markets for owner-occupied property within Level 3, which is why fair value is estimated using models based on discounted cash flows. The method applied to the calculation of fair value is a combination of the location-price method, based on reported purchases of comparable properties, and a return-based cash-flow method. The return method is based on a calculation of the present value of future actual cash flows in the form of operating net, which has been successively adjusted to market over 10 years and the present value of the estimated residual value in year 10. The residual value was estimated by performing a constant capitalisation of an estimated market-adjusted operating net.

Shares and participations in Level 3 are measured at equity per share based on the most recent company reports. Delisted, insolvent companies are measured at zero if no other listing can be found. Länsförsäkringar Bank AB holds shares and participations and financial investment assets measured at cost since the holdings cannot be reliably measured at fair value, and are impaired if objective evidence exists to recognise an impairment loss. The assessment is based on the most recent Annual Report and forecast earnings.

The fair value of Level 2 shares and participations that pertain to unquoted Series B shares with conversion rights to quoted Series A shares without restrictions is measured based on the price of the Series A share on the balance-sheet date.

Level 2 derivatives essentially refer to swaps for which fair value has been calculated by discounting expected future cash flows.

Bonds and other interest-bearing securities in Level 3 that are not quoted in an active market comprise interest-bearing, unquoted loans. Valuations are performed by external managers based on generally accepted valuation techniques, which means that the underlying holdings held by the issuer of the loan are valued based on relevant observable market data wherever available. Holdings for which market data is not available are measured at a fair value corresponding to the cost adjusted for impairment.

### Financial instruments measured at amortised cost in the statement of financial position

When calculating the fair value (Level 2) of deposits from the public and loans to the public, anticipated cash flows have been discounted using a discount rate set at the current deposit and lending rates applied (including discounts).

Fair value (Level 2) for debt securities in issue and subordinated liabilities is determined based on quoted prices. Parts of debt securities in issue that are considered to be illiquid are adjusted based on expected current issue prices. Commercial papers do not have external market prices and the fair value is determined based on the yield curve of each currency.

## Note 51 Information about offsetting

The table shows financial assets and liabilities covered by a legally binding master netting agreement or similar agreements, together with related collaterals. The Group has ISDA agreements and CSA agreements with all derivative counterparts and corresponding netting agreements for reverse repurchase agreements, meaning that all exposures are covered by these types of agreements. The agreements entitle the parties to offset assets and liabilities in the event of default or insolvency. The net amount is the amount that, in the event of default or insolvency, would be obtained, if the amount is an asset, or paid, if the amount is a liability.

Related amounts that are not offset in the balance sheet						
31 Dec 2017	Gross amount	Offset in the balance sheet	Amount recognised in the balance sheet	Master netting agreements	Collaterals Received (-) / Pledged (+)	Net amount
<b>Assets</b>						
Derivatives	5,182	-	5,182	-1,133	-2,803	1,246
<b>Liabilities</b>						
Derivatives	-1,187	-	-1,187	1,133	10	-43
Repurchase agreements	-53	-	-53	-	53	-
<b>Total</b>	<b>3,942</b>	<b>-</b>	<b>3,942</b>	<b>-</b>	<b>-2,740</b>	<b>1,203</b>

Related amounts that are not offset in the balance sheet						
31 Dec 2016	Gross amount	Offset in the balance sheet	Amount recognised in the balance sheet	Master netting agreements	Collaterals Received (-) / Pledged (+)	Net amount
<b>Assets</b>						
Derivatives	6,260	-	6,260	-1,565	-3,197	1,498
<b>Liabilities</b>						
Derivatives	-1,936	-	-1,936	1,565	48	-323
Repurchase agreements	-16	-	-16	-	-	-
<b>Total</b>	<b>4,308</b>	<b>-</b>	<b>4,308</b>	<b>0</b>	<b>-3,149</b>	<b>1,175</b>

## Note 52 Disclosures on related parties

The 23 regional insurance companies have been chosen to organise joint operations in the Länsförsäkringar AB Group. The Group has been assigned by the regional insurance companies to conduct operations in areas in which economies of scale constitute a decisive competitive advantage and to provide such service to the regional insurance companies, which, for reasons of efficiency, are produced and provided jointly within the Länsförsäkringar Alliance.

Legal entities closely related to the Länsförsäkringar AB Group are considered to be the Länsförsäkringar Liv Group's companies, all associated companies, Länsförsäkringar Mäklarservice AB, Länsförsäkringar Fastighetsförmedling AB, Humlegården Fastigheter AB, the 23 regional insurance companies with subsidiaries and the 16 local insurance companies. Related key persons are Board members, senior executives and their close family members.

### Policies for transactions

Transactions between closely related parties occur both as transactions of a non-recurring nature and transactions on a continuous basis.

Transactions of a nonrecurring nature comprise the acquisitions and divestments of assets and similar transactions. They occur in limited scope. In nonrecurring transactions, the transactions are based on written agreements that comply with market standards and terms.

Transactions of a continuous nature include goods and services provided for the companies within the Länsförsäkringar AB Group and to the Länsförsäkringar Alliance for carrying out development projects and services. Transactions of this nature shall follow established routines as below.

### Pricing

Pricing for business operations is on market terms. Pricing for service activities within the Länsförsäkringar Alliance is based on direct and indirect costs. Overall, pricing is intended to distribute costs within the Länsförsäkringar Alliance based on consumption. Joint development projects and joint service are financed collectively and invoiced based on an established distribution key.

### Process and decisions

Corporate management within Länsförsäkringar AB, jointly with a service committee with representatives from the insurance companies, prepare the service levels and price lists for the sale of goods and services to related companies. Based on these discussions, the Board of Länsförsäkringar AB decides on the service levels and price lists to related parties.

### Related-party transactions in the Group 2017

#### Regional insurance companies and local insurance companies

Länsförsäkringar AB is wholly owned by the 23 regional insurance companies, together with 16 local insurance companies. A large portion of the Group's customer contact takes place through the regional insurance companies and the local insurance companies. Remuneration for the mediation of the Länsförsäkringar AB Group's insurance products is regulated in commission agreements between these parties. Commission is also paid to regional insurance companies for their work with Länsförsäkringar Bank's, Länsförsäkringar Hypotek's and Länsförsäkringar Fondförvaltning's customer-related operations. The assignment and remuneration are regulated in partnership agreements signed by the parties. This solution creates a unique local presence and market awareness.

Länsförsäkringar AB Group manages and reconciles the Länsförsäkringar Alliance's internal and external reinsurance. The Group also carries out development projects and service for the regional insurance companies in a number of areas, such as individual claims adjustment, legal affairs and actuarial services, product and concept development and the development of IT support and other IT services.

#### Länsförsäkringar Mäklarservice AB

Länsförsäkringar Mäklarservice AB is jointly owned by the regional insurance companies and Länsförsäkringar Sak. The company works on behalf of the regional insurance companies and Länsförsäkringar Sak Förskrings AB within non-life insurance, and on behalf of the regional insurance companies within life assurance.

#### Länsförsäkringar Liv Försäkrings AB

Länsförsäkringar Liv Försäkrings AB is wholly owned by Länsförsäkringar AB. The operations are conducted in accordance with mutual policies and, accordingly, are not consolidated in the Länsförsäkringar AB Group.

Länsförsäkringar Liv Försäkrings AB purchases development and service from Länsförsäkringar AB. The primary task of the service operations is to provide service mainly within the areas of business analysis, accounting, office services, HR and communication.

## Note 52 Disclosures on related parties, cont.

### Related-party transactions 2017

	Income	Expenses	Receivables	Liabilities	Commitments
<b>Associated companies</b>					
Länsförsäkringar Liv Group	385	39	103	1,038	300
<b>Owners</b>					
Regional insurance companies	4,160	4,507	8,737	13,664	59
<b>Other related parties</b>					
Länsförsäkringar Mäklarservice AB	16	15	15	40	5
Länsförsäkringar Fastighetsförmredling AB	1	0	1	0	1
Other	-5	0	8	2	0
<b>Total other related parties</b>	<b>12</b>	<b>15</b>	<b>25</b>	<b>42</b>	<b>6</b>

### Interest income and interest expense 2017

	Interest income	Interest expense
Regional insurance companies	0	-2
Länsförsäkringar Liv Group	-	-11

### Related-party transactions 2016

	Income	Expenses	Receivables	Liabilities	Commitments
<b>Associated companies</b>					
Länsförsäkringar Liv Group	390	91	152	933	601
<b>Owners</b>					
Regional insurance companies	3,552	3,354	8,687	12,740	59
<b>Other related parties</b>					
Länsförsäkringar Mäklarservice AB	19	15	10	25	5
Länsförsäkringar Fastighetsförmredling AB	1	0	0	0	-
Other	5	-	8	2	-
<b>Total other related parties</b>	<b>25</b>	<b>15</b>	<b>19</b>	<b>28</b>	<b>5</b>

### Interest income and interest expense 2016

	Interest income	Interest expense
Regional insurance companies	0	-2
Länsförsäkringar Liv Group	-	-17

Receivables from and liabilities to regional insurance companies include technical provisions.

### Agreements

Significant agreements for the Länsförsäkringar AB Group primarily comprise agreements with the Länsförsäkringar Liv Group regarding IT, development and service, with the 23 regional insurance companies regarding commission agreements, claims adjustment agreements, and development and management agreement.

Other significant agreements for Länsförsäkringar AB Group comprise agreements with Länsförsäkringar Mäklarservice AB regarding sales, and with Humlegården Fastigheter AB regarding management of Utile Dulci 2 HB.

### Transactions between the Länsförsäkringar AB Group and its Board and management

For information regarding remuneration of closely related key persons such as Board members and senior executives see Note 13 Employees, staff costs and remuneration

of senior executives. In all other respects, no transactions took place between these individual and their related parties apart from normal customer transactions.

For the Länsförsäkringar Liv Group's transactions with related parties, see the Länsförsäkringar Liv Försäkrings AB's 2017 Annual Report.

### Note 53 Group companies

	Participating interest in %		
	Registered office of subsidiary, country	31 Dec 2017	31 Dec 2016
Agria Pet Insurance Ltd	UK	100	100
Försäkringsaktiebolaget Agria (publ)	Sweden	100	100
LF Sak Fastighets AB	Sweden	100	100
Länsförsäkringar Bank AB (publ)	Sweden	100	100
Länsförsäkringar Fondförvaltning AB	Sweden	100	100
Länsförsäkringar Fondliv Försäkringsaktiebolag (publ)	Sweden	100	100
Länsförsäkringar Grupplivförsäkringsaktiebolag	Sweden	100	100
Länsförsäkringar Hypotek AB (publ)	Sweden	100	100
Länsförsäkringar Sak Försäkringsaktiebolag (publ)	Sweden	100	100
Utile Dulci 2 HB	Sweden	100	100
Wasa Kredit AB	Sweden	100	100

Participating interest refers to the share of capital, which corresponds to the number of votes for the total number of shares.

### Note 54 Supplementary information to statement of cash flows

	2017	2016
<b>Interest paid and dividends received</b>		
Dividends received	48	4
Interest received	107	107
Interest paid	-114	-118
<b>Adjustment for non-cash items</b>		
Depreciation/amortisation and impairment of assets	599	330
Unrealised gains/losses on investment assets	-10,363	-8,250
Technical provisions after ceded reinsurance	13,387	12,036
Pension provisions	-15	-11
Other provisions	-7	-109
Other items not affecting liquidity	159	264
<b>Total</b>	<b>3,760</b>	<b>4,260</b>

### Note 55 Events after balance-sheet date

On 2 February 2018, Johan Agerman left his position as President and CEO of Länsförsäkringar AB. In connection with this, Sören Westin was appointed President and CEO of Länsförsäkringar AB.

### Note 56 Information regarding the Parent company

Länsförsäkringar AB (publ) is a limited liability company registered in Sweden with its registered offices in Stockholm.

Corporate Registration Number 556549-7020

The office address is Tegeluddsvägen 11-13, Stockholm, Sweden.

The postal address is SE-106 50 Stockholm.

The 2017 consolidated financial statements comprise the Parent Company and its subsidiaries. The Länsförsäkringar AB Group also included participations owned in associated companies. Länsförsäkringar AB (publ) is wholly owned by the 23 regional insurance companies and the 16 local insurance companies.

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## Income statement for the Parent Company

SEK M	Note	2017	2016
<b>Net sales</b>	3	2,948	2,894
Operating expenses			
External expenses	4, 5, 7	-2,163	-2,100
Staff costs	6	-888	-909
Depreciation/amortisation and impairment of property and equipment and intangible assets	12, 13	-133	-33
<b>Operating loss</b>		<b>-236</b>	<b>-149</b>
<b>Profit/loss from financial items</b>			
Profit from participations in Group companies	8	1,931	679
Interest income and similar profit/loss items	9	5	4
Interest expense and similar profit/loss items	10	-63	-81
<b>Profit after financial items</b>		<b>1,638</b>	<b>453</b>
Tax	11	-13	-7
<b>Net profit for the year</b>		<b>1,625</b>	<b>447</b>

## Statement of comprehensive income for the Parent Company

SEK M	2017	2016
<b>Net profit for the year</b>	<b>1,625</b>	<b>447</b>
<b>Other comprehensive income</b>		
<b>Items that have been or may be transferred to profit and loss</b>		
Cash-flow hedges	17	17
Change in fair value of available-for-sale financial assets	-6	8
Tax attributable to items that have been or may be transferred to profit and loss	-2	-6
<b>Total other comprehensive income for the year, net after tax</b>	<b>9</b>	<b>19</b>
<b>Comprehensive income for the year</b>	<b>1,633</b>	<b>466</b>

## Balance sheet for the Parent Company

SEK M	Note	31 Dec 2017	31 Dec 2016
<b>ASSETS</b>			
<b>Fixed assets</b>			
Intangible assets	12	398	459
Property and equipment	13	61	78
<i>Financial assets</i>			
Shares and participations in Group companies	14	17,912	17,858
Derivatives	23	-	0
Deferred tax assets	16	4	10
Other securities held as fixed assets	15	734	859
<b>Total financial assets</b>		<b>18,650</b>	<b>18,727</b>
<b>Total fixed assets</b>		<b>19,109</b>	<b>19,264</b>
<b>Current assets</b>			
<i>Current receivables</i>			
Receivables from Group companies	30	677	554
Receivables from other related parties	30	142	181
Other receivables		53	25
Prepaid expenses and accrued income	17	106	103
<b>Total current receivables</b>		<b>978</b>	<b>863</b>
Current investments	18	4	4
Cash and bank balances		254	251
<b>Total current assets</b>		<b>1,236</b>	<b>1,118</b>
<b>Total assets</b>	27	<b>20,345</b>	<b>20,382</b>

## Balance sheet for the Parent Company, cont.

SEK M	Note	31 Dec 2017	31 Dec 2016
<b>EQUITY, PROVISIONS AND LIABILITIES</b>			
<b>Equity</b>	19		
<i>Restricted equity</i>			
Share capital		1,042	1,042
Statutory reserve		4,991	5,043
<b>Total restricted equity</b>		<b>6,033</b>	<b>6,085</b>
<i>Non-restricted equity</i>			
Share premium reserve		5,471	5,471
Fair value reserve		1	-8
Retained earnings		5,481	4,983
Net profit for the year		1,625	447
<b>Total non-restricted equity</b>		<b>12,578</b>	<b>10,893</b>
<b>Total equity</b>		<b>18,611</b>	<b>16,978</b>
<b>Provisions</b>			
Provisions for pensions and similar commitments	20	22	28
Other provisions	21	42	51
<b>Total provisions</b>		<b>65</b>	<b>79</b>
<b>Long-term liabilities</b>			
Liabilities to other related parties	30	216	440
<b>Total long-term liabilities</b>		<b>216</b>	<b>440</b>
<b>Current liabilities</b>			
Accounts payable		166	127
Liabilities to Group companies	30	292	287
Liabilities to other related parties	30	586	283
Debt securities in issue	22	-	1,699
Derivatives	23	-	23
Other liabilities		36	26
Accrued expenses and deferred income	24	373	440
<b>Total current liabilities</b>		<b>1,453</b>	<b>2,885</b>
<b>Total equity, provisions and liabilities</b>	27	<b>20,345</b>	<b>20,382</b>

For information on pledged assets and contingent liabilities, see note 25.

## Statement of changes in equity for the Parent Company

SEK M	Restricted equity			Fair value reserves		Non-restricted equity			Net profit/loss for the year	Total equity
	Share capital	Fair value reserve	Statutory reserve	Fair value reserv	Hedging reserve	Share premium reserve	Retained earnings			
Opening equity, 1 January 2016	1,042	-	4,801	-1	-27	5,471	4,793	431	16,511	
<b>Comprehensive income for the year</b>										
Net profit for the year	-	-	-	-	-	-	-	447	447	
Other comprehensive income	-	-	-	6	14	-	-	-	-	20
<b>Comprehensive income for the year</b>										
Appropriation of profit	-	-	-	-	-	-	431	-431	-	
Capitalised proprietary development expenditures	-	241	-	-	-	-	-241	-	-	
<b>Closing equity, 31 December 2016</b>	<b>1,042</b>	<b>241</b>	<b>4,801</b>	<b>5</b>	<b>-13</b>	<b>5,471</b>	<b>4,983</b>	<b>447</b>	<b>16,978</b>	
Opening equity, 1 January 2017	1,042	241	4801	5	-13	5,471	4,983	447	16,978	
<b>Comprehensive income for the year</b>										
Net profit for the year	-	-	-	-	-	-	-	1,625	1,625	
Other comprehensive income	-	-	-	-4	13	-	-	-	-	9
<b>Comprehensive income for the year</b>										
Appropriation of profit	-	-	-	-	-	-	447	-447	-	
Capitalised proprietary development expenditures	-	-52	-	-	-	-	52	-	-	
<b>Closing equity, 31 December 2017</b>	<b>1,042</b>	<b>189</b>	<b>4,801</b>	<b>1</b>	<b>-</b>	<b>5,471</b>	<b>5,481</b>	<b>1,625</b>	<b>18,611</b>	

## Cash flow statement for the Parent Company

SEK M	Note	2017	2016
<b>Operating activities</b>			
Profit after financial items		1,638	453
Adjustment for non-cash items	31	-209	-277
Income tax paid		-38	-1
<b>Cash flow from operating activities before changes in working capital</b>		<b>1,391</b>	<b>175</b>
<b>Cash flow from changes in working capital</b>			
Increase (-)/Decrease (+) in operating receivables		371	832
Increase (+)/Decrease (-) in operating liabilities		50	218
<b>Cash flow from operating activities</b>		<b>1,812</b>	<b>1,225</b>
<b>Investing activities</b>			
Acquisition of shares in Group company		-55	-965
Acquisition of intangible assets		-50	-246
Acquisition of property and equipment		-8	-8
Divestment of property and equipment		2	3
<b>Cash flow from investing activities</b>		<b>-111</b>	<b>-1,217</b>
<b>Financing activities</b>			
Amortisations of loans		-1,699	-
<b>Cash flow from financing activities</b>		<b>-1,699</b>	<b>-</b>
Net cash flow for the year		3	8
Cash and cash equivalents, 1 January		251	243
<b>Cash and cash equivalents, 31 December</b>		<b>254</b>	<b>251</b>

# Notes to the financial statements for the Parent Company

All figures in SEK M unless otherwise stated.

## Note 1 Accounting policies

The Parent Company's annual accounts have been prepared in accordance with the Swedish Annual Accounts Act (1995:1554) as well as recommendation RFR 2 Accounting for Legal Entities and the statements regarding listed companies by the Swedish Financial Reporting Board.

The regulations in RFR 2 stipulate that the Parent Company, in the annual accounts for the legal entity, is to apply all IFRS adopted by the EU and statements to the extent that this is possible within the framework of the Swedish Annual Accounts Act, the Pension Obligations Vesting Act and with consideration to the relationship between accounting and taxation. The recommendation stipulates the permissible exceptions from and supplements to IFRS.

### Amended accounting policies

In order to conform with the classification in the Solvency II and CRR regulations, the Parent Company has decided to recognise financial instruments measured at fair value including accrued interest from 1 January 2017.

The change affects comparative figures in the balance sheet as per 31 December 2016. The asset items impacted are: bonds and other interest-bearing securities by SEK 9 M and prepaid expenses and accrued income by a negative SEK 9 M. The liability items impacted are: derivatives by SEK 6 M and accrued expenses and deferred income by a negative SEK 6 M. Comparative figures and performance measures have been updated to the new reporting method. The change has not affected equity.

The carrying amount of Länsförsäkringar AB's participations in Utile Dulci 2 HB was changed in the second quarter of 2017 to an amount corresponding to the total of the cost plus the participation in the partnership's profit. This resulted in previously accrued profit that was recognised in the balance sheet as "receivables from Group companies" instead being recognised as "shares and participations in Group companies". The effect of the change was SEK 49 M on 31 December 2016. Profit was not affected by the change in accounting policy. The reason for the change is to follow dominant practice and to present a clearer connection between profit and the underlying assets in the partnership.

There are no other amended accounting policies applied in the Parent Company, except for those stated in note 1 for the Group.

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

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

The Parent Company applies the same accounting policies as the Group except in the following cases.

### Classification and presentation format

For the Parent Company, the terms Balance sheet and Cash-flow Statements are used for reports that are referred to as Statement of Financial Position and Statement of Cash Flows in the Group. The income statement and the balance sheet for the Parent Company are presented following the format of the Swedish Annual Accounts Act, while the statement of comprehensive income, statement of changes in equity and statement of cash flows are based on IAS 1 Presentation of Financial Statements and IAS 7 Statement of Cash Flows. The differences compared with the consolidated financial state-

ments that apply in the Parent Company's income statement and balance sheets primarily comprise reporting of financial income and expenses, fixed assets, equity, as well as the presence of provisions as a separate heading in the balance sheet.

### Subsidiaries

Shares and participations in subsidiaries are recognised at cost.

### Income

#### *Sale of goods and execution of service assignments*

Service assignments are recognised in the Parent Company's earnings in accordance with Chapter 2, Section 4 of the Swedish Annual Accounts Act when the service has been completed. Until that time, work in progress pertaining to service assignments is recognised at the lower of cost and the net selling price on the balance-sheet date.

### Group contributions

Group contributions are recognised according to the general rule in RFR 2. Group contributions received by the company from a subsidiary are recognised according to the same policies as financial income. Group contributions paid to a subsidiary are recognised as an investment in shares and participations in Group companies.

### Leased assets

In the Parent Company, all lease agreements are recognised in accordance with the rules for operational leasing.

### Borrowing costs

Borrowing costs in the Parent Company are charged to earnings for the period to which they are attributable.

## Note 2 Risks and risk management

In addition to shares in and receivables from Group companies, the Parent Company also has long-term securities and current investments. However, these investments are limited in size relative to the investment assets of the Group's insurance companies. At year-end 2017, the Parent Company's holdings of investment assets amounted to SEK 4 M (4), participations in tenant-owned apartments to SEK 5 M (10) shares in Länsförsäkringar Liv Försäkrings AB (publ) to SEK 8 M (8) and interest-bearing bonds to SEK 720 M (841) and bank balances amounting to SEK 254 M (251). In addition to the aforementioned assets and liabilities, the Parent Company's risks derive from the operations of the subsidiaries. See also the Board of Directors' Report and the Group's note 2 Risks and risk management.

## Note 3 Net sales

Sales in the Parent Company comprise service income of SEK 2,863 M (2,811) and rental income of SEK 85 M (83) for premises and equipment. The company's sales are recognised in the Parent Company operating segment in the Group. A total of 44% (45) of sales comes from companies in the Länsförsäkringar AB Group, 8% (8) from the Länsförsäkringar Liv Group, 47% (46) from regional insurance companies and 1% (1) from external customers.

Note 4	External expenses	
	2017	2016
Cost of premises, note 5	-127	-148
Other cost of premises	-66	27
Marketing	-63	-71
Consultants	-641	-558
Fees to auditors, note 7	-4	-4
IT costs	-1,023	-1,060
Printed matter, telephony and postage	-101	-104
Other expenses	-138	-182
<b>Total</b>	<b>-2,163</b>	<b>-2,100</b>

Costs for premises refers primarily to rent for premises used by the Group for its operations.

Länsförsäkringar AB in turn leases premises to Group companies.

Note 5	Operational leasing	
	2017	2016
Lease agreements in which the company is the lessee		
Irrevocable lease payments pertaining to rent for premises amount to:		
Within one year	-124	-147
Later than one year but within five years	-372	-587
<b>Total</b>	<b>-496</b>	<b>-734</b>

A rental charge of SEK -127 M (-148) was recognised in profit for 2017.

Lease contracts are valid for ten years up to and including 31 December 2021.

Every time that lease contracts are renewed, a basic rent level is established that is subsequently index-linked to the consumer price index.

#### Lease agreements in which the company is the lessor

Irrevocable lease payments pertaining to rent for premises amount to

	2017	2016
Within one year	88	85
Later than one year but within five years	264	341
<b>Total</b>	<b>352</b>	<b>426</b>

In 2017, rental income amounting to SEK 85 M (83) was recognised.

The company leases premises to Group companies. Internal lease contracts are valid for ten years up to and including December 2021.

#### Note 6 Employees, staff costs and remuneration to senior executives

	2017	2016
<b>Average number of employees, Sweden</b>		
Men	319	318
Women	331	385
<b>Total number of employees</b>		
	<b>650</b>	<b>703</b>
<b>Salaries, other remuneration and social security expenses</b>		
<i>Other employees</i>		
Salaries and remuneration	476	495
Social security expenses	303	328
of which pension costs	123	137
<b>Total</b>	<b>779</b>	<b>823</b>
<i>Board of Directors and senior executives, 18 (18)</i>		
Salaries and remuneration	34	26
of which, fixed salary to the President and Executive Vice President	13	10
of which fixed salary to other senior executives	17	13
of which variable salary to other senior executives	-	0
Social security expenses	23	19
of which pension costs	10	8
<b>Total</b>	<b>57</b>	<b>45</b>
<i>Total salaries, other remuneration and social security expenses</i>		
Salaries and remuneration	510	521
Social security expenses	326	347
of which pension costs	133	145
<b>Total</b>	<b>836</b>	<b>868</b>

#### Variable remuneration

Variable remuneration is a rarely utilised form of remuneration at the Länsförsäkringar AB Group and, accordingly, comprises a minor part of total salaries. Commission-based remuneration is used by some functions. Commission-based remuneration is proportionate to sales efforts and is regulated by local collective agreements.

#### Remuneration of the Board

Directors' fees are payable to the Chairman and members of the Board in accordance with a decision of the Annual General Meeting. No fee is payable to employee representatives.

#### Remuneration of senior executives

Remuneration of the President and other senior executives comprises basic salary and other benefits. Pension benefits and other benefits paid to the President and other senior executives are included as part of total remuneration. Senior executives are the individuals who, together with the President, comprise corporate management.

**Note 6 Employees, staff costs and remuneration to senior executives, cont.**

**Remuneration for senior executives**

2017	Basic salary	Other remuneration	Pension costs	Total	Pension costs as a percentage of pensionable salary, %
					Defined-contribution
Johan Agerman, President	5.7	2.9	2.1	10.6	35
Sten Dunér, Former President	1.5	1.3	-	2.8	-
Ann Sommer, Executive Vice President	3.7	0	1.5	5.2	41
Sören Westin, Former Executive Vice President	1.8	0	0.6	2.4	35
Jan Fock, Chairman of the Board	1.0	-	-	0.9	-
Cesar Åfors, Deputy Chairman of the Board	0.4	-	-	0.4	-
Mikael Sundquist, Board member	0.3	-	-	0.3	-
Jonas Rosman, Board member	0.3	-	-	0.3	-
Maria Engholm, Board member	0.4	-	-	0.4	-
Christer Villard, Board member	0.3	-	-	0.3	-
Göran Lindell, Board member	0.4	-	-	0.4	-
Susanne Petersson, Board member	0.3	-	-	0.3	-
Bengt-Erik Jansson, Board member	0.2	-	-	0.2	-
<b>Other senior executives</b>					
Parent Company (9 people)	16.9	0.4	7.0	24.5	41
Subsidiaries and Länsförsäkringar Liv (3 people)	10.1	0.7	4.1	15.0	42
<b>Total 2017</b>	<b>43.3</b>	<b>5.3</b>	<b>15.3</b>	<b>64.0</b>	
Total remuneration from Parent Company	29.5	4.6	9.7	43.9	
Total remuneration from subsidiaries and Länsförsäkringar Liv	13.8	0.7	5.6	20.2	

2016	Basic salary	Other remuneration	Pension costs	Total	Pension costs as a percentage of pensionable salary, %
					Defined-contribution
Sten Dunér, President	6.2	0.1	2.1	8.4	35
Ann Sommer, Executive Vice President	3.5	0.0	1.4	4.9	40
Sören Westin, Executive Vice President	3.5	0.0	1.2	4.7	35
Jan Fock, Chairman of the Board	1.1	-	-	1.1	-
Göran Lindell, Deputy Chairman of the Board	0.5	-	-	0.5	-
Mikael Sundquist, Board member	0.3	-	-	0.3	-
Jonas Rosman, Board member	0.4	-	-	0.4	-
Mats Fabricius, Board member	0.1	-	-	0.1	-
Caesar Åfors, Board member	0.2	-	-	0.2	-
Maria Engholm, Board member	0.4	-	-	0.4	-
Pia Sandvik, Board member	0.1	-	-	0.1	-
Christer Villard, Board member	0.4	-	-	0.4	-
Susanne Petersson, Board member	0.2	-	-	0.2	-
<b>Other senior executives</b>					
Parent Company (6 people)	12.6	0.0	4.9	17.5	40
Subsidiaries and Länsförsäkringar Liv (3 people)	11.7	0.1	5.0	16.7	44
<b>Total 2016</b>	<b>41.0</b>	<b>0.2</b>	<b>14.6</b>	<b>55.8</b>	
Total remuneration from Parent Company	25.8	0.2	8.2	34.2	
Total remuneration from subsidiaries and Länsförsäkringar Liv	15.1	0.1	6.4	21.6	

Other remuneration of the President in 2017 pertains to remuneration in connection with new recruitment in accordance with the remuneration policy.

## Note 6 Employees, staff costs and remuneration to senior executives, cont.

### Pensions

The retirement age for the President is 65. The pension is a defined-contribution plan and the pension premium is to amount to 35% of the monthly salary. The retirement age for the Executive Vice President is 60. The pension between the age of 60 and 65 is a defined-contribution plan. The pension premium is to amount to 18% of pensionable salary. Pensionable salary refers to fixed salary. Pension from the age of 65 is subject to the terms of the pension agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (FTF) and the Swedish Confederation of Professional Associations (SACO). The retirement age for the Executive Vice President is 65. The pension is a defined-contribution plan and the pension premium is to amount to 35% of the monthly salary.

The retirement age for other senior executives is 60, 62 or 65. If the retirement age is 65, the pension is a defined-contribution plan and the pension premium is to amount to 35% of the monthly salary. If the retirement age is 60 or 62, the pension between the age of 60 or 62 and 65, is a defined-contribution plan. Pension amounting to about 70% of the pensionable salary will be paid. Pension from the age of 65 is subject to the terms of the pension agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (FTF) and the Swedish Confederation of Professional Associations (SACO).

### Severance pay

A mutual period of notice of six months applies to the President. If the company terminates employment, severance pay corresponding to 12 months' salary is paid during the period of notice. A mutual period of notice of three months applies to the Executive Vice President. If the company terminates employment, severance pay corresponding to 24 months' salary is paid during the period of notice. If termination of employment is issued by the company, severance pay corresponding to 18 monthly salaries will be paid, in addition to the period of notice. A mutual period of notice of six months applies to the former Executive Vice President. If the company terminates employment, severance pay corresponding to 12 months' salary is paid during the period of notice. A mutual period of notice of three or six months applies for other senior executives. If the company terminates employment, severance pay corresponding to 12 or 18 months' salary is paid during the period of notice.

### Preparation and decision-making process applied in relation to the issue of remuneration of corporate management

A Remuneration Policy for the Länsförsäkringar AB Group regulates the preparation and decision-making process for remuneration of corporate management. The Remuneration Committee prepares important remuneration decisions and decisions on measures for following up the application of the Remuneration Policy. The Board decides on remuneration and other terms of employment for corporate management and employees with overall responsibility for one of the company's control functions.

### Composition and mandate of Remuneration Committee

The composition and duties of the Remuneration Committee are regulated in the Board's formal work plan. The Remuneration Committee comprises the Chairman and two Board members.

### Policies for remuneration of corporate management

Senior executives in the Länsförsäkringar AB Group are to have market-based employment terms and conditions. The total remuneration must be on par with the industry. The structure and level of remuneration should be harmonised with the company's values, meaning that it should be reasonable, moderate and well-balanced, contribute to good ethics and organisational culture, and be characterised by openness and transparency.

### Fixed remuneration

Fixed remuneration is paid according to the general policy above.

### Pensions

The pension solution shall be solely premium-based with a premium provision of 35% of the monthly salary.

### Other benefits

In addition to the above benefits, a company car is offered in accordance with applicable conditions, individual health care insurance and other benefits offered to all employees.

Loans to senior executives	31 Dec 2017	31 Dec 2016
Board members	9	8
President and Executive Vice Presidents	5	7
Other senior executives	22	17
<b>Total</b>	<b>36</b>	<b>32</b>

Loans granted comprise personnel loans and other loans. Personnel loans are maximised at SEK 500,000 and carry loan terms comparable to what applies to other employees in the Group. The interest rate for employees is the repo rate less 0.5 percentage points, but can never be lower than 0.5%. The interest benefit is calculated in accordance with the Swedish Tax Agency's rules and is included in other benefits as above. The terms and conditions of other loans are market-based.

Number of women among senior executives, %	31 Dec 2017	31 Dec 2016
Board member	42	45
Other senior executives	62	50

### Note 7 Fees and remuneration to auditors

	2017	2016
<b>KPMG AB</b>		
- audit assignments	-4	-3
- audit operations in addition to the audit assignment	-0	-1
<b>Total</b>	<b>-4</b>	<b>-4</b>

Audit assignment pertains to a review of the Annual Report and accounting, as well as the Board's and President's administration. Audit operations other than audit assignment pertain to various types of quality-assurance services, such as reviews of the administration, Articles of Association, regulations or agreements that result in reports or certificates. Other assignments pertain to activities that are not included in the above-mentioned items, for example, legal consultations alongside audit activities and that are not attributable to tax consultancy services.

<b>Note 8</b> Profit from participations in group companies		
	2017	2016
Dividends from subsidiaries	1,590	470
Group contributions received	290	160
Share of profit in partnership	51	49
<b>Total</b>	<b>1,931</b>	<b>679</b>

<b>Note 9</b> Interest income and similar profit/loss items		
	2017	2016
Interest income, Group companies	-	0
Interest income, other	-3	2
Interest income, bonds and interest-bearing securities	0	-
Capital gains, currencies	0	-
Capital gains, shares and participations	2	0
Capital gains, interest-bearing securities Group companies	7	2
Unrealised gains, shares and participations	-	0
<b>Total</b>	<b>5</b>	<b>4</b>

<b>Note 10</b> Interest expense and similar profit/loss items		
	2017	2016
Interest expense, interest-bearing securities issued by Group companies	-11	-17
Interest expense, bonds and interest-bearing securities	-29	-38
Interest expenses, derivatives	-19	-24
Interest expenses, other	0	-
Capital losses, currencies	0	-2
Unrealised losses, shares and participations	-2	-
Realised losses, derivatives	-1	-
Unrealised losses, derivatives	0	-
<b>Total</b>	<b>-63</b>	<b>-81</b>

<b>Note 11</b> Tax		
	2017	2016
<b>Current tax</b>		
Tax income for the period	-12	-2
Adjustment of tax expense pertaining to prior years	2	0
<b>Deferred tax income (+) / tax expense (-)</b>		
Deferred tax pertaining to temporary differences	-4	-4
<b>Total recognised tax income (+) / tax expense (-)</b>	<b>-13</b>	<b>-7</b>
<b>Reconciliation of effective tax rate</b>		
Profit before tax	1,638	453
Tax at applicable tax rate	-360	-100
Tax on non-deductible costs	-15	-22
Tax on non-taxable income	359	115
Tax attributable to prior year	2	0
<b>Recognised effective tax</b>	<b>-13</b>	<b>-7</b>
Applicable tax rate, %	22.0	22.0
Effective tax rate, %	0.8	1.4

<b>Note 12</b> Intangible assets		
	2017	2016
<b>Capitalised IT costs</b>		
<b>Cost</b>		
Opening cost, 1 January	585	339
Reclassification	5	-
Acquisitions	49	246
<b>Closing cost, 31 December</b>	<b>639</b>	<b>586</b>
<b>Amortisation</b>		
Opening accumulated amortisation, 1 January	-82	-67
Reclassification	-2	-
Amortisation	-24	-15
<b>Closing accumulated amortisation, 31 December</b>	<b>-108</b>	<b>-82</b>
<b>Impairment</b>		
Opening accumulated impairment, 1 January	-45	-45
Impairment	-89	-
<b>Closing accumulated impairment, 31 December</b>	<b>-134</b>	<b>-45</b>
<b>Carrying amount, 31 December</b>	<b>398</b>	<b>459</b>

In 2017, SEK 47 M (193) was accrued in ongoing intangible projects due to a new non-life insurance system that is expected to be capitalised and amortised from 2018.

The amortisation period for an acquired accounting and monitoring system with a carrying amount of SEK 80 M (88) is 15 years based on its anticipated useful life. Other intangible assets are amortised over a period of 5 years.

### Note 13 Property and equipment

Improvement to third-party properties	2017	2016	Equipment	2017	2016
<b>Cost</b>			<b>Cost</b>		
Opening cost, 1 January	253	253	Opening cost, 1 January	90	123
<b>Closing cost, 31 December</b>	<b>253</b>	<b>253</b>	<b>Reclassification</b>	<b>-5</b>	<b>-</b>
<b>Depreciation</b>			Acquisitions	-7	9
Opening accumulated depreciation, 1 January	-135	-120	Divestments/disposals	8	-42
Depreciation	-14	-13	<b>Closing cost, 31 December</b>	<b>86</b>	<b>90</b>
<b>Closing accumulated depreciation, 31 December</b>	<b>-149</b>	<b>-134</b>	<b>Depreciation</b>		
<b>Impairment</b>			Opening accumulated depreciation, 1 January	-70	-105
Opening accumulated impairment, 1 January	-57	-57	Reclassification	2	-
<b>Closing accumulated impairment, 31 December</b>	<b>-57</b>	<b>-57</b>	Depreciation	-5	-5
<b>Carrying amount, 31 December</b>	<b>47</b>	<b>62</b>	Divestments/disposals	4	40
			<b>Closing accumulated depreciation, 31 December</b>	<b>-69</b>	<b>-70</b>
			<b>Impairment</b>		
			Opening accumulated impairment, 1 January	-3	-3
			<b>Closing accumulated impairment, 31 December</b>	<b>-3</b>	<b>-3</b>
			<b>Carrying amount, 31 December</b>	<b>14</b>	<b>16</b>
				2017	2016
			<b>Total carrying amount, 31 December</b>	<b>61</b>	<b>78</b>

Equipment includes SEK 4 M (4) representing works of art that are not depreciated. Accumulated impairment of art amounting to SEK 2 M (2) has been made.

### Note 14 Shares and participations in group companies

	2017	2016
<b>Cost</b>		
Opening cost, 1 January	21,417	20,451
Acquisitions	-	998
Withdrawal	-46	-32
Capital gains from partnerships	34	-
Amended accounting policy for partnerships	66	-
<b>Closing cost, 31 December</b>	<b>21,471</b>	<b>21,417</b>
<b>Impairment</b>		
Opening accumulated impairment, 1 January	-3,559	-3,559
<b>Closing accumulated impairment, 31 December</b>	<b>-3,559</b>	<b>-3,559</b>
<b>Carrying amount, 31 December</b>	<b>17,912</b>	<b>17,858</b>

#### Specification of the company's holding of shares and participations in Group companies

Company name	Corporate Registration Number	Number of shares and participations	Participating interest 2017, %	Participating interest 2016, %	Carrying amount 31 Dec 2017	Carrying amount 31 Dec 2016
Länsförsäkringar Bank AB (publ)	516401-9878	9,548,708	100	100	8,430	8,430
Länsförsäkringar Fondliv Försäkrings AB (publ)	516401-8219	10,000	100	100	5,255	5,255
Länsförsäkringar Sak Försäkrings AB (publ)	502010-9681	2,000,000	100	100	3,206	3,206
Utile Dulci 2 HB	916601-0067	1,824	45,6	45,6	1,021	966
<b>Shares and participations in Group companies</b>					<b>17,912</b>	<b>17,858</b>

All subsidiaries have their registered offices in Stockholm. Länsförsäkringar Sak Försäkrings AB owns 54.4% of Utile Dulci 2 HB. Participating interest refers to the share of capital, which corresponds to the number of votes for the total number of shares.

Länsförsäkringar AB owns 100% of the shares in Länsförsäkringar Liv Försäkrings-aktiebolag (publ). This company is operated in accordance with mutual principles and

may not pay dividends according to its current Articles of Association. As a result, the majority of the risks and rewards associated with ownership do not accrue to the owner Länsförsäkringar AB but to the life-assurance policyholders. Accordingly, this shareholding cannot be classified as a holding in a subsidiary under the definition provided in IAS 27 Consolidated and Separate Financial Statements.

**Note 15 Other securities held as fixed assets**

	2017	2016
Opening balance, 1 January	859	1,007
Revaluation of tenant-owned apartments	-1	1
Acquisitions of bonds and interest-bearing securities	-4	-
Change in value of bonds and interest-bearing securities	16	-3
Sale of bonds and interest-bearing securities	-136	-145
<b>Carrying amount, 31 December</b>	<b>734</b>	<b>859</b>

Company name	Number of shares and participations	Carrying amount	
		31 Dec 2017	31 Dec 2016
Länsförsäkringar Liv Försäkrings AB (publ)	8,000	8	8
Brf Mässen	1	5	10
Listed bonds issued by other Swedish issuers		720	841
<b>Total</b>		<b>734</b>	<b>859</b>

Shares in Länsförsäkringar Liv Försäkringsaktiebolag (publ) are classified as available-for-sale holdings. Since there is no active market for these shares, the fair value cannot be calculated reliably based on such a listing, and instead a valuation at cost was also performed after the acquisition, whereby impairment is continuously tested. No impairment requirements were identified in 2016 and 2017.

**Note 16 Deferred tax assets and liabilities**

	Deferred tax assets		Deferred tax liabilities		Net	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Property and equipment	2	-	-	3	2	3
Current investments	1	-1	-	-	1	-1
Pension provisions	-7	-12	-	-	-7	-12
<b>Deferred tax assets (-)/deferred tax liabilities (+)</b>	<b>-4</b>	<b>-13</b>	-	3	-4	-10
Offset	-	3	-	-3	-	-
<b>Net deferred tax asset (-)/deferred tax liability (+)</b>	<b>-4</b>	<b>-10</b>	-	-	-4	-10

**Change in deferred tax in temporary differences and loss carryforwards 2017**

	Amount at 1 January	Recognised in profit and loss	Recognised in other comprehensive income	Amount at 31 December
Property and equipment	3	-1	-	2
Current investments	-1	-	2	1
Pension provisions	-12	5	-	-7
<b>Deferred tax assets (-)/deferred tax liabilities (+)</b>	<b>-10</b>	<b>4</b>	<b>2</b>	<b>-4</b>

**Change in deferred tax in temporary differences and loss carryforwards 2016**

	Amount at 1 January	Recognised in profit and loss	Recognised in other comprehensive income	Amount at 31 December
Property and equipment	5	-2	-	3
Current investments	-11	4	6	-1
Pension provisions	-13	1	-	-12
Liabilities	-1	1	-	-
<b>Deferred tax assets (-)/deferred tax liabilities (+)</b>	<b>-20</b>	<b>4</b>	<b>6</b>	<b>-10</b>

Länsförsäkringar AB has no deferred tax recognised directly against equity.

## Note 17 Prepaid expenses and accrued income

	31 Dec 2017	31 Dec 2016
Accrued interest income	-	-
Other accrued income	28	19
Prepaid expenses	79	83
<b>Total</b>	<b>106</b>	<b>103</b>

## Note 18 Current investments

Specification of current investments	31 Dec 2017		31 Dec 2016	
	Cost	Fair value	Cost	Fair value
Unlisted shares and participations, Swedish	3	4	3	4
<b>Total</b>	<b>3</b>	<b>4</b>	<b>3</b>	<b>4</b>
Unlisted participations, Swedish	31 Dec 2017		31 Dec 2016	
	Cost	Fair value	Cost	Fair value
Länsförsäkringar Fastighetsförmedling AB	3	4	3	4
<b>Total current investments</b>	<b>3</b>	<b>4</b>	<b>3</b>	<b>4</b>

## Note 19 Equity

A specification of changes in shareholders' equity is provided after in the statement of changes in equity.

Shares at a quotient value of SEK 100	Number of votes per share	31 Dec 2017 Number	31 Dec 2016 Number
Series A	10	1,532,678	1,532,678
Series B	1	8,885,949	8,885,949
Series C	1	5,955	5,955
<b>Number of shares outstanding</b>		<b>10,424,582</b>	<b>10,424,582</b>

### Restricted reserves

Restricted reserves may not be reduced through profit distribution.

### Statutory reserve

The aim of the statutory reserve is to save a portion of the net profit that is not utilised to cover losses brought forward. The statutory reserve comprises restricted equity. No new transfers to the statutory reserve are required, although transfers can be made voluntarily. The statutory reserve also includes the amount of SEK 4,801 M that was included in the share premium reserve prior to 1 January 2006.

### Non-restricted equity

#### Fair value reserve

##### Hedging reserve

Amounts are recognised directly against the fair value reserve when a change in value refers to a hedging instrument and the applied hedge accounting policies permit a portion of or the entire change in value to be recognised in equity. The hedging reserve comprises hedges of variable interest rates against fixed interest rates pertaining to the Parent Company's debt securities in issue.

##### Fair value reserve

The fair value reserve comprises the accumulated net change in fair value of available-for-sale financial assets until the asset is derecognised from the balance sheet.

#### Share premium reserve

When shares are issued at a premium, meaning that a higher amount than the quotient value is paid for the share, an amount corresponding to the surplus of the quotient value of the share is recognised in the share premium reserve.

#### Retained earnings

Retained earnings comprises profit brought forward from the preceding year after deductions for any dividends paid during the year.

## Note 19 Equity, cont.

Company	Number of shares			
	A	B	C	
Länsförsäkringar Skåne	141,849	882,046	-	9.8
Länsförsäkringar Stockholm	129,212	802,382	-	8.9
Länsförsäkringar Östgöta	114,155	663,463	-	7.5
Dalarnas Försäkringsbolag	104,708	609,639	-	6.9
Länsförsäkringar Göteborg och Bohuslän	87,010	605,143	821	6.6
Länsförsäkringar Älvborg	100,176	581,374	-	6.5
Länsförsäkringar Bergslagen	86,351	495,089	-	5.6
Länsförsäkringar Jönköping	82,812	474,021	-	5.3
Länsförsäkringar Uppsala	73,298	424,791	-	4.8
Länsförsäkringar Västerbotten	57,195	330,919	-	3.7
Länsförsäkringar Halland	56,785	329,857	-	3.7
Länsförsäkringar Södermanland	58,117	323,139	-	3.7
Länsförsäkringar Göinge-Kristianstad	49,982	322,347	-	3.6
Länsförsäkringar Kalmar län	56,717	295,878	-	3.4
Länsförsäkringar Cävleborg	60,058	281,083	-	3.3
Länsförsäkringar Skaraborg	64,058	253,172	-	3.0
Länsförsäkringar Västernorrland	50,186	257,122	-	2.9
Länsförsäkringar Jämtland	35,795	226,453	-	2.5
Länsförsäkringar Kronoberg	36,701	203,130	-	2.3
Länsförsäkringar Värmland	31,160	202,208	-	2.2
Länsförsäkringar Norrbotten	16,960	127,878	-	1.4
Länsförsäkringar Blekinge	23,088	120,500	-	1.4
Länsförsäkringar Gotland	16,305	74,315	-	0.9
16 local insurance companies	-	-	5,134	0.0
<b>Total number of shares</b>	<b>1,532,678</b>	<b>8,885,949</b>	<b>5,955</b>	<b>100.0</b>

## Note 20 Provisions for pensions and similar commitments

	31 Dec 2017	31 Dec 2016
Pension provisions	12	16
Provisions for early retirement in accordance with pension agreement	5	8
Other provisions	5	4
<b>Total provisions for pensions</b>	<b>22</b>	<b>28</b>

Pension provisions of SEK 12 M (16) are encompassed by the Pension Obligations Vesting Act.

### Defined-benefit pension plans

The Parent Company has defined-benefit pension plans. One of these plans is a pension agreement for the insurance industry whereby persons born in 1955 or earlier are entitled to voluntarily retire from the age of 62. The terms and conditions of this plan are designed such that the pension comprises about 65% of the pensionable salary at age 62. The provision is calculated on an actuarial basis according to the insurance guidelines and basis for calculation applied for individually issued life assurance. The calculations are based on the individual salaries and ages.

In addition to this plan, there are a number of minor plans that almost only encompass employees who have already reached retirement age. These plans cover old-age pensions and in some cases also survivor's pension. The pension amounts are paid in relation to the final salary level when the employee retires and in the vast majority of cases are life annuities. In the event that upward adjustment of the pension has been agreed, the Parent Company follows the norms applied by the Insurance Industry's Pension Fund (FPK).

Assumptions for defined-benefit commitments, %	2017	2016
Discount rate	0.5	0.6
Expected rate of salary increase	2.5	2.5
Percentage expected to retire voluntarily at the age of 62	50	50

## Note 20 Provisions for pensions and similar commitments, cont.

### Defined-contribution pension plans

The company pays fixed contributions to a separate legal entity and does not have a legal or informal obligation to pay additional contributions. The company's payments to defined-contribution plans are recognised as expenses during the period in which the employee performed the services to which the contributions refer. Primarily, contributions to the Insurance Industry's Pension Fund (FPK) are recognised here. This plan encompasses all employees except for a few individuals who have individual solutions. The pension agreement for the insurance industry, the FTP plan, through insurance with the Insurance Industry's Pension Fund (FPK) is a multi-employer defined-benefit pension plan. According to IAS 19 Employee Benefits, this pension plan entails that, as a rule, a company is to recognise its proportional share of the defined-benefit pension commitment and the plan assets and expenses associated with the pension commitment. Disclosures are also presented in the accounts pursuant to the requirements for defined-benefit pension plans. FPK is currently unable to provide necessary information which is why the pension plans above are recognised as a defined-contribution plan in accordance with IAS 19. Nor is any information available on surpluses and deficits in the plan or whether these surpluses and deficits would then affect the contributions for the plan in future years.

FTP plan contributions for 2018 are expected to total SEK 135 M.

	2017	2016
Expenses for defined-contribution plans	122	122

Note 21	Other provisions	31 Dec 2017	31 Dec 2016
Provision for interest subsidies for personnel loans to former employees who have retired.		22	33
Other provisions		20	18
<b>Total</b>		<b>42</b>	<b>51</b>

Note 22	Debt securities in issue	31 Dec 2017	31 Dec 2016
Bond loans		-	1,699
<b>Total</b>		<b>-</b>	<b>1,699</b>
<b>Maturities of bond loans</b>			
Within 1 year		-	1,699
<b>Total</b>		<b>-</b>	<b>1,699</b>

Note 23	Derivatives	Carrying amount	Nominal value	
		31 Dec 2017	31 Dec 2016	31 Dec 2017
<b>Derivative instruments with positive values</b>				
<i>Derivative instruments in hedge accounting</i>				
Interest		-	0	-
<b>Total derivative instruments with positive values</b>		<b>-</b>	<b>0</b>	<b>-156</b>
<b>Derivative instruments with negative values</b>				
<i>Derivative instruments in hedge accounting</i>				
Interest		-	23	-
<b>Total derivative instruments with negative values</b>		<b>-</b>	<b>23</b>	<b>1,200</b>

Note 24	Accrued expenses and deferred income	31 Dec 2017	31 Dec 2016
Holiday pay liability	49	51	
Social security expenses	18	18	
Special employer's contribution	34	34	
Provisions for staff costs	7	25	
Other accrued expenses	265	312	
<b>Total</b>	<b>373</b>	<b>440</b>	

Note 25	Pledged assets and contingent liabilities	31 Dec 2017	31 Dec 2016
<b>Pledged assets</b>			
Pledged shares in subsidiaries	300	601	
<b>Contingent liabilities</b>			
Part-owner of Utile Dulci 2 HB	23	17	

Amount expected to be recovered	31 Dec 2017			31 Dec 2016		
	within 12 months	after 12 months	Total	within 12 months	after 12 months	Total
<b>Fixed assets</b>						
Intangible assets <sup>1)</sup>	54	344	398	19	440	459
Property and equipment <sup>1)</sup>	18	43	61	19	59	78
Shares and participations in Group companies	-	17,912	17,912	-	17,858	17,858
Deferred tax assets	4	-	4	10	-	10
Other securities held as fixed assets	-	734	734	-	859	859
<b>Total fixed assets</b>	<b>76</b>	<b>19,033</b>	<b>19,109</b>	<b>48</b>	<b>19,216</b>	<b>19,264</b>
<b>Current assets</b>						
Receivables from Group companies	677	-	677	554	-	554
Receivables from other related parties	142	-	142	181	-	181
Other receivables	53	-	53	25	-	25
Prepaid expenses and accrued income	106	-	106	103	-	103
Current investments	4	-	4	4	-	4
Cash and bank balances	254	-	254	251	-	251
<b>Total current assets</b>	<b>1,236</b>	<b>-</b>	<b>1,236</b>	<b>1,118</b>	<b>-</b>	<b>1,118</b>
<b>Total assets</b>	<b>1,312</b>	<b>19,033</b>	<b>20,345</b>	<b>1,166</b>	<b>19,216</b>	<b>20,382</b>

Amount expected to be settled	31 Dec 2017			31 Dec 2016		
	within 12 months	after 12 months	Total	within 12 months	after 12 months	Total
<b>Provisions</b>						
Provisions for pensions and similar commitments	-	22	22	-	28	28
Other provisions	-	42	42	-	51	51
<b>Total provisions</b>	<b>-</b>	<b>65</b>	<b>65</b>	<b>-</b>	<b>79</b>	<b>79</b>
<b>Long-term liabilities</b>						
Liabilities to other related parties	-	216	216	-	440	440
<b>Total long-term liabilities</b>	<b>-</b>	<b>216</b>	<b>216</b>	<b>-</b>	<b>440</b>	<b>440</b>
<b>Current liabilities</b>						
Accounts payable	166	-	166	127	-	127
Liabilities to Group companies	292	-	292	287	-	287
Liabilities to other related parties	586	-	586	283	-	283
Debt securities in issue	-	-	-	1,699	-	1,699
Derivatives	-	-	-	23	-	23
Other liabilities	36	-	36	26	-	26
Accrued expenses and deferred income	373	-	373	440	-	440
<b>Total current liabilities</b>	<b>1,453</b>	<b>-</b>	<b>1,453</b>	<b>2,885</b>	<b>-</b>	<b>2,885</b>
<b>Total liabilities and provisions</b>	<b>1,453</b>	<b>281</b>	<b>1,733</b>	<b>2,885</b>	<b>519</b>	<b>3,404</b>

<sup>1)</sup> The amount that is expected to be recovered within 12 months corresponds to depreciation/amortisation for the year.

**Note 27****Classification of financial assets and liabilities**

Financial assets measured at fair value in profit and loss							
31 Dec 2017	Financial assets measured according to fair value option	Held for trading	Derivatives used in hedge accounting	Available-for-sale financial assets	Loan receivables and accounts receivable	Total	Fair value
<b>Assets</b>							
Other securities held as fixed assets	-	-	-	720	-	720	720
Shares and participations	5	-	-	-	-	5	5
Shares in Länsförsäkringar Liv Försäkrings AB	-	-	-	8	-	8	8
Receivables from Group companies	-	-	-	-	677	677	677
Receivables from other related parties	-	-	-	-	142	142	142
Other receivables	-	-	-	-	53	53	53
Prepaid expenses and accrued income	-	-	-	-	106	106	106
Current investments	4	-	-	-	-	4	4
Cash and bank balances	-	-	-	-	254	254	254
<b>Total</b>	<b>9</b>	-	-	<b>728</b>	<b>1,232</b>	<b>1,969</b>	<b>1,969</b>
Financial liabilities measured at fair value in profit and loss							
31 Dec 2017	Financial liabilities measured according to fair value option	Held for trading	Derivatives used in hedge accounting	Other financial liabilities	Total	Fair value	
<b>Liabilities</b>							
Liabilities to Group companies	-	-	-	292	292	292	
Liabilities to other related parties	-	-	-	802	802	802	
Other liabilities and accounts payable	-	-	-	202	202	202	
Accrued expenses and deferred income	-	-	-	373	373	373	
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,669</b>	<b>1,669</b>	<b>1,669</b>	
Financial assets measured at fair value in profit and loss							
31 Dec 2016	Financial assets measured according to fair value option	Held for trading	Derivatives used in hedge accounting	Available-for-sale financial assets	Loan receivables and accounts receivable	Total	Fair value
<b>Assets</b>							
Other securities held as fixed assets	18	-	-	841	-	859	859
Receivables from Group companies	-	-	-	-	554	554	554
Receivables from other related parties	-	-	-	-	181	181	181
Other receivables	-	-	-	-	25	25	25
Prepaid expenses and accrued income	-	-	-	-	103	103	103
Current investments	4	-	-	-	-	4	4
Cash and bank balances	-	-	-	-	251	251	251
<b>Total</b>	<b>22</b>	-	-	<b>841</b>	<b>1,114</b>	<b>1,977</b>	<b>1,977</b>
Financial liabilities measured at fair value in profit and loss							
31 Dec 2016	Financial liabilities measured according to fair value option	Held for trading	Derivatives used in hedge accounting	Other financial liabilities	Total	Fair value	
<b>Liabilities</b>							
Debt securities in issue	-	-	-	1,699	1,699	1,727	
Derivatives	-	-	23	-	23	23	
Liabilities to Group companies	-	-	-	287	287	287	
Liabilities to other related parties	-	-	-	723	723	723	
Other liabilities and accounts payable	-	-	-	153	153	153	
Accrued expenses and deferred income	-	-	-	440	440	440	
<b>Total</b>	-	-	<b>23</b>	<b>3,302</b>	<b>3,325</b>	<b>3,325</b>	

The fair value of assets classified as Loan receivables and accounts receivable and liabilities classified as Other financial liabilities comprises a reasonable approximation of the fair value based on the cost of the assets and liabilities, since these assets and liabilities have short terms.

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

## Note 28 Fair value valuation techniques

Financial assets and liabilities measured at fair value in the statement of financial position are presented in the table based on the valuation techniques applied:

**Level 1** – Financial instruments whose fair value is based on quoted prices in an active market. A financial instrument is considered to be quoted in an active market when transactions take place at sufficient frequency and volume in order to provide continuous price information. No additions are made for transaction costs (for example, brokerage commission) or future transaction costs in connection with a divestment. If the market for the asset or liability is the most advantageous market and if a company on the measurement date can perform a transaction with the asset or liability at this price on this market, the holding is classified as Level 1 in the fair value hierarchy.

**Level 2** – Financial instruments measured using valuation techniques that are essentially based on market data are categorised as Level 2. This Level primarily includes interest-rate and currency derivatives.

**Level 3** – Financial instruments whose measurement is significantly influenced by inputs that cannot be verified by external market data are categorised as Level 3. This Level mainly includes properties and unquoted shares and participations.

	2017				2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Shares and participations	-	5	4	9	-	10	4	14
Bonds and other interest-bearing securities	720	-	-	720	841	-	-	841
Derivatives	-	-	-	-	0	-	-	0
<b>Liabilities</b>								
Derivatives	-	-	-	-	0	23	-	23

There were no significant transfers between Level 1 and Level 2 during 2017 or during 2016. There were no transfers from Level 3 in 2017 or 2016.

Shares and participations in Level 3 are measured at equity per share based on the most recent company report. Delisted, insolvent companies are measured at zero, if no other listing can be found.

Profits and losses are recognised in Interest income and similar profit/loss items or Interest expense and similar profit/loss items. For disclosures of determination of fair value and valuation techniques and input data, see Note 1 Accounting policies.

### Change level 3

	Shares and participations	Total
Opening balance 1 January 2016	4	4
Recognised in net profit for the year	0	0
<b>Closing balance 31 December 2016</b>	<b>4</b>	<b>4</b>

	Shares and participations	Total
Opening balance 1 January 2017	4	4
Recognised in net profit for the year	0	0
<b>Closing balance 31 December 2017</b>	<b>4</b>	<b>4</b>

### Financial instruments measured at amortised cost in the balance sheet

The company has no financial instruments measured at amortised cost in the balance sheet as of 2017-12-31.

31 Dec 2016	Level 1	Level 2	Level 3	Total
<b>Liabilities</b>				
Securities issued	-	1,699	-	1,699

## Note 29 Information about offsetting

The table shows financial assets and liabilities covered by a legally binding master netting agreement or similar agreements, together with related collaterals. The Group has ISDA agreements and CSA agreements with all derivative counterparts, meaning that all exposures are covered by these types of agreements. The net amount pertains to the exposure under normal operations in the event of default or insolvency. Financial assets and liabilities are offset in the balance sheet when there is a legally enforceable right to offset the transactions and there is an intention to settle the net amount or to realise the asset and settle the liability simultaneously.

The company has no financial assets and liabilities that are offset or are subject to netting agreements as of 31 December 2017.

31 Dec 2016	Financial assets and liabilities that are offset or are subject to netting agreements						Net amount	
	Gross amount	Offset in the balance sheet	Amount recognised in the balance sheet	Master netting agreements	Related amounts that are not offset in the balance sheet			
					Received (-) / Pledged (+)	Collaterals		
<b>Assets</b>								
Derivatives	0	-	0	-	-	-	0	
<b>Liabilities</b>								
Derivatives	-17	-	-17	-	24		7	
<b>Total</b>	<b>-17</b>	<b>-</b>	<b>-17</b>	<b>-</b>	<b>24</b>		<b>7</b>	

## Note 30 Disclosures on related parties

Pricing for business operations is on market terms. Pricing for service activities within the Länsförsäkringar Alliance is based on direct and indirect costs. A price list is established in conjunction with the target process. Overall, pricing is intended to distribute costs within the Länsförsäkringar Alliance based on consumption. Joint development projects and joint service are financed collectively and invoiced based on an established distribution key.

Related-party transactions 2017		Group companies	Liv Group	Regional insurance companies	Other related parties	Total
Income	Services sold	1,263	230	1,376	7	2,876
	Rent, premises	82	3	-	-	85
	Financial income	1,880	-	-	-	1,880
Expenses	Services purchased	-11	-4	-34	-	-49
	Rent, premises	-126	-	-	-	-126
	Financial costs	-3	-11	-	-	-14
Receivables	Cash and cash equivalents with Länsförsäkringar Bank	237	-	-	-	237
	Other receivables	440	20	121	-	582
Liabilities	Interest-bearing liabilities	-	131	-	-	131
	Other liabilities	292	33	639	-	963

Related-party transactions 2016		Group companies	Liv Group	Regional insurance companies	Other related parties	Total
Income	Services sold	1,215	224	1,342	21	2,803
	Rent, premises	74	3	-	-	77
	Financial income	679	-	-	-	679
Expenses	Services purchased	-18	-3	-43	-	-64
	Rent, premises	-185	-	-9	-	-194
	Financial costs	-	-17	-	-	-17
Receivables	Cash and cash equivalents with Länsförsäkringar Bank	159	-	-	-	159
	Other receivables	394	25	156	-	576
Liabilities	Interest-bearing liabilities	-	255	-	-	255
	Other liabilities	287	25	437	6	755

Länsförsäkringar AB is owned by the 23 regional insurance companies and 16 local insurance companies. In terms of operations, Länsförsäkringar AB with subsidiaries are organised into four business units: Non-life Insurance, Unit-linked Life Assurance, Traditional Life Assurance and Bank, as well as support functions Business Support, IT and Customer and Channel Support. The President's staff includes the shared units of Accounting and Finance, Legal Affairs, Asset Management, HR, Compliance and Risk Management.

Länsförsäkringar AB purchases and owns equipment that is subsequently leased to Group companies and Länsförsäkringar Liv.

Länsförsäkringar AB leases its office premises from property owner Utile Dulci 2 HB, owned by Länsförsäkringar Sak and Länsförsäkringar AB.

Länsförsäkringar Bank manages subsidised loans to employees on behalf of the Parent Company Länsförsäkringar AB, issued after the bank performs standard credit rating checks.

For information regarding remuneration of related key persons, such as Board members and senior executives, see note 6 Employees, staff costs and remuneration of senior executives.

Related subsidiaries are specified in note 14 Shares and participations in Group companies.

**Note 31** **Supplementary information to the cash-flow statement**

	2017	2016
<b>Interest paid and dividends received</b>		
Dividends received from subsidiaries	1,590	470
Withdrawal subsidiaries	51	32
Interest received	4	1
Interest paid	-59	-81
<b>Adjustment for non-cash items</b>		
Depreciation/amortisation and impairment of assets	133	33
Realised gains and losses	8	20
Unrealised gains and losses	-2	-21
Provisions	-14	-120
Change in fair value of available-for-sale financial assets	-	6
Hedging reserve	11	14
Group contributions received that are regulated in the following fiscal year	-290	-160
Profit participation subsidiaries	-55	-49
<b>Total</b>	<b>-209</b>	<b>-277</b>

Cash and cash equivalents comprise bank balances.

**Note 32** **Financial transactions not recognised in the balance sheet**

Länsförsäkringar AB has external suppliers of IT operations at a cost of SEK 309 M (385). The costs also include machinery equipment for computer operations. Some regional insurance companies and Länsförsäkringar Liv are also included in the arrangement. Their remuneration to Länsförsäkringar AB is included in service revenue.

**Note 33** **Events after balance-sheet date**

On 2 February 2018, Johan Agerman left his position as President and CEO of Länsförsäkringar AB. In connection with this, Sören Westin was appointed President and CEO of Länsförsäkringar AB.

**Note 34** **Proposed appropriation of profit**

According to the statement of financial position for Länsförsäkringar AB, non-restricted equity totalling SEK 12,578,048,469 is at the disposal of the Annual General Meeting.

**The Parent Company's non-restricted equity comprises (SEK)**

Share premium reserve	5,470,917,955
Fair value reserve	1,210,129
Retained earnings	5,481,336,248
Net profit for the year	1,624,584,138
<b>Non-restricted equity, 31 December 2017</b>	<b>12,578,048,469</b>

The Board of Directors propose that of the unappropriated earnings in the Parents Company SEK 28.75 per share be paid to the shareholders

299,706,733
12,278,341,737
12,578,048,469

The dividend is calculated 10,424,582 shares

# Statement from the Board

The Board of Directors and President affirm that this Annual Report was prepared in accordance with generally accepted accounting policies in Sweden and that the consolidated financial statements were prepared in accordance with the international accounting standards referred to in Regulation (EC) No 1606/2002 of the European Parliament and the Council issued on 19 July 2002 on the application of international accounting standards. The Annual Report and consolidated financial statements provide a true and fair view of the Parent Company's and the Group's financial position and earnings. The Board of Directors' Report provides a true and fair overview of the Parent Company's and the Group's operations, financial position and earnings, and describes the significant risks and uncertainties to which the Parent Company and the companies included in the Group are exposed.

Stockholm, 13 March 2018

Jan Fock  
*Chairman*

Caesar Åfors  
*Deputy Chairman*

Maria Engholm  
*Board member*

Bengt-Erik Jansson  
*Board member*

Göran Lindell  
*Board member*

Susanne Petersson  
*Board member*

Jonas Rosman  
*Board member*

Mikael Sundquist  
*Board member*

Christer Villard  
*Board member*

Susanne Lindberg  
*Employee Representative*

Linnéa Niklasson  
*Employee Representative*

Anna Sandqvist  
*Employee Representative*

Sören Westin  
*President*

My audit report was submitted on 13 March 2018

Mårten Asplund  
*Authorized Public Accountant*

The Annual Report and the consolidated financial statements above were approved for publishing by the Board of Directors on 13 March 2018. The Group's income statement, statement of comprehensive income and statement of financial position, as well as the Parent Company's income statement and balance sheet are subject to approval by the Annual General Meeting to be held on 18 May 2018.

# Auditor's Report

To the general meeting of the shareholders of Länsförsäkringar AB (publ), corp. id 556549-7020

Translation from the Swedish original

## REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

### Opinions

I have audited the annual accounts and consolidated accounts of Länsförsäkringar AB (publ) for the year 2017, except for the corporate governance statement on pages 42-49. The annual accounts and consolidated accounts of the company are included on pages 32-119 in this document.

In my opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act, and present fairly, in all material respects, the financial position of the parent company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act for Insurance Companies and present fairly, in all material respects, the financial position of the group as of 31 December 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act for Insurance Companies. My opinions do not cover the corporate governance statement on pages 42-49. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

I therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the income statement and statement of financial position for the group.

### Basis for Opinions

I conducted my audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. My responsibilities under those standards are further described in the Auditor's Responsibilities section. I am independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled my ethical responsibilities in accordance with these requirements.

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

### Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-31 and 122-129. The Board of Directors and the Managing Director are responsible for this other information.

My opinion on the annual accounts and consolidated accounts does not cover this other information and I do not express any form of assurance conclusion regarding this other information.

In connection with my audit of the annual accounts and consolidated accounts, my responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure I also take into account my knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If I, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and the Annual Accounts Act for Insurance Companies and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual

accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

### Auditor's responsibility

My objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of the company's internal control relevant to my audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director
- conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. I also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify my opinion about the annual accounts and consolidated accounts. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern
- evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my opinions.

I must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. I must also inform of significant audit findings during my audit, including any significant deficiencies in internal control that I identified.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Opinions

In addition to my audit of the annual accounts and consolidated accounts, I have also audited the administration of the Board of Directors and the Managing Director of Länsförsäkringar AB (publ) for the year 2017 and the proposed appropriations of the company's profit or loss.

I recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

### Basis for Opinions

I conducted the audit in accordance with generally accepted auditing standards in Sweden. My responsibilities under those standards are further described in the Auditor's Responsibilities section. I am independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled my ethical responsibilities in accordance with these requirements.

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

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

### Auditor's responsibility

My objective concerning the audit of the administration, and thereby my opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act, the Annual Accounts Act for Insurance Companies or the Articles of Association.

My objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby my opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, I exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on my professional judgment with starting point in risk and materiality. This means that I focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. I examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to my opinion concerning discharge from liability. As a basis for my opinion on the Board of Directors' proposed appropriations of the company's profit or loss I examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

### The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 42-49 has been prepared in accordance with the Annual Accounts Act.

My examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16. The auditor's examination of the corporate governance statement. This means that my examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. I believe that the examination has provided me with sufficient basis for my opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act and the Annual Accounts Act for Insurance Companies.

Stockholm 13 March 2018

Mårten Asplund  
Authorized Public Accountant

# Board of Directors and auditors



## 1 Jan Fock

Chairman of the Board since 2012. Born 1949. Elected 2012. **Education:** Master of Science in Agriculture and in Business and Economics. **Previous experience:** President of Länsförsäkringar Halland and Länsförsäkringar Skåne, Board member of Halmstad University, Campus Helsingborg Lund University, Länsförsäkringar Mäklarservice, Länsförsäkringar Asset Management, Chairman of Aragon/Kaupthing Bank, Stadshypotek Halland and Stadshypotek Skåne, Deputy Chairman of Länsförsäkringar Sak and Agria Djurförsäkring, Board member of Flyinge AB.

## 2 Caesar Åfors

Deputy Chairman since 2017. Born 1959. Elected 2016. President of own operations at Virå Bruk. **Education:** Master of Science in Forestry. **Other Board appointments:** Chairman of Länsförsäkringar Södermanland, Board member of Lansa AB, Intea Fastigheter AB and CRK Forest management AB. **Previous experience:** Board member of Länsförsäkringar Bank. CFO and Executive Vice President of Klövern AB (publ).

## 3 Maria Engholm

Born 1967. President/CEO of HSB Dalarna. Elected 2015. **Education:** Master of Science in Business and Economics **Other Board appointments:** Chairman of Dalarnas Försäkringsbolag, Dalarnas Försäkringsbolags Förvaltnings AB, Board member of HSB Riksförbund and HSB Projektpartner AB. **Previous experience:** Board member of Länsförsäkringar Bank, President of Triple Steelix, President of Folke i Borlänge AB, Local Federation Director of Siljan Region, Board member of Sparbanken Dalaröna.

## 4 Bengt-Erik Jansson

Born 1953. Board Chairman of Länsförsäkringar Uppsala Elected 2017. **Education:** Master of Science in Agriculture and in Business and Economics. **Previous experience:** Business Area Manager Food and Executive Vice President Kiwa Sverige AB, Head of IT and Business Service, Lantmännen Lantbruk.

## 5 Göran Lindell

Born 1954. Elected 2014. **Education:** Master of Science in Business and Economics from Linköping University. **Other Board appointments:** Chairman of Länsförsäkringar Jönköping. **Previous experience:** Municipal Commissioner and member of parliament.

## 6 Susanne Petersson

Born 1962. President of Länsförsäkringar Skåne. Elected 2016. **Education:** Master of Science in Business and Economics **Other Board appointments:** Board member of Länsförsäkringar Skåne, Länsförsäkringar Fastighetsförmälding, Swedish Insurance Employers' Association. **Previous experience:** President of Nordea Finans AB, Board member of Länsförsäkringar Bank AB and Wasa Kredit AB.

## 7 Jonas Rosman

Born 1963. President of Länsförsäkringar Skaraborg. Elected 2014. **Education:** Business school economist, agricultural education. **Previous experience:** Accounting consultant, Business Manager Federation of Swedish Farmers Consulting, chief economist at Federation of Swedish Farmers Consulting, President of Skaraborg Agricultural Society.

## 8 Mikael Sundquist

Born 1961. President of Länsförsäkringar Bergslagen. Elected 2014. **Education:** Master of Science in Business and Economics **Other Board appointments:** Chairman of Chamber of Commerce of Mälardalen. **Previous experience:** Board member of 1:a Västmanlandsfonden, Länsförsäkringar Sak, Chairman of Länsförsäkringar Mäklarservice, senior positions at Länsförsäkringar and Handelsbanken.

## 9 Christer Villard

Born 1949. Director. Elected 2013. **Education:** Bachelor of Arts in Legal Science. **Other Board appointments:** Chairman of Länsförsäkringar Stockholm, Wallenstam AB, Friends of Drottningholms Slottsteater and Accvi AB. Board member of AB Segulah, Greta Hamilton Family Foundation, Joen Fagerberg Foundation in Stockholms Borgerskap, Drottningholms Slottsteater Foundation.

Employee representatives

## 10 Susanne Lindberg

Born 1967. Employee representative. Elected 2012. **Education:** Upper-secondary education in economics, diploma in non-life insurance and life assurance from Swedish Institute of Insurance Training (IFU), diploma in individual claims adjustment training from Länsförsäkringar. **Other Board appointments:** Deputy Chairman of FTF, Chairman of the Länsförsäkringar Alliance's Staff Association, deputy Board member of Länsförsäkringar Fondliv, deputy Board member of Länsförsäkringar Liv, Board member of Insurance Industry's Pension Fund (FPK).

Deputy: Mirek Swartz



## 11 Linnéa Niklasson

Born 1958. Employee representative. Elected 2014. **Education:** Systems developer, business school economist. **Other Board appointments:** Länsförsäkringar Sak, Agria Djurförsäkring, Chairman of Länsförsäkringar AB FTF club, treasurer of the Länsförsäkringar Alliance's Staff Association LFP, FTF Board. **Previous experience:** Object specialist, Test Manager, Change Management at Länsförsäkringar AB, Systems Developer Agria, Chairman of Agria employee club, Group Manager accounts receivable ledger/IT.

Deputy: Mirek Swartz



## 12 Anna Sandqvist

Born 1963. Compliance. Employee representative. Elected 2014. **Education:** Bachelor of Arts. **Other Board appointments:** Försäkringsaktiebolaget Agria, Chairman of SACO association at Länsförsäkringar AB. **Previous experience:** AMF Pension, Wasa Försäkring

Deputy: Tomas Hansson

**Secretary of the Board:** Olle Törnell. Born 1958. Head of Legal Affairs.

Employed 1992. **Education:** Bachelor of Arts in Legal Science, Uppsala University. **Previous experience:** Head of Legal Affairs Wasa Försäkring, bank attorney Nordbanken.

**Auditors:** Mårten Asplund Auditor elected by Annual General Meeting. Authorised Public Accountant, KPMG AB. Anders Tagde. Deputy auditor elected by Annual General Meeting. Authorised Public Accountant, KPMG AB.

# Group management



## 1 Sören Westin

Born 1953. Employed 2008. President and CEO of Länsförsäkringar AB. **Education:** Licentiate of Science in Business and Economics, Umeå University. **Board appointments:** Chairman of Länsförsäkringar Sak, Länsförsäkringar Bank and Länsförsäkringar Fondliv. Board member of Länsförsäkringar Liv, Länsförsäkringar Fastighetsförmedling, Utile Dulci 2 HB. Foundation for Regional Insurance Companies' Research Fund and Swedish Motor Insurers. **Previous experience:** President of Länsförsäkringar Jämtland, President AB Länstidningen, member of Samhall AB's corporate management.

## 2 Susanne Bergh

Born 1969. Employed 1989. Head of Customer and Channel Support. **Education:** Diploma in market economics. **Previous experience:** Various positions at the Länsförsäkringar AB Group, most recently as Head of Digital Channels at Länsförsäkringar Bank.

## 3 Anders Borgcrantz

Born 1961. Employed since 2003. President of Länsförsäkringar Bank. **Education:** Master of Science in Business and Economics. **Board appointments:** Chairman of Wasa Kredit and Länsförsäkringar Hypotek. Board member of Länsförsäkringar Fondförvaltning, Swedish Bankers' Association, UC AB. **Previous experience:** Executive Vice President FöreningsSparbanken, President of Spintab, Regional Manager at FöreningsSparbanken, President Sparbanken Finans.

## 4 Jimmy Fredrixon

Born 1960. Employed 1981. Acting Head of Business Support. **Education:** Master of Science in Business and Economics. Ashridge Business School, London. **Previous experience:** Various positions at the Länsförsäkringar AB Group. Responsible for international partnerships at Eurapco.

## 5 Tua Holgersson

Born 1964. Employed since 2013. President of Länsförsäkringar Fondliv. **Education:** Studies in communication programme. **Board appointments:** Board member of Länsförsäkringar Gruppliv and Länsförsäkringar Mäklarservice. **Previous experience:** President of Länsförsäkringar Gävleborg, President of Skandia Rådgivning, Business Manager Skandia Liv, Head of Sales, Head of Marketing at Skandiabanken.

## 6 Göran Laurén

Born 1962. Employed 2007. Head of Asset Management. **Education:** Executive MBA, Stockholm University. **Board appointments:** Chairman of Länsförsäkringar Sak Fastighets AB and Utile Dulci 2 HB. **Previous experience:** CIO Länsförsäkringar AB, Executive Vice President Länsförsäkringar Hypotek, CFO SBAB.

## 7 Malin Rylander-Leijon

Born 1970. Employed 2001. CFO, Head of Finance. **Education:** Administration Programme, specialising in Economics, Uppsala University. **Board appointments:** Board member of Utile Dulci 2 HB **Previous experience:** Auditor at SET Revisionsbyrå and various positions at the Länsförsäkringar AB Group, most recently as Head Controller at the Länsförsäkringar AB Group and Head of Finance & Control Life assurance.

## 8 Ann Sommer

Born 1959. Employed 1988. President of Länsförsäkringar Sak. **Education:** Master of Science in Business and Economics. **Board appointments:** Chairman Länsförsäkringar Grupplivförsäkrings AB and Chairman Agria Djurförsäkring. Board member of Länsförsäkringar Mäklarservice, Humlegården, SOS International, Swedish Theft Prevention Association, Amice (Association of Mutual Insurers and Insurance Cooperatives in Europe), Co-operatives Sweden. **Previous experience:** President of WASA International and Wasa International UK, Board member of Equatorial Re Singapore, Swedish Forest Agency and Lantagens Ömsesidiga Försäkringsbolag.



## 9 Jörgen Svensson

Born 1959. Employed 2008. President of Länsförsäkringar Liv. **Education:** Studies in economics, law and marketing, Lund University, AMP Stockholm School of Economics. **Board appointments:** Board member of Länsförsäkringar Mäklarservice AB. **Previous experience:** President of Länsförsäkringar Blekinge, various senior positions at Skandia and If.



## 10 Lena Tollerz Törn

Born 1972. Employed 2017. CIO. **Education:** Master of Science in Business and Economics, Stockholm School of Economics. **Previous experience:** CIO ÅF AB, COO SPP Pension och Försäkring AB, CIO Swedish Tax Agency, Manager Accenture.

### Co-opted members

## 11 Carin Dunér

Born 1962. Employed since 2012. HR Director. **Education:** Bachelor Programme in Human Resource Management and Working Life, Uppsala University. **Previous experience:** Head of HR at Swedbank Large Corporates & Institutions, Head of HR at Nordea Securities, HR/senior positions at Nordea Markets, Ericsson Radio Systems, Swedish University of Agricultural Sciences.



## 12 Leli Kjellin

Born 1957. Employed 1988. Head of Strategy Planning. **Education:** Law programme, Stockholm University. **Previous experience:** Executive Vice President Länsförsäkringar Gruppliv, Head of Corporate and Agriculture Development and Head of Market Development at Länsförsäkringar AB.

## 13 Olle Törnell

Born 1958. Employed 1992. Head of Legal Affairs. **Education:** Bachelor of Arts in Legal Science, Uppsala University. **Previous experience:** Head of Legal Affairs Wasa Försäkring, bank attorney Nordbanken.

## 14 Fanny Wallér

Born 1962. Employed since 2012. Director of Corporate Communications. **Education:** Bachelor of Arts in Political Science, Economics and Languages, Uppsala University. **Previous experience:** Chief Marketing Officer at Intrum Justitia, Marketing and Sales Director at SEB Retail Banking, Marketing Director at SEB e-banking and Product Manager at Eurocard.

# Definitions

## Direct insurance

Insurance contract concluded directly between the insurer and the policyholder. In contrast to assumed reinsurance, the insurance company is directly responsible to the policyholder.

## Operating expenses in the insurance operations

Includes costs of marketing, sales and administration in insurance operations.

## Expense ratio, non-life insurance

Operating expenses in the insurance operations as a percentage of premiums earned after ceded reinsurance.

## After ceded reinsurance

The proportion of an insurance transaction for which the insurance company assumes the risk, and which is not reinsured with another insurance company. Sometimes the term "for own account" is used.

## Claims payments

The cost for claims incurred, including costs for claims that have not yet been reported to the insurance company. The cost also includes the run-off result, meaning the profit and loss arising in the provision for claims outstanding made in the immediately preceding year-end accounts. Run-off profit/loss arises since some of the claims in the provision are either settled during the period at amounts differing from those allocated or are re-valued pending final settlement.

## Technical provisions

Provision for unearned premiums and unexpired risks, life-assurance reserves and provision for claims outstanding and comparable commitments in accordance with signed insurance contracts. For life assurance, this shall correspond to the insurance company's guaranteed insurance commitments.

## Management cost ratio, life assurance

Total operating expenses and claims adjustment costs as a percentage of average managed assets.

## Investment income transferred from financial operations

Premiums are paid in advance, while operating expenses and claims costs are paid in arrears. Funds that have not yet been paid out are invested in order to obtain a return. The estimated interest on these investments – the cost of capital – is transferred from investment income to the insurance operations.

## Solvency ratio

Own funds in relation to the solvency capital requirement, according to the Solvency II Directive in Swedish law.

## Own funds, bank

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

## Capital adequacy ratio, bank

Closing own funds as a percentage of the closing risk-weighted amount.

## Cost/income ratio, bank

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

## Collective consolidation, life assurance

The ratio between the market value of total net assets and the company's total commitments to policyholders (guaranteed commitments and preliminarily distributed bonus) for the insurance policies that carry bonus rights.

## Solvency margin, non-life insurance

Solvency capital as a percentage of premium income after ceded reinsurance.

## Solvency capital

The sum of equity, untaxed reserves, deferred tax liabilities, subordinated debt as well as surplus values on assets.

## Loan losses net, bank

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

## Loan losses in relation to loans, bank

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

## Common Equity Tier 1 capital, bank

Total Tier 1 capital excluding Additional Tier 1 instruments.

## Common Equity Tier 1 capital ratio, bank

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

## Cost ratio, non-life insurance

The sum of operating expenses in the insurance operations and claims adjustment costs in relation to premiums earned after ceded reinsurance.

## Investment margin, bank

Net interest income in relation to average total assets.

## Premium income

Premiums paid in during the year or recognised as receivables at year-end since they have fallen due for payment. Premium income is a common measure of the volume of insurance operations.

## Premiums earned

The proportion of premium income attributable to the fiscal year.

### Tier 1 capital, bank

Tier 1 capital is part of own funds and comprises equity and Additional Tier 1 instruments. Deductions are made for such items as deferred tax assets, goodwill and other intangible assets, investments in financial companies and the difference between expected losses and reserves established for probable loan losses.

### Tier 1 ratio, bank

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

### Earnings per share

Profit/loss for the year attributable to the Parent Company shareholders in relation to the average number of shares during the year.

### Risk Exposure Amount, bank

The Risk Exposure Amount is calculated by multiplying an institution's capital requirement for assets in the balance sheet, off balance sheet items, operational risk and credit valuation adjustment risk by 12.5.

### Return on equity

Operating profit less standard tax at a rate of 22.0% in relation to average equity adjusted for capital contributions and Additional Tier 1 Capital loans.

### Net interest income, bank

Interest income from loans to the public, credit institutions and income from interest-bearing securities less expenses for deposits and funding from the public, credit institutions and expenses for interest-bearing securities.

### Technical result for non-life insurance operations

Premiums earned less claims payments, claims adjustment costs and operating expenses in the insurance operations plus profit/loss from ceded reinsurance and investment income transferred from financial operations.

### Claims ratio

The ratio between claims payments, including claims adjustment costs and premiums earned after ceded reinsurance.

### Tier 2 capital, bank

Primarily comprises fixed-term subordinated debt.

### Total return ratio

The sum of direct yield, realised gains and losses, and unrealised changes in the value of assets in relation to the average fair value of managed assets.

### Combined ratio, non-life insurance

The sum of operating expenses, claims payments and claims adjustment costs in relation to premiums earned after ceded reinsurance.

### Reinsurance

If an insurance company cannot, or does not wish to, assume the entire liability to policyholders, it reinsurance part of its underwritten policies with other insurance companies. In this connection, the reinsurance is said to be "ceded" by the first company and "assumed" by the second company.

## Länsförsäkringar Liv Försäkrings AB Group's income statement and balance sheet

Income statement		
SEK M	2017	2016
Premium income, net	1,533	1,720
Investment income, net	4,770	6,027
Claims payments	-5,404	-5,683
Change in technical provisions	1,990	1,221
Operating expenses	-417	-447
<b>Technical result, life-assurance operations</b>	<b>2,472</b>	<b>2,838</b>
Non-technical items	-96	-110
<b>Profit before tax</b>	<b>2,376</b>	<b>2,728</b>
Tax	-13	-46
<b>Net profit for the year</b>	<b>2,363</b>	<b>2,682</b>
Items that cannot be transferred to profit and loss	-	-
<b>Comprehensive income for the year</b>	<b>2,363</b>	<b>2,682</b>

Balance sheet		
SEK M	31 Dec 2017	31 Dec 2016
<b>Assets</b>		
Property and equipment	2	2
Investment assets	109,478	112,570
Investment assets for which the life-assurance policyholder bears the investment risk	5,869	4,810
Reinsurers' portion of technical provisions	472	477
Receivables	1,219	1,909
Other assets	5,420	4,763
Prepaid expenses and accrued income	102	143
<b>Total assets</b>	<b>122,563</b>	<b>124,675</b>
<b>Equity, provisions and liabilities</b>		
Share capital	8	8
Funds plus net profit for the period	24,396	23,042
Technical provisions	84,296	87,408
Provisions for life assurance for which the policyholder bears the investment risk	5,869	4,810
Provisions for other risks and expenses	150	239
Deposits from reinsurers	472	477
Liabilities	7,161	8,479
Accrued expenses and deferred income	210	212
<b>Total equity, provisions and liabilities</b>	<b>122,563</b>	<b>124,675</b>

# Financial calendar 2018

## **First quarter:**

Interim report January–March 2018, Länsförsäkringar Bank 25 April  
Interim report January–March 2018, Länsförsäkringar Hypotek 25 April

## **Second quarter:**

Interim report January–June 2018, Länsförsäkringar Bank 19 July  
Interim report January–June 2018, Länsförsäkringar Hypotek 19 July  
Interim report January–June 2018, Länsförsäkringar Alliance 29 August

## **Third quarter:**

Interim report January–September 2018, Länsförsäkringar Bank 25 October  
Interim report January–September 2018, Länsförsäkringar Hypotek 25 October

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