

# Länsförsäkringar AB

Annual Report

# 2018



# 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 is not consolidated in the Group 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 and its subsidiaries. Customers are provided with a complete offering of banking, insurance, pension and real-estate brokerage services through the regional insur-

ance 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 3.9 million customers and 6,700 employees.

3.9 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 and 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 was closed for new business.

“ 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>Pertains to the company's covered bonds.

Länsförsäkringar AB 2018

# The 2018 fiscal year

## Earnings 2018 Figures in parentheses pertain to 2017

- Operating profit for the Länsförsäkringar AB Group amounted to SEK 2,351 M (2,825). The return on equity amounted to 9% (11).
- Operating profit for the Länsförsäkringar Sak Group amounted to SEK 460 M (1,028). The combined ratio amounted to 94% (88).
- Operating profit for Länsförsäkringar Bank amounted to SEK 1,510 M (1,599). Net interest income strengthened to SEK 4,497 M (3,996).
- Operating profit for Länsförsäkringar Fondliv increased to SEK 673 M (600). Premium income amounted to SEK 9,010 M (9,133). Commission and fee income increased to SEK 1,671 M (1,578).

Operating profit for the  
Länsförsäkringar AB Group

SEK **2.4** bn

Operating profit, Bank

SEK **1.5** bn

Combined ratio non-life insurance

**94%**

Managed assets unit-linked insurance

SEK **126** bn

## Five-year summary

	2018	2017	2016	2015	2014
<b>Länsförsäkringar AB, Group<sup>1)</sup></b>					
Operating profit, SEK M	2,351	2,825	2,286	2,155	1,469
Equity per share, SEK	2,462	2,269	2,046	1,858	1,675
Total assets, SEK M	506,835	473,773	421,816	384,595	355,933
Return on equity, %	9	11	10	11	7
Own funds for the group (FRL) <sup>2)</sup> , SEK M	43,870	44,172	40,602	36,905 <sup>3)</sup>	-
Solvency capital requirement for the group (FRL) <sup>2)</sup> , SEK M	33,874	33,441	30,121	28,233 <sup>3)</sup>	-
Own funds for the financial conglomerate, SEK M	43,870	44,172	40,352	-	-
Capital requirement for the financial conglomerate, SEK M	33,874	33,441	30,121	-	-
<b>Länsförsäkringar Sak, Group</b>					
Premiums earned after ceded reinsurance, SEK M	5,891	5,623	5,342	5,074	4,099
Technical result for insurance operations, SEK M	402	977	435	821	611
Operating profit, SEK M	460	1,028	644	908	791
Solvency ratio, % (Länsförsäkringar Sak Försäkrings AB)	228	221	260	235 <sup>3)</sup>	-
<b>Länsförsäkringar Bank, Group</b>					
Deposits from the public, SEK M	108,142	99,404	91,207	83,925	76,790
Loans to the public, SEK M	289,426	261,444	226,705	201,964	179,424
Operating profit, SEK M	1,510	1,599	1,467	1,175	935
Return on equity, %	8.3	10.0	10.1	8.9	8.3
Common Equity Tier 1 capital ratio, Bank Group, %	14.2 <sup>4)</sup>	24.3	24.8	23.7	16.2
Tier 1 ratio, Bank Group, %	15.5 <sup>4)</sup>	26.8	27.5	26.6	16.2
<b>Länsförsäkringar Fondliv</b>					
Premium income, SEK M	9,010	9,133	8,637	8,645	8,543
Operating profit, SEK M	673	600	512	516	373
Managed assets, SEK M	125,805	128,140	114,450	102,807	93,610
Solvency ratio, %	135	152	150	141 <sup>3)</sup>	-
<b>Länsförsäkringar Liv</b> (not consolidated in Länsförsäkringar AB)					
Premium income, SEK M	1,684	1,533	1,720	1,919	2,639
Net profit for the year, SEK M	609	3,121	2,359	5,143	1,966
Collective consolidation ratio, New Trad, %	105	117	114	114	120
Collective consolidation ratio, Old Trad, %	124	123	125	120	120
Solvency ratio, %	200	207	195	182 <sup>3)</sup>	-

<sup>1)</sup> Excluding Länsförsäkringar Liv Försäkrings AB, which is operated according to 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. <sup>4)</sup> As of 31 December 2018, the application of the risk weight floor for Swedish mortgages changed, which will reduce the capital ratios from this period.

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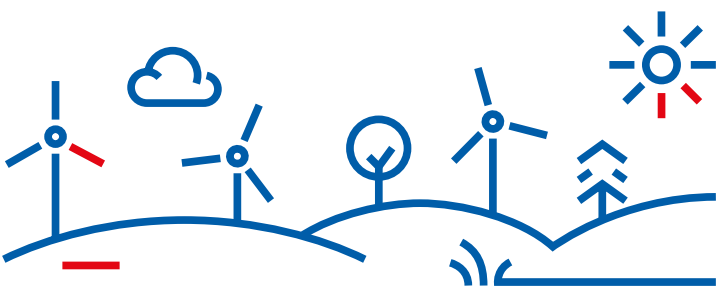
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“Länsförsäkringar AB's role is to support the regional insurance companies so that they can realise the customer promise and deliver the offering expected by customers. We will continue to pursue Länsförsäkringar's sustainability activities together. We can help reduce sustainability risks, enhance customer value and also contribute to the positive development of society and create business value by incorporating sustainability throughout the operations.

**Fredrik Bergström**

*President and CEO of Länsförsäkringar AB*



**Länsförsäkringar AB's** 2018 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 and operations and in terms of its environmental and social commitment.

# The year in brief

## Sweden's most satisfied banking, insurance and real-estate brokerage services customers

Länsförsäkringar has topped the Swedish Quality Index for many years, which measures satisfaction among customers in the areas of banking, insurance and real-estate brokerage services. Länsförsäkringar was number one in six categories in the 2018 survey: Retail insurance, Retail banking, Retail pension, Corporate insurance, Mortgages and Real-estate brokerage.

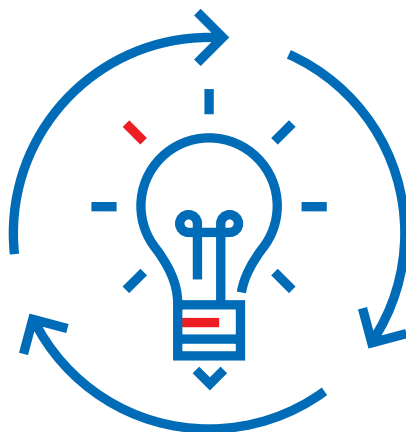


## Partnership with Toyota

From 1 January 2019, Länsförsäkringar has taken over responsibility for Toyota Försäkring, Lexus Försäkring and associated vehicle-damage guarantees in the Swedish market. The motor insurance market is changing rapidly and needs for new insurance solutions are emerging. With Toyota as a partner, Länsförsäkringar will be even better equipped to understand these new needs and thus continue to offer relevant insurance solutions.

## Focus on innovation

Innovation is a key area for capitalising on new opportunities and thus finding new ways to meet changed customer expectations. A total of 13 regional insurance companies were involved in innovation pilot schemes, for example, in health and claims prevention. Länsförsäkringar's Head of Innovation was a speaker on the topic of mental illness at a meeting of the Nordic Council of Ministers attended by 500 leaders from around the world.



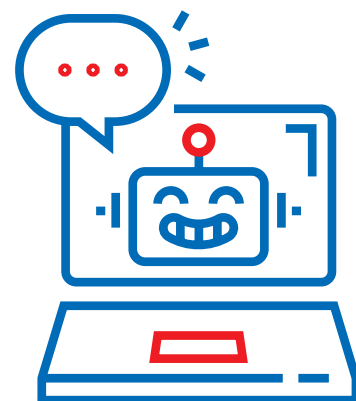
## Sweden's most sustainable insurance company

In 2018, Länsförsäkringar was named Sweden's most sustainable insurance company by Sustainable Brand Index according to both retail and corporate customers. Länsförsäkringar also came first in the Swedish Sustainability Ranking in the Banking and Finance category.



## Robotisation creates customer value

In 2018, Länsförsäkringar AB robotised more than 25 processes for more efficient value creation in several different business areas. Robotisation will continue to further strengthen competitiveness and create added value for customers.



# Customer-owned, local and sustainable – more relevant than ever

**Statement by the President** The Länsförsäkringar AB Group reported a solid operating profit of SEK 2.4 billion for 2018, with healthy growth in all business areas. A clear focus on sustainability, innovation and strengthened IT are now creating the conditions to enable the entire Länsförsäkringar Alliance to find new ways of addressing future needs and expectations.

I became the President and CEO of Länsförsäkringar AB in September 2018 after serving as President of Länsförsäkringar Stockholm for six years. It is an immense and exciting task to have the opportunity, from a slightly new angle, to continue to be involved in developing Länsförsäkringar's position in banking, non-life insurance and pensions together with the entire Länsförsäkringar Alliance.

As in all businesses, different perspectives are needed to make the sum of the parts the best that they can be. The customer perspective is of course always paramount for us since we are customer-owned. The business and product perspective naturally needs to be included and sustainability must pervade everything we do. Balancing the local and close model with the economies of scale derived from shared development and IT is one of the factors behind our success.

## **Balance between local and shared**

Länsförsäkringar AB plays an important role for the local success of the regional insurance companies. We are the partner who supports them in realising the customer promise and delivering the offering expected by customers. More than two centuries of experience shows that Länsförsäkringar's local and customer-owned business model combined with joint resources creates real added value for customers.

Länsförsäkringar's business model also creates a solid basis for long-term social responsibility. Stability and a long-term approach have never been more relevant than they are now. We can help reduce sustainability risks and also contribute to the positive development of society and create business value by incorporating sustainability throughout the operations.

In 2018, Länsförsäkringar was named Sweden's most sustainable insurance company by Sustainable Brand Index according to both retail and corporate customers. Länsförsäkringar also came first in the Swedish Sustainability Ranking in the Banking and Finance category.

## **Sustainability is part of our business**

Länsförsäkringar AB worked together with the 23 regional insurance companies in 2018 to identify the UN Sustainable Development Goals (SDGs) where we can make the best contribution for sustainable development. We will continue to work on the SDGs in 2019. UN sustainability initiatives such as the Global Compact, the Principles for Responsible Investment (PRI) and the Principles for Sustainable Insurance (PSI) provide key guidance in our day-to-day work on sustainability.

2018 was a year of political turmoil, greater volatility in the financial markets in the fourth quarter and Sweden also experienced several instances of extreme weather. The hot summer caused serious drought and forest fires and the country experienced severe torrential rain and winter storms. Climate risk is the area of sustainability that presents the greatest challenge for Länsförsäkringar since climate change affects all of our business areas and results in major socio-economic consequences. Länsförsäkringar strives to limit and reduce the risk of climate impact through its activities in responsible investments, claims prevention, research grants and long-term social commitment.

## **Yet another year of solid earnings**

The Länsförsäkringar AB Group reported a solid operating profit of SEK 2.4 billion for 2018. Non-life insurance operations contributed an operating profit of SEK 0.5 billion and the combined ratio was 94%. Agria's healthy growth continued and it commenced operations in France in April, meaning that Agria is now represented in five countries outside Sweden.

Operating profit for the unit-linked insurance operations increased to SEK 0.7 billion, with managed assets of SEK 126 billion.

The banking operations continued a journey of healthy growth in 2018; lending improved 11% with continued high credit quality. Operating profit amounted to SEK 1.5 billion. Earnings were impacted by non-recurring items related to the final stage of the replacement of the bank's IT platform. The new platform will create new opportunities to further develop the bank's competitive digital solutions requested by customers.

## **Focus on innovation**

Länsförsäkringar once again topped several categories of the Swedish Quality Index in its 2018 customer satisfaction survey. We have the most satisfied retail and corporate customers in non-life insurance, the most satisfied retail and mortgage customers in banking, the most satisfied retail customers in pension insurance and the most satisfied customers in real-estate brokerage.

To maintain these levels of customer satisfaction, we now need to continue with the effective cooperation within the Länsförsäkringar Alliance. Our development activities must be innovative, with efficient product development in order to deliver new services requested by customers. We now have a clear focus on innovation to create the



“ A focus on sustainability, innovation and strengthened IT are creating the conditions to enable the entire Länsförsäkringar Alliance to find new ways of addressing future needs and expectations.



conditions to enable the entire Länsförsäkringar Alliance to find new ways of meeting future needs and expectations.

Many exciting projects are in the pipeline and several pilots are in full swing. One of many examples is Goda Grannar ("Good Neighbours"), a social platform where neighbours can borrow items and trade services with each other, thus increasing their interaction, allowing them to get to know each other better and in doing so, enhancing security in the local area. Another example is in the area of health, where we tested the Lev Friskt ("Live Healthily") app with very good results. The starting point of everything we do can be summarised as follows: instead of selling insurance we aim to help people live a secure and claim-free life.

#### **Strengthened IT**

Länsförsäkringar AB has a well-defined overarching task: to continuously pursue development activities that provide the regional insurance companies with the best possible conditions to be successful in their local markets. This ultimately means that all customer meetings, in whichever form they take, are to fulfil expectations that are constantly increasing, developing and changing. Essentially all of this development is now based on IT.

If I am then to single out one of the many tasks that Länsförsäkringar AB has going forward, it is that we must enhance our IT capabilities across all units and at all levels. The foundation has been laid and the targets set. What most people first think of is probably our digital services. We are at the forefront of many areas today, but digital advances are continuing. It also involves many other areas, such as the development of new banking and non-life insurance IT systems. And as is always the case for us, we carry out this development work to create clear value for the owners of the regional insurance companies – the customers.

It is gratifying that we can sum up a good year in which we once again received confirmation of the strength of our business model. Customer-owned, local and sustainable are more relevant than ever.

Stockholm, March 2019

A handwritten signature in blue ink, appearing to read 'Fredrik Bergström'.

Fredrik Bergström  
*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 balanced and market-based return on equity set according to each subsidiary's operations and risk. In 2018, the return on equity amounted to 9%. 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 is 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.

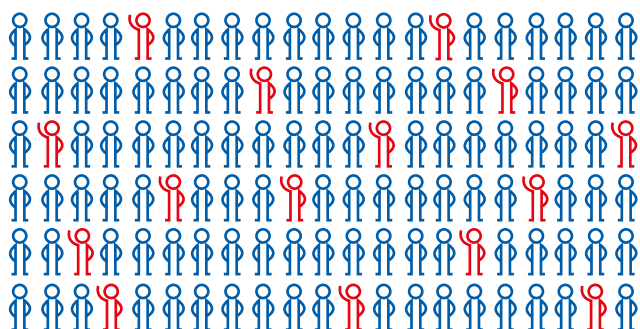
## Mission

Länsförsäkringar AB is tasked with conducting profitable business activities in banking, non-life insurance, pension and life assurance, developing the customer meeting – everything from products and concepts to channels and tools to 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

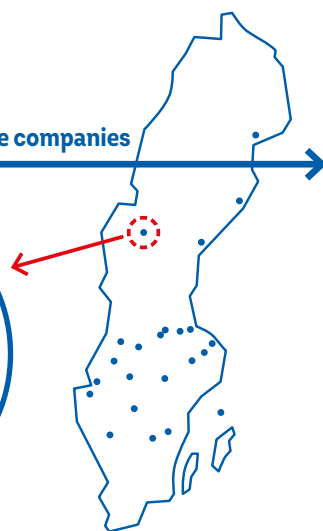
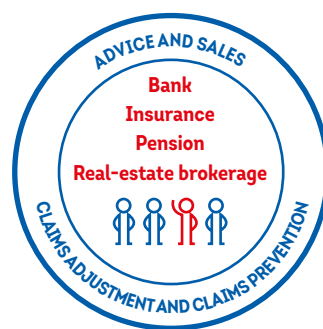
3.9

million customers/owners



23

regional insurance companies



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 3.9 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, are proactive and collectively hold sufficient financial capacity to safeguard long-term ownership.

## Owner control logic

The logic behind owner control centres mainly on the relationship between 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



### 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 personal 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 at this level. For Länsförsäkringar, the core concept is to meet and get to 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 dividend payments. Länsförsäkringar AB endeavours to maintain a balance between capital strength and risk-taking to justify a minimum credit rating of A.

The regional insurance companies are extremely well consolidated and thus are highly capable of contributing capital to the Group. Accordingly, the Länsförsäkringar AB Group's capital strength is assessed not only based on its own situation but also includes the capital strength of the regional insurance companies. Rating agencies and other stakeholders take this approach.

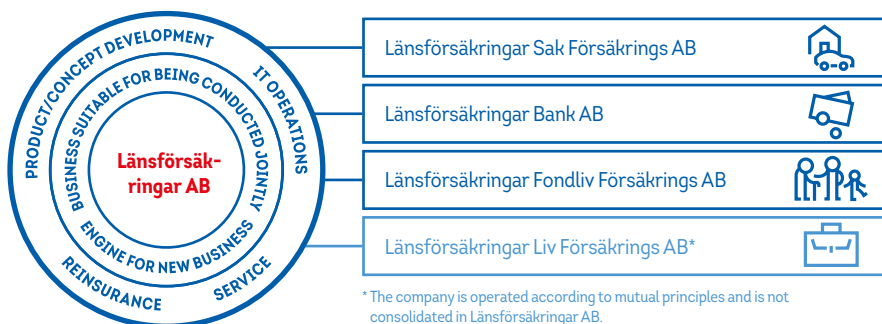
### Owner control of Länsförsäkringar AB



General Meeting are 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.

### Länsförsäkringar AB



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

Länsförsäkringar AB's Board pursues the strategies and targets that the owners agree on, thus implementing the owners' assignments. The regional insurance companies' mandate to Länsförsäkringar AB's Board is decided in the consortium and is documented in the Länsförsäkringar Alliance's governance documents. 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. 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 Group

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 regional insurance companies' offering with specialist products to meet customer needs, and to start new business that can be channelled out to the regional insurance 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.

#### Earnings 2018

Operating profit amounted to SEK 460 M (1,028). Of the Länsförsäkringar Alliance's total premiums earned of SEK 26.8 billion, premiums earned from Länsförsäkringar Sak accounted for SEK 5.9 billion.

#### Combined ratio

94%



### Länsförsäkringar Bank Group

Länsförsäkringar Bank offers banking services to private individuals, agricultural customers and small businesses. Sales 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 conducted 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.

#### Earnings 2018

Operating profit amounted to SEK 1,510 M (1,599) impacted by non-recurring costs of SEK 407 M. Net interest income rose 13% to SEK 4,497 M (3,996).

#### Increase in business volumes to SEK 561 billion

+8%

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



“A successful Länsförsäkringar AB – characterised by innovation, sensitivity and curiosity – gives us the basis to be a leader in our local market. Our joint development activities are central to offering relevant solutions for a secure life with no incidents – now and in the future.

**Ulrica Hedman**  
President of Länsförsäkringar Uppsala



“A successful Länsförsäkringar AB is a prerequisite for successful regional insurance companies. And vice versa. By being successful in its deliveries to the regional insurance companies, we can create further value for our customers locally. In all 23 parts of the country.

**Jens Listerö**  
President of Länsförsäkringar Blekinge



## 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 18% measured in premium income. Länsförsäkringar's fund range comprises 38 of its own funds and about 52 external funds.

### Earnings 2018

Operating profit increased to SEK 673 M (600). Premium income amounted to SEK 9,010 M (9,133).

### Managed assets

SEK **126** bn



“ It is a privilege to be able to work in the context of a shared focus on creating security and opportunities for our customers, who are also our owners. Our development is based on sustainable and innovative value creation. Länsförsäkringar AB's tremendous work is the key to success in this endeavour.

**Beatrice Kämpe Nikolausson**  
*President of Länsförsäkringar Kronoberg*



## 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. Customers with New World and Insured Pension have also received the offer to transition to New Trad since 2018.

### Earnings 2018

Profit amounted to SEK 609 M (3,121). Länsförsäkringar Liv's earnings are not consolidated in Länsförsäkringar AB since the company is operated according to mutual principles.

### Managed assets

SEK **109** bn



“ Länsförsäkringar AB and the regional insurance companies – the best of both worlds. The regional insurance companies' local presence, personal customer contact and business acumen. Länsförsäkringar AB adds coordination, specialist expertise and more business lines. Local and shared – in genuine cooperation.

**Ricard Robbstål**  
*President of Länsförsäkringar Göteborg och Bohuslän*

# Drivers and trends

**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 optimally meet evolving needs, primarily based on its broad customer base, local knowledge, a long-term approach and highly skilled employees.

## The customers' needs in focus

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. Länsförsäkringar has favourable conditions to best meet customer needs, primarily founded on a broad customer base, local knowledge and a unique business model that supports both local and digital customer meetings. Länsförsäkringar's starting point is always the customer and all communication is based on customer data and thus on knowledge. Länsförsäkringar's award-winning bank app adds immense customer value.

The sharing economy that is emerging involves using resources sustainably and economically. There is also a desire to remove “the middle man” and technology is enabling new consumption models. Sharing a taxi, home, car or ideas and borrowing what you can are becoming increasingly common to maximise comfort and flexibility at minimal cost. These new emerging needs present new business opportunities for banking and insurance. Länsförsäkringar must be innovative and collaborate within the Länsförsäkringar Alliance – the customer experience must always be local and close, whereas development can be carried out jointly.



## Priority issues for our stakeholders

A stakeholder dialogue was conducted in 2018 to identify our stakeholders' expectations of Länsförsäkringar AB's sustainability efforts.

“ Provide information about sustainable claims adjustment and how customers can avoid claims and accidents.

## Customer

“ Promote the creation of security for customers. Coordination of the group's claims-prevention activities and responsible investments are important areas.

Owner



For further information on the stakeholder dialogue, see page 131.



## Technology

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

For the insurance industry, technological development creates opportunities for greater relevance, improved risk assessment, individualised products, claims-prevention services and predictive analysis for preventing claims.

Länsförsäkringar's development activities must be innovative, with rapid product development and testing capacity, in order to deliver new services demanded by its customers. In 2018, Länsförsäkringar carried out several pilot projects in health, claims prevention, security and crime prevention.

Länsförsäkringar's continued development of robotics and automation enhances efficiency. New technology also makes it possible to process customer data 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

Climate change – the result of higher carbon emissions – causes global warming. A warmer climate, which leads to extreme weather conditions such as hurricanes, torrential rain and drought, will have major socio-economic consequences; the forest fires and drought in Sweden in the summer of 2018 are evidence of this.

Climate risk is the area of sustainability that presents the greatest challenge for Länsförsäkringar. For the insurance industry, global warming can lead to significant claims costs. That is why environmental claims-prevention activities are extremely important for Länsförsäkringar. Länsförsäkringar AB participates in a UN initiative with other insurance companies to prepare tools for climate risk analysis.

Climate change also affects banks, for example, in respect of property values, thus also affecting lending from the banks. A climate risk scenario analysis of Länsförsäkringar Bank's mortgage portfolio estimating expected credit losses in various scenarios was carried out in 2018. A similar scenario analysis of parts of the investments was performed in the life-assurance portfolio.



## Regulations

Regulatory development will continue to have a significant impact on banks and insurance companies over the next few years. Examples of new major regulations introduced in 2018 include MiFID II, the General Data Protection Regulation (GDPR), PSD II and the Insurance Distribution Directive (IDD). IORP II and the Fifth Anti-Money Laundering Directive will be incorporated into Swedish law in 2019 and 2020, respectively. Work is in progress at EU level to produce legislation for a sustainable financial market. Länsförsäkringar welcomes this development since it seeks to harmonise standards and sustainability assessment criteria.

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 while the Swedish Financial Supervisory Authority issues regulations and general guidelines.

Länsförsäkringar is well-positioned to meet the changes under the regulations. It is of the utmost importance that consumers are protected.

“ In the insurance industry, I believe that personal health will be decisive – both for us employees and for our customers.

**Employee**

“ Customers want niche savings products that are best-in-class in sustainability. They want to see measurable goals for how their investments make a positive difference.

**Broker**

“ Climate issues are central. It is important to not only work on making continuous improvements but also to adjust investments to achieve the two-degree climate target.

**Civil society organisation**

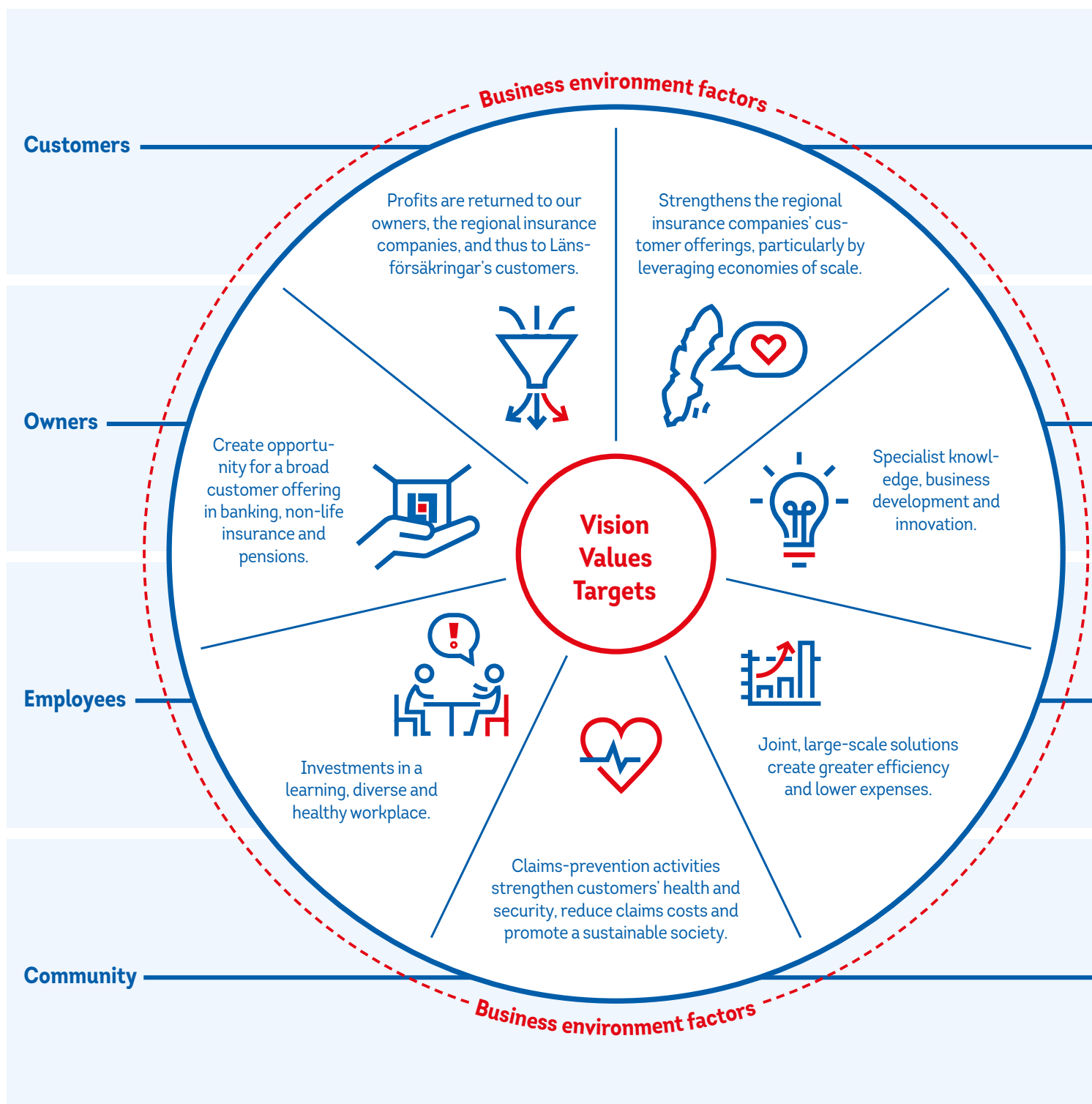


# How we create value

**How we create value** With a clear focus on giving our owners – the 23 regional insurance companies – the best conditions for developing locally, Länsförsäkringar AB creates value for both its own operations and for our stakeholders.

For our stakeholders →

... we create value →

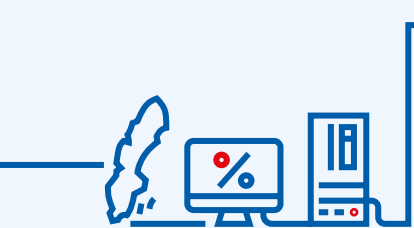


## ...socially, environmentally →



### Customers

- High service level and competence.
- Comprehensive offerings create security.
- Competitive prices and strong total return.
- Claims-prevention activities reduce incidents.



### Owners

- Create opportunity for regional insurance companies to offer a broad, comprehensive customer offering in banking, insurance, pensions and real-estate brokerage.
- Shared business solutions.
- High dividend for owners.



### Employees

- Attractive workplace.
- Healthy work environment.
- Strong opportunities for skills development.
- Strong career opportunities.



### Community

- Core business that creates social benefit and strengthens customers' long-term financial security.
- Claims-prevention activities – a gain for the environment.
- Preventive efforts reduce illness and costs to society and employers.
- Support research into social challenges, mental illness and animal health.

## ...and financially

### Bonuses and discounts for customers

SEK **825** M

### Claims payments to customers

SEK **4.7** bn

### Salaries and pensions for employees

SEK **2.2** bn

### Payments to suppliers

SEK **2.5** bn

### Contributions to research

SEK **50** M

# Vision, values and targets

**Vision, values and targets** Länsförsäkringar AB's activities are guided by a vision and value-based planning of operations. This serves as a guiding principle for all operations in the Group in order to achieve set targets. Länsförsäkringar AB helps to fulfil the Länsförsäkringar Alliance's shared brand promise of simplifying everyday life for customers and contributing to a secure future.

## Vision

This vision must always be our key objective. The aim of all general and long-term work is that together we create security and opportunities for our customers and society in general.

*Together we  
create security and  
opportunities*

## Core values

These values form the basis of our corporate culture and describe how we are to treat each other, our customers and our stakeholders. They inspire us in our work and help us to enhance customer value every day.

*Commitment  
Trust  
Openness  
Professionalism*

## Targets

Länsförsäkringar AB's targets are always based on its mission of helping our owners, the 23 regional insurance companies, create the best value for customers. These targets are based on Länsförsäkringar's joint strategies and important changes in our business environment. To achieve the targets, Länsförsäkringar AB must remain the best partner for the regional insurance companies and support them in delivering the best customer experience. Länsförsäkringar AB must also continue to be a strong, fast and agile implementer.

*The market's most satisfied customers. Long-term profitable growth in joint business. Sustainability throughout the operations.*



## The market's most satisfied customers

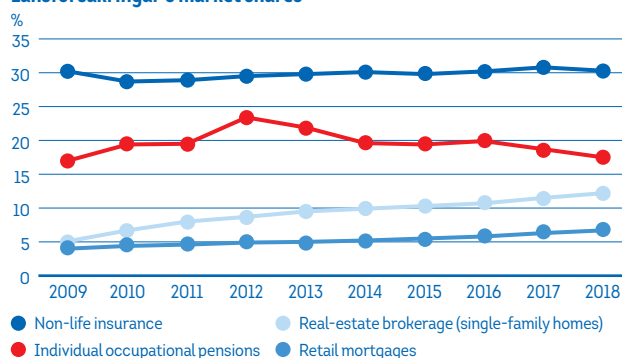
**“** *Länsförsäkringar will be customers' first choice for financial services.*

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

### Outcome 2018

- According to the Swedish Quality Index's 2018 customer satisfaction surveys, Länsförsäkringar has Sweden's most satisfied customers in banking, non-life insurance, private pensions and real-estate brokerage.
- Kantar Sifo's 2018 reputation survey showed that Länsförsäkringar has the highest reputation in the finance industry.
- Länsförsäkringar's satisfied customers and high reputation have led to a clear market-leading position in non-life insurance in Sweden for more than 20 years and a continued strong customer inflow to the banking business and real-estate brokerage.

### Länsförsäkringar's market shares





## Long-term profitable growth

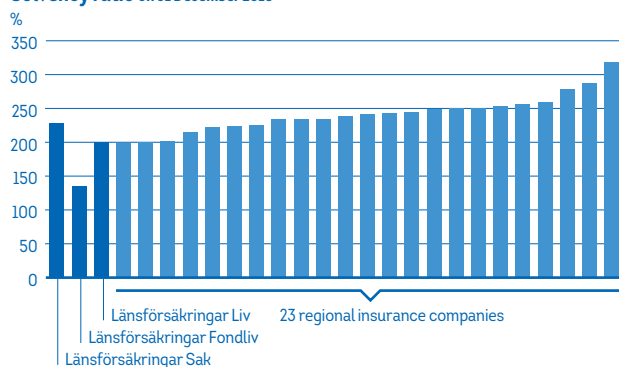
“Satisfied customers are the foundation of long-term profitable growth.”

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 2018

- Länsförsäkringar's solid growth continued for all business lines in 2018.
- Based on the healthy 2018 earnings, the regional insurance companies will pay back a total of SEK 825 M in bonuses and discounts to their owners – the customers.
- The regional insurance companies, the Länsförsäkringar AB Group and each subsidiary remained well-capitalised in 2018.

Solvency ratio on 31 December 2018



## Sustainability in the operations

“Sustainability involves generating greater value for customers and 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 throughout the operations.

### Outcome 2018

- Investments in green bonds increased during the year to SEK 3.1 billion at year-end. The investments are earmarked for climate-smart projects.
- Länsförsäkringar Fondförvaltning launched a Nordic Ecolabelled Sweden fund and a fossil-smart fund.
- The sustainability requirements for external fund managers were tightened.
- Länsförsäkringar contributed to research financing into such subjects as mental illness and unprotected road-users.
- Agria's research fund turned 80 years and donated slightly more than SEK 9.5 M to research into animal health in 2018.



**THE GLOBAL GOALS**  
For Sustainable Development



Read more about Länsförsäkringar AB's sustainability work on pages 14–32 and 129–139.



# Sustainable business

**Sustainability** is about 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." By integrating sustainability into the business, Länsförsäkringar AB can increase business value and contribute to a sustainable society.

Länsförsäkringar AB can reduce its sustainability risks, increase customer value 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.

## Key sustainability topics

Länsförsäkringar AB carries out regular analyses of risks and opportunities as well as the company's direct and indirect impact on the value chain. Material sustainability risks and opportunities are identified and prioritised in cooperation with key stakeholders: customers, owners, employees, suppliers, partners, trade organisations, civil society organisations, authorities and investors.

Länsförsäkringar AB has identified eight priority sustainability topics based on stakeholder dialogue and with guidance of the Global Reporting Initiative (GRI). The eight sustainability topics are grouped into three focus areas: responsible offering, responsible business conduct and long-term environmental and social commitment.

## New materiality analysis performed

A new materiality analysis was performed in autumn 2018 and aimed to prioritise the most important sustainability topics for Länsförsäkringar based on the business's impact on the environment and society. As part of the analysis, various stakeholder groups were engaged to enhance understanding of key stakeholders' expectations of Länsförsäkringar AB's sustainability activities. The update of the key sustainability topics will govern the sustainability content of reporting in 2019.

As owners and recipient of deliveries from Länsförsäkringar AB, the regional insurance companies hold a unique position among stakeholders. Customer meetings are managed locally by the 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.

## Climate risk – the greatest challenge

Climate risk is the area of sustainability that presents the greatest challenge for Läns-

## UN Sustainable Development Goals

Länsförsäkringar AB worked together with the 23 regional insurance companies in 2018 to identify which of the UN Sustainable Development Goals (SDGs) Länsförsäkringar AB can positively contribute to and that Länsförsäkringar can work towards to reduce its negative impact. This process was based on Länsförsäkringar AB's material sustainability topics, level of engagement, identified risks and opportunities.



More information about Länsförsäkringar's work on the UN SDGs can be found on pages 130–131.

försäkringar. 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 adverse effects for insurance companies and banks are obvious.

As stated in the sustainability policy, the Board of Länsförsäkringar AB has identified climate risk as the top priority. Länsförsäkringar AB strives to limit and reduce the risk of climate impact through its activities in several of the priority sustainability topics: dialogues to influence companies and investments in the area of responsible investments, claims-prevention activities and sustainability requirements on damage repair in the insurance offering, sustainability requirements on purchases, donations to financing research into climate impact, engagement and claims-prevention activities in long-term environmental efforts and social commitment.

“The local, customer-owned business model creates a solid basis for long-term social responsibility.

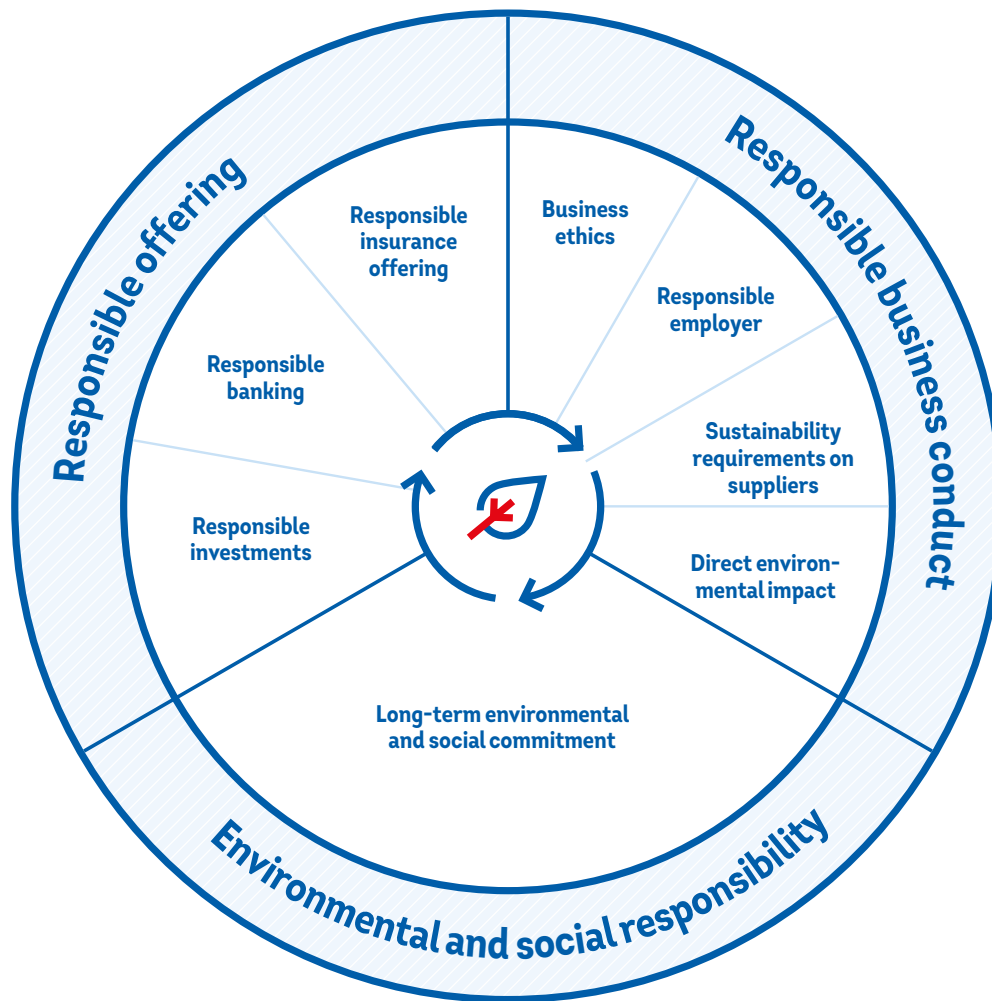


During the year, we were named the most sustainable brand in banking by Swedish Sustainability Ranking and in insurance by Sustainable Brand Index. With our local presence across Sweden we contribute to research into the challenges faced by society and local social initiatives.

**Christina Kusoffsky Hillesöy, Head of Sustainability at Länsförsäkringar AB**



# Materiality analysis and priority sustainability topics



## Responsible offering

### **Responsible investments**

Investments that incorporate sustainability and generate high returns.

### **Responsible banking**

Lending and payments that incorporate sustainability.

### **Responsible insurance offering**

Insurance services focusing on claims prevention and health promotion efforts.



## Responsible business conduct

### **Business ethics**

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

### **Responsible employer**

Working on diversity and equality, skills development, health and work environment with the aim of attracting and retaining skilled employees.

### **Sustainability requirements on suppliers**

Sustainability requirements in the supply chain.

### **Direct environmental impact**

Actions to reduce the operation's direct environmental impact.



## Environmental and social responsibility

### **Long-term environmental and social commitment**

Research into society's security challenges and engagement to reduce risks of natural catastrophes due to climate change in society. Engagement to reduce mental illness in society.



## Responsible investments



**Länsförsäkringar AB** invests customers' savings and offers both its own and external funds. Active corporate governance, international conventions, partnerships and integration of sustainability topics into asset management form the basis of responsible investments.

The basis of the investment philosophy is a conviction that the best investments over time are those made in well-managed companies that apply a systematic and integrated approach to sustainability. These are also the companies that will best be able to manage risks in and identify solutions to local and global social challenges.

### Risks and opportunities

Länsförsäkringar AB's investments have an indirect impact on people, society and the environment through the operations of the individual companies. Länsförsäkringar endeavours to reduce its indirect impact through a systematic process for manager selection procedures, investment analyses, choice of investments, company analysis and dialogue.

By encouraging companies to follow the UN Global Compact's principles on responsible business, Länsförsäkringar helps reduce their negative impact on people, society and the surrounding environment.

Länsförsäkringar sees financial risks inherent in global warming. Climate change can impact companies by altering market conditions and through physical climate change. From a reverse perspective, there are investment opportunities in companies that restrict climate change and apply climate-adjustment solutions.

Investment opportunities are identified by integrating sustainability topics into investment analyses and decisions. The aim is to contribute to the sustainable development of society within the framework of established asset management targets. Länsförsäkringar can contribute to several SDGs through its investment and engagement.

### Sustainability integration strategy

The strategy for integrating sustainability into investments comprises five focus areas:

- Active corporate governance
- Engagement
- Manager selection procedures with sustainability requirements
- Sustainable investments and savings
- Reduce climate risks in investments

Investments are managed by Länsförsäkringar Fondförvaltning (the fund company), which manages Länsförsäkringar's own funds and the Asset Management unit manages investments for the life-assurance and non-life insurance portfolios ("institutional portfolios").

### Active corporate governance

Corporate governance includes company dialogues on sustainability topics, active participation in nomination committees to influence board compositions and voting at general meetings. The aim is to increase the diversity of boards. The fund company 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.

### Engagement

Engagement on sustainability takes place to encourage companies to act responsibly. Engagement takes place reactively after an incident has occurred and proactively for preventive purposes.

Work related to responsible investments is based on the UN Global Compact's principles and international conventions on the environment, human rights, labour, corruption and controversial weapons. A consulting firm is engaged to assess and analyse listed company holdings based on these conventions. Starting from these analyses, Länsförsäkringar AB strives to engage in dialogue with companies that breach these conventions. The aim is that the analysed company will stop committing 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.

A challenge is that listed companies in developed countries tend to be more transparent than companies in emerging markets, meaning that suspicions of breaches of convention are not always addressed. The same challenge exists for certain classes of assets, such as certain credit bonds and unlisted assets. Non-governmental organisations and the media play a key role in monitoring

companies. The analysis process compiles reporting from various sources, including such non-governmental organisations.

Companies are engaged in preventive dialogues to ensure that they are managing their sustainability risks, which can be identified by analysing portfolio holdings.

Länsförsäkringar AB is actively involved in several investor initiatives on various sustainability topics and industries. Engagement is given greater impetus and efficiency through partnerships with other investors.

### Manager selection procedures with sustainability requirements

The fund company's Swedish assets are managed by internal managers. Other investments are managed by external managers through funds and discretionary mandates. The investment philosophy is based on using leading managers with different investment styles. Sustainability requirements are included in the procurement of new managers and their work is graded based on various criteria. The aim is to select external managers that integrate sustainability into their asset management and corporate governance. Managers are evaluated every year to ensure that they continuously improve their work on integrating sustainability into asset management.

### Sustainable investments and savings

The fund company's Swedish equities and fixed-income funds are managed internally and a sustainability analysis is an integrated part of the investment process. A challenge is that many small companies have not made as much progress in sustainability as large companies and external analysis is often not found. Länsförsäkringar performs its own sustainability analyses and collects information from companies using a standardised questionnaire supplemented with its own analysis of reporting, follow-up meetings and external analysis where available. The companies are assigned a sustainability rating. The aim is for all fund holdings to have a sustainability rating, with the majority of holdings being in companies with the highest

possible rating. Investments can be made in companies with lower ratings provided that they make improvements.

The sustainable investments in the institutional portfolios include bonds that finance climate and environment-related projects. Demand for green bonds outstrips supply, thus limiting the possibility of increasing the share of investments in green bonds at the desired rate.

### **Reduce climate impact in investments**

Länsförsäkringar sees financial risks in investing in companies that base their operations on fossil fuels and other companies that have a major impact on the environment. Mining companies and energy companies that derive more than 20% of sales from thermal coal are divested from own funds and discretionary mandates. At year-end 2018, 134 coal companies had been divested.

The carbon footprint of equities investments is measured and reported on the website.

### **Activities and targets in 2018**

Integrating sustainability into investment operations was a focal point in 2018. The corporate governance policy was updated

and new internal processes for increasing the integration of sustainability into asset management was set.

### **Active corporate governance**

In 2018, Länsförsäkringar voted at 60 general meetings. The percentage of women on the boards of the companies in which Länsförsäkringar is a member of the nomination committee was 38%.

### **Engagement**

Länsförsäkringar signed on to three new climate-focused investor initiatives in 2018: a climate initiative targeting the largest global emitters, one initiative focusing on oil and gas companies and one on deforestation. Länsförsäkringar also joined an initiative focusing on sustainable food and antibiotics in the meat industry. Furthermore, Länsförsäkringar supports Access to Medicine, an organisation that seeks to improve access to medicine for people around the world.

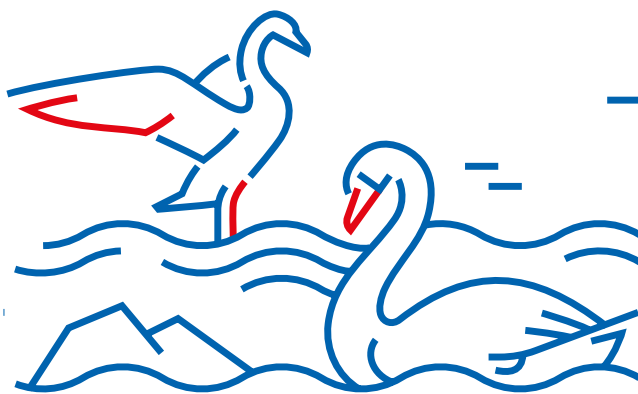
### **Manager selection procedures with sustainability requirements**

The requirements on external fund managers in procurements, and regular follow-up of

existing managers, were tightened during the year. A minimum level was introduced, meaning that managers rated below the minimum level are placed on a watch list for 12 months and engaged in dialogue. Managers who do not make any improvements risk having their contracts terminated. If the fund is recommended on Länsförsäkringar's fund platform and no improvement is made, the fund is moved to the extended fund range. Nine funds were transferred from the recommended range in 2018 and two managers were put on the watch list due to shortcomings in their sustainability activities.

### **Sustainable investments and savings**

In 2018, Länsförsäkringar launched a fossil-smart fund and a Nordic Ecolabelled Sweden fund. In addition to these two funds, the external fund platform was expanded with two externally managed sustainability funds: a green bond fund and a sustainable emerging markets fund. The share of investments in green bonds in the institutional portfolios in 2018 increased from SEK 1.5 billion to SEK 3.1 billion, thereby achieving the target for 2018 of SEK 3.0 billion.



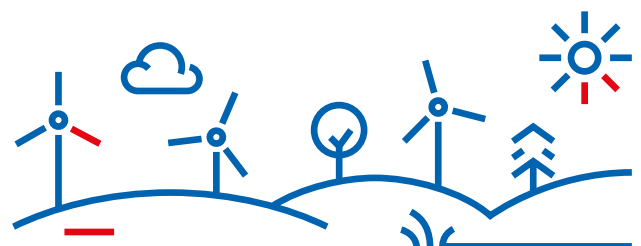
### **Nordic Ecolabelled fund**

The Länsförsäkringar Sverige Aktiv equities fund was awarded the "Swan" Nordic Ecolabel in 2018. It means that the fund meets the Nordic Ecolabel's investment requirements, which include not investing in weapons, tobacco, fossil fuels or companies that violate conventions. At least 50% of the companies selected by the fund have the highest sustainability rating. The fund also fulfils the requirements of corporate governance in the form of voting at general meetings and engagement with companies on their sustainability efforts.



### **Sustainability fund keeps green light**

The Länsförsäkringar Global Hållbar came top three of the most sustainable global equities funds in Söderberg & Partners' 2018 survey of sustainability of Swedish funds.



### **Fossil-smart fund**

Länsförsäkringar FossilSmart was launched in 2018, a global equities fund that excludes companies that produce fossil fuels and has a majority of companies with low carbon emissions in each sector.



## Responsible offering

### Reduce climate risks in investments

A climate-scenario analysis of the institutional investment portfolios was performed in 2018 supported by the "2 degrees initiative" think tank, focusing on the current sector composition of the equities and credit portfolio. The weight of the sectors was compared with future scenarios and the target of limiting global warming to 2 degrees. For fossil fuels, the portfolio composition was in line with or well below the 2 degree target. There were mixed results for the power supply sector, with gas companies meeting the target while renewable energy had a lower weight than is predicted to be necessary for attaining the climate goal.

Climate risks in companies in two US credit portfolios were analysed. Such analyses are challenging due to a lack of data. Of about 300 companies analysed, carbon data was reported in the external analysis system for one-third of the companies. Of this third, ten companies accounted for slightly more than 50% of the carbon footprint in the credit portfolios. In 2018, Länsförsäkringar signed on to the Climate Action 100+ initiative to engage with the 100 largest important greenhouse gas emitters, a couple of which are found in the credit portfolios.

### Activities and targets in 2019

Integrating sustainability into asset management will continue, for example, by raising requirements on external managers of listed and unlisted assets as well as internally managed interest-bearing assets. The carbon footprint for investments will be expanded to include fixed income, as well as

equities. The aim is also to increase the share of investments in green bonds and extend the investment orientation to include other sustainable bonds than merely green bonds. The institutional portfolios will be subject to a more extensive climate scenario analysis.

### Increased regulation

Requirements to integrate sustainability topics and transparency will increase. The EU is currently working on proposals for an Action Plan on Sustainable Finance unveiled at the start of 2018. Länsförsäkringar welcomes this development since it seeks to harmonise standards and sustainability assessment criteria.

From 2018, fund managers are now legally required to report how they integrate sustainability into their funds. The fund company reports sustainability activities for Länsförsäkringar's own funds following the template prepared by the Swedish Investment Fund Association approved by the Swedish Financial Supervisory Authority.

### Governance documents and governance

The sustainability policy and corporate governance policy provide guidance in conducting corporate governance and the principles to be followed in the management of investments. Policies, targets and activities are revised every year.

The fund company and the Asset Management unit work together on corporate governance engagement. This work is regularly reported in various forums to coordinate, develop and monitor targets and activities.

## 2018 investments

### Investments in green bonds

SEK **3.1** bn

### Sustainability dialogues held with

**140** companies

### Number of divested companies due to climate risk or contraventions of Länsförsäkringar's corporate governance policy

**174** companies

### Länsförsäkringar voted at

**60** general meetings

### Activities related to responsible investments

	2018	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>	123	119	107
Of which number of reactive company dialogues on sustainability in which Länsförsäkringar AB was involved	21	15	30
Number of preventive dialogues on sustainability	17	17	19
Number of blacklisted companies regarding sustainability <sup>3)</sup> excluding coal companies	40	33	27
Number of coal companies excluded <sup>4)</sup>	134	130	78
Number of general meetings at which votes were cast <sup>5)</sup>	60	50	36
Participation in nomination committees	16	16	13

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

<sup>2)</sup> The 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 topics.

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

<sup>4)</sup> Refers to energy and mining companies that derive more than 20% of their income from thermal coal.

<sup>5)</sup> Refers to annual and extraordinary general meetings.

### Analysis and carbon footprint 2018

% of total capital in institutional portfolio based on sustainability analysis	67%
% of total capital in the fund company's funds based on sustainability analysis	90%
% of total capital in institutional portfolio with a measured carbon footprint	16%
% of total capital in the fund company's funds with a measured carbon footprint	46%

## Responsible banking

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

For Länsförsäkringar, responsible banking involves contributing to the financial stability of society by limiting credit risk and making banking services available to society. Sustainability risks are part of credit scoring. The bank offering includes lending, payments and savings.

### Risks and opportunities

Most of Länsförsäkringar Bank's lending takes place using property as collateral. Climate change will probably affect the value of certain properties. Through its lending, the bank finances various operations of small businesses and agriculture which may involve social and environmental risks, meaning that the bank has indirect exposure to such risks. Opportunities also exist in lending to finance properties and operations that meet future sustainability requirements. The bank's issuance of bonds presents opportunities for using green and social bonds towards steer capital to sustainability-related purposes.

### Low sustainability risks in lending

Länsförsäkringar Bank's loans are granted in Sweden and in SEK. The geographic spread of lending to retail and corporate customers is well-diversified, with low average lending per customer. Lending to companies mainly comprises small businesses that are deemed to have limited environmental and social

risks. Accordingly, the business model for lending has relatively low sustainability credit risks.

The foundation of lending 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.

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.

Länsförsäkringar Bank publishes a sustainability overview every year to clarify the bank's loans to companies. The sustainability overview is an industry initiative produced by Länsförsäkringar Bank, other Swedish banks and the Swedish Bankers' Association.

### Responsible lending

Länsförsäkringar Bank's loans are based on standardised, centrally established credit regulations and most credit decisions are made locally. In the business model between Länsförsäkringar Bank and the regional insurance companies, there is a strong incentive to maintain high credit quality. The high credit quality of the loan portfolio is the result of the low risk appetite and credit regulations combined with loan application process and advisors' local customer and market knowledge.

The credit regulations impose strict requirements on customers' repayment capacity and the quality of collateral. In con-

nection with the loan application process, the repayment capacity of borrowers is tested using "left to live on" calculations. These calculations apply a significantly higher interest rate than the actual rate. Both the loan portfolio and value of the collateral are continuously monitored and quality assured.

Mortgage repayments are a key tool in ensuring that households have stable and secure finances. Länsförsäkringar encourages all customers to make repayments by presenting a recommended repayment plan, as well as an alternative plan, at all customer meetings where mortgages are discussed. Even customers that do not fall under the repayment requirements are encouraged to pay off their mortgage.

Stricter repayment requirements on new mortgages for customers with debt ratios of more than 450% were implemented in March 2018.

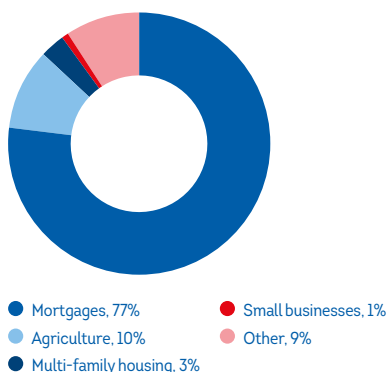
### Funding at low credit risk

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. 63% (61) of bank customers use Länsförsäkringar's mobile app or Internet bank. Such digitisation also reduces the impact on the environment since it reduces the volume of paper print-outs to customers. The percentage of digi-

Loan portfolio 31 December 2018







## Responsible offering

tally distributed customer documents amounted to 72% (73) in 2018.

### Activities and targets in 2018

A sustainability coordinator was appointed at the bank in autumn 2018 to ensure that the bank's sustainability activities are coordinated and developed.

An investigation into whether Länsförsäkringar Bank can offer green loans was initiated. Green loans mean that customers can receive an interest-rate discount if they finance their home in various forms of environmentally certified properties or finance activities that promote a change to a more environmentally friendly society. This will be continued in 2019.

The share of green bonds that the bank invested in increased to slightly more than SEK 900 M (600) at year-end.

### Climate scenario analysis

A climate scenario analysis of the mortgage portfolio was performed in 2018 based on TCFD's<sup>1)</sup> recommendations. The UN Intergovernmental Panel on Climate Change's (IPCC)

scenarios for levels of greenhouse gases in the atmosphere were used. Increases in temperature and sea levels were estimated based on the scenarios. These estimates are based on the Swedish Meteorological and Hydrological Institute's (SMHI) forecasts and were prepared together with Länsförsäkringar's natural catastrophe specialists. The estimates in this model has some impact on households' disposable income and thus their repayment capacity. Increases in sea levels also affect the market value of properties. The model can be used to estimate expected credit losses in different scenarios and time horizons.

### Activities and targets in 2019

Work will start on producing guidelines to clarify and facilitate the management of sustainability risks in lending. The possibility of offering green loans will be reviewed.

### Increased regulation

Requirements to integrate sustainability topics, climate scenario analyses and transparency will increase. The EU is currently

working on proposals for a sustainable finance. Länsförsäkringar welcomes this development since it seeks to harmonise standards and sustainability assessment criteria.

### Governance documents and governance

The sustainability policy, credit policy and credit instructions are the foundation of sustainability in lending.

The bank has a sustainability team responsible for establishing and monitoring planned sustainability-related activities. This team comprises the President of Länsförsäkringar Bank, Sustainability Manager at Länsförsäkringar Bank, Head of Sustainability at Länsförsäkringar AB and the Presidents of Länsförsäkringar Bank's subsidiaries: Länsförsäkringar Hypotek, Länsförsäkringar Fondförvaltning and Wasa Kredit. The team meets four times a year.

Its work is reported to the bank's management group and Länsförsäkringar AB's Sustainability Committee.

<sup>1)</sup> Task Force on Climate-related Financial Disclosures

## Länsförsäkringar Bank has the most satisfied bank customers

For the fifth consecutive year, Länsförsäkringar Bank topped the Swedish Quality Index's survey of most satisfied retail customers in the industry. Together with independent savings banks, Länsförsäkringar also has the most satisfied corporate customers.



## Partnership with ECPAT

Länsförsäkringar Bank is a member of the Swedish Financial Coalition against 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.

## Tops Swedish Sustainability Ranking in Banking and Finance category

Länsförsäkringar topped Sweden's largest sustainability customer survey, the Swedish Sustainability Ranking, in the Banking and Finance category, as ranked by the Swedish public. The survey is carried out by researchers at Stockholm Business School.





## Responsible insurance offering

**Responsible insurance** centres on security for customers and society. Länsförsäkringar AB can contribute to a sustainable society through its broad insurance offering, claims-prevention activities and responsible damage repairs.

Länsförsäkringar AB supplements the regional insurance companies' offering with specialist products to meet customer needs and by starting new business that can be channelled out to these companies. 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. This work is conducted by Länsförsäkringar Sak, which is divided into three business areas: Reinsurance and Special Insurance, Health and Agria Djurförsäkring (pet and crop insurance). The target groups are private individuals, animal owners, companies and agricultural businesses.

The task of Business Area Reinsurance and Special Insurance is to strike a balance in the Länsförsäkringar Alliance's risks by managing reinsurance cover and taking out international reinsurance. This business area also conducts corporate business in the areas of liability, cargo, motor, property and credit insurance.

### Risks and opportunities

Global warming and the resulting extreme weather events, such as storms, torrential rain, flooding and drought, have huge socio-economic consequences and can lead to higher claims costs for insurance companies.

Urbanisation, digitisation, migration, an ageing population, a higher rate of mental illness and lifestyle diseases are challenging the welfare system and creating new customer requirements that are fuelling demand for new insurance products and services for private individuals, companies and employers.

Society, companies and individuals stand to gain great economic and social benefits by taking preventive measures to protect their health and taking early action in the event of injury or risk of long-term sick leave.

### Climate risks and natural catastrophes

Länsförsäkringar AB and the regional insurance companies conduct claims-prevention

activities and exchange expertise to reduce the risks of natural catastrophes in society. The regional insurance companies hold a large market share of forest insurance in Sweden. Länsförsäkringar has access to a comprehensive claims statistics database to continuously monitor and assess this risk.

The reinsurance business – both the business of the regional insurance companies and international business – expose the company to extreme weather conditions and climate change.

Länsförsäkringar participates in a UN initiative with other insurance companies to prepare tools for climate risk analysis.

All insurance companies need to protect their operations from costs for large individual claims and natural catastrophes. An insurance company often turns to specialist reinsurance companies in the international market to insure some of its risk. The companies in the Länsförsäkringar Alliance can naturally share risk among themselves. The regional insurance companies pay an annual reinsurance premium to Länsförsäkringar Sak based on, for example, exposure, claims history and the level of retention chosen by the company. This retention can be compared with the deductible that private individuals and companies pay for non-life insurance. Most of the reinsurance premium is retained within the Länsförsäkringar Alliance through joint procurement and internal reinsurance, and the costs for external reinsurers are thus lower and more stable, benefiting Länsförsäkringar's customers.

### Claims prevention

Claims-prevention activities are central to Länsförsäkringar. Länsförsäkringar can contribute to a sustainable society through its claims-prevention activities, responsible damage repairs and early health-promoting measures. Preventing a claim is a win for the environment, society and customers.

Claims-prevention activities help reduce impact on the environment through less waste, energy, new materials, transportation and other resources – for both the claim inci-

dent itself and also for restoration and repairs. Natural catastrophes, water and fire damage claims, and motor insurance claims have the greatest impact on the environment. Together with the regional insurance companies, Länsförsäkringar AB produces claims-prevention guidelines and guidelines on how to make sustainable repairs. Reuse and recycling are key elements of this work. These claims-prevention activities also result in lower claims costs, lower insurance premiums and higher security for customers.

By providing information about common types of claims and claims-prevention measures, Länsförsäkringar can help customers to minimise risks themselves and their liability risk. Länsförsäkringar has in-depth know-how on industry-specific claims and how they can be prevented.

The product lines in Reinsurance and Special Insurance have a plan for claims-prevention measures. A customised claims-prevention programme aims to improve profitability for customers and help prevent various claims risks in motor insurance. The programme provides claims statistics, analysis, driver presentations and claims-prevention material. Inspectors are continuously trained.

Liability insurance claims lawyers write articles in industry publications on technical consultants' liability for innovations and risk-exposed solutions. In terms of sustainability, technical innovations always entail a certain risk component since proven experience cannot be relied upon, and it is thus important to minimise risk as far as possible and clearly explain the risks to the client.

Seller liability and real-estate broker claims can be prevented by training real-estate brokers.

### Health-promotion efforts for people

Länsförsäkringar is one of the Sweden's leading players in health and health care insurance and has the vision of creating a healthier Sweden by contributing to a sustainable lifestyle, sustainable working life and a sustainable society. Mental illness is



## Responsible offering

the most common cause of sick leave. Preventive and early measures at the workplace are keys to breaking this trend. Länsförsäkringar actively participates in the public debate on good health and a sustainable working life and provides supplementary security solutions to promote health and reduce sick leave.

Länsförsäkringar is involved in several pilot projects on prevention and personalised health care to increase know-how and awareness of health drivers.

Customers are offered preventive health-promotion services and personal counselling in their health care insurance. Länsförsäkringar's health care insurance also includes treatment for addiction.

### Health-promotion efforts for animals

Agria is the market leader in pet insurance in Sweden, Norway and Denmark and conducts claims-prevention and health-promotion activities for animals. Agria offers advice and information to animal owners via digital channels. Agria also offers free services for digital vet consultations where customers use a videolink to talk with a vet when their animal is ill or has been injured.

The majority of horse injuries are due to lameness. The research supported by Agria increases expertise in preventing lameness and the information is now being spread through the #stoppahåltan project.

Agria has access to unique, extensive claims statistics and through its Agria Breed Profile makes this data on dog and cat breeds available to researchers, breeders and breed clubs that use the data to improve animal health and in sustainable breeding.

Agria engages with vets on ethical positions in the treatment of sick and injured animals. Agria develops insurance products that create security for animals and animal owners in close collaboration with animal-owner organisations. Special campaigns targeted at young people increase awareness of animals and the value of having a pet.

### Activities and targets in 2018

#### Claims-prevention efforts and sustainable repairs

The new focus area "Security and crime prevention" was introduced during the year for Länsförsäkringar Alliance's entire claims-prevention activities.

The name of Länsförsäkringar's certification of car workshops was changed from Lupin to Länsförsäkringar's quality and environmental certification and requirements were tightened.

#### Data protection insurance

Länsförsäkringar Sak develops products to meet new insurance requirements resulting from an increasingly digitised world. Greater

digitisation leads to new risks. Business area Reinsurance and Special Insurance created a data protection policy in 2018 adapted to the needs of small and medium-sized businesses.

### Health-promotion efforts for people

Communication initiatives were implemented to spread awareness of mental illness in society and at work among young people, for example, with the non-profit organisation Mind.

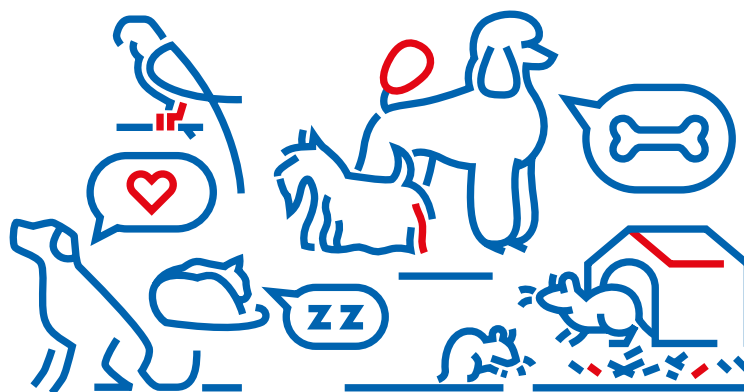
Länsförsäkringar provided financing for a study into the effect of lifestyle changes on health. Research projects were initiated into mental illness among young people and at work. Donations were made to the program that helps children aged 7-12 and their parents who have addiction problems. Children who grow up in families with addiction problems run a greater risk of developing mental illness as adults.

Measures to prevent illness under the framework of the health care insurance were implemented in the form of digital activities that raise awareness of physical activity, a life balance and screen time. The use of the Health Portal and preventive services in the health care insurance more than doubled to 40,000 users (19,000) in 2018.

The summer drought impacted many agricultural customers who were concerned about their harvests, animals and finances.

## Länsförsäkringar industry leader at sustainability

Länsförsäkringar was named Sweden's most sustainable insurance company by Sustainable Brand Index, the largest consumer sustainability survey of both corporate and private customers in the Nordics.



## Agria's research fund

Agria has financed animal research for 80 years. The aim is for research to provide a solid basis for successful breeding, better animal health and animal keeping, and enhance knowledge about the importance of pets to humans. Slightly more than SEK 9.5 M was awarded in 2018.

Länsförsäkringar offered these customers free counselling and advice on psychological and legal matters.

Through trade organisations and on its own initiative, Länsförsäkringar engaged closely with politicians and decision-makers in 2018 on the bill to introduce fringe-benefit tax on health insurance. This tax was introduced in July 2018 and impacts many small businesses and their employees, which is unfortunate. Preventive health-activities are a benefit to society.

#### Health-promotion efforts for animals

Agria achieved its target of half of the users of digital vet services not needing to physically visit a vet. 12,000 of 24,000 digital consultations were referred to physical visits.

The aim of Agria's research is better animal health. Agria has a podcast to publish the results of its research. Four episodes of the podcast were broadcast in 2018 with 28,443 listeners.

#### Activities and targets in 2019

Länsförsäkringar used the Meps construction calculation programme in 2018 to calculate the carbon footprint of property repairs and how it is affected by using new versus reused materials. Further studies and knowledge acquisition will take place in 2019.

Claims prevention in the focus areas of security and break-ins, fire and water dam-

age, motor insurance and natural catastrophes as well as claims-prevention measures for companies will continue. The focus on health-promotion services for people and animals will also continue.

Work on reviewing the sustainability aspects of the insurance terms and conditions in business areas Reinsurance and Special Insurance, Health and Agria will start.

Digital services remain a focus area. Digital preventive services help make life healthier. Digital health care services make it easier for customers who do not have to travel to see a doctor or vet. The target for 2019 is to retain the high number of visitors, 40,000, to the Health Portal's preventive services under health insurance. For Agria, the target is 30,000 digital consultations and half of digital-service users not needing to visit a vet.

Contributions of input and expertise on climate risk scenarios under the UN projects that Länsförsäkringar is involved in will continue in 2019.

#### Increased regulation

Work is in progress at the EU level to produce legislation on sustainability in the insurance industry. Proposals include demands for sustainability in advisory services and information on the management of climate risks.

#### Governance documents and governance

The sustainability policy and UN Principles for Sustainable Insurance (PSI) provide guidance on how to pursue and develop responsible insurance.

Sustainability is monitored by the sustainability team led by the sustainability manager for the business unit, who is also a member of the management group. The three Business Areas Reinsurance and Special Insurance, Health and Agria have Sustainability managers, who are members of the management groups of each business area. Scorecards are used to monitor sustainability activities and targets. Results are reported to the Boards of the business units and Länsförsäkringar's Sustainability Committee.

### UN Principles for Sustainable Insurance (PSI)

Länsförsäkringar Sak is a signatory of PSI's four principles and strives to:

- Integrate sustainability topics into decision-making.
- Work together with customers and business partners to raise awareness of sustainability, manage risks and develop solutions.
- Work together with other stakeholders to promote action on sustainability.
- Be transparent and report on the integration of the principles.



### UN pilot project on climate risks



In 2018, Länsförsäkringar was the only Swedish company to join an international UN project on climate risks in the insurance industry. The project will develop methods and models for using forward-looking climate scenarios to understand how climate change affects the industry. The project supports the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Greater expertise is needed to prevent climate-related claims.





## Business ethics

**The banking and insurance industry** is subject to strict rules and regulatory requirements aimed at ensuring financial stability and providing protection for customers. Full regulatory compliance is naturally inherent in all Länsförsäkringar's operations.

For Länsförsäkringar, a high level of business ethics and regulatory compliance are essential for safeguarding customers in the best possible way.

### Risks and opportunities

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 financial industry is subject to regulations that seek to prevent and counteract the financial system being utilised for money laundering and terror financing.

The risk of corruption exists in all companies regardless of industry and country.

### Anti-money laundering and terror financing

Systematic work is conducted to reduce the risk of the life-assurance and banking operations being used for money laundering, terror financing and fraud, such as building up in-depth knowledge of customers and their businesses and active transaction monitoring. Suspicions of money laundering are reported to the Financial Intelligence Unit of the Swedish National Criminal Police.

The banking and life-assurance operations have a central function that 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. Employees in the banking and life-assurance operations annually undergo

both mandatory training on the subject and receive additional training.

### 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.

### Whistle-blowing function

To counteract and prevent crime in the business or related to the business, 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. One case of whistle-blowing was reported in 2018.

### Activities and targets in 2018

Handling of personal data (GDPR) was a particular focus area due to new regulations coming into effect. Anti-money laundering and terror financing was another focus area. Training was provided in both areas.

A risk and vulnerability analysis was carried out in 2018 and showed that Länsförsäkringar AB and its subsidiaries are at low risk of being exposed to bribery.

The annual mandatory e-course on the Code of Conduct, sustainability and security was updated during the year. 84% (82) of employees completed the course in 2018.

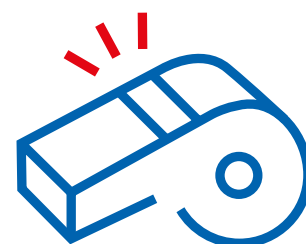
### Governance documents and governance

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

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 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.

Governance and monitoring are described in more detail in the Corporate Governance section of Länsförsäkringar AB's Annual Report.







## Responsible employer

**Employees** are Länsförsäkringar AB's most important resource. Their various specialist and professional expertise is vital to carrying out and developing the operations.

Being a responsible employer is important for Länsförsäkringar AB to attract new employees and retain existing employees. Diversity and equality, skills development, learning, health and work environment and an activity-based working are deemed the key components of a responsible and attractive employer.

### Risks and opportunities

Technological advances demand that companies work actively on identifying the key skills that will be needed and skills development plans must be in place. Not being able to recruit the right skills is a business risk.

Mental illness and stress-related illnesses are on the rise in society. Digital technology and flexible working hours increase the risk of never-ending work, which presents major risks and costs for individuals, employers and society. Taking preventive action and striking a work/life balance is important to reduce such risks.

### Diversity and equality

Länsförsäkringar AB's definition of diversity and inclusion are the seven grounds for 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. Different ways of thinking is a key factor for success for learning and innovation, adds value to the business and strengthens competitiveness and profitability. Diversity initiatives also play an important role in being an attractive and responsible employer and broadening the recruitment pool.

A salary survey is performed every year to ensure that no gender discrimination exists for equal positions. Employees have the option of receiving supplementary salary as a complement to the state parents' allowance.

The aim of the recruitment process is to ensure a more even gender distribution in working groups and various managerial positions. The Qnet network develops and

coaches women managers as part of structured equality measures.

There is a partnership with Novare Potential, a recruitment and HR company that helps new arrivals enter the Swedish labour market. Other partnership programmes include Rapid Acceleration Management, Korta vägen and Welcome Talent.

Länsförsäkringar AB is involved in Diversity Charter that seeks to promote diversity in the business world.

The equality and diversity plan includes targets, action plans and follow-up methods for the application of the Equal Opportunity Act and Discrimination Act.

### Skills development and learning

Länsförsäkringar AB endeavours to nurture the conditions for a culture focusing on a learning organisation and development. The annual process of analysing skills and staffing requirements aims to ensure future key competencies. Adaptability, self organisation and professionalism are regarded as key components. An e-coaching tool in the areas of self-management, motivation, unpredictability, health, efficiency and skills development is used to enhance employees' knowledge of change management.

A focus on self-management is an important part of a learning organisation. Länsförsäkringar as an employer encourages its employees to take the initiative to further their own skills development, for example, through coaching leadership.

Rapid technological advances in society require a dynamic, flexible and innovative workplace to meet competition. One of Länsförsäkringar AB's focus area is to define and design a suitable culture and implement this culture based on the perspectives of IT, workplace and people.

Managers continuously discuss performance, skills, work environment and health with their employees.

Länsförsäkringar AB's internal training operations develop in-house courses in life assurance, banking, non-life insurance and leadership.

### Health and work environment

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

Managers are responsible for addressing employee and health issues according to the systematic work-environment process, as well as equality, diversity and discrimination. Employers, managers, employees and health and safety representatives work together on work-environment issues. 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).

All employees are offered health care insurance that includes medical consultations, counselling, preventive health services and rehabilitation. Sickness absence is 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. One hour of health care activities during work hours is offered every week. Länsförsäkringar AB's premises, where the majority of employees work, have a gym and the staff canteen has a focus on sustainability. Employees working at other locations are offered fitness subsidies.

### Activities and targets in 2018

#### Diversity and equality

Several internal information meetings were arranged in 2018 to highlight the importance of diversity. Managerial courses, films and checklists on diversity were also produced.

A three-person recruitment team was employed in 2018. One of the team's task is to ensure that diversity is an integral part of the recruitment processes.



## Responsible business conduct

For the seventh consecutive year, students were recruited to the Summer Graduates internal programme based on diversity.

The Equality and Diversity plan was revised at the end of 2018.

In the 2018 employee survey, 94% of employees said that they had not experienced any cases of victimisation in the workplace over the past 12 months. Länsförsäkringar AB has a clear zero tolerance policy on victimisation.

Less than 1% of employees were identified as having incorrect salaries in the 2018 salary survey. The deviations were adjusted in consultation with trade union partners.

The share of working groups with a 40/60 ratio between men and women was 29%.

### Skills development and learning

In 2018, 5,266 (4,399) in-house training courses were organised for Länsförsäkringar AB employees. Employees also received training in the form of skills transfers, external courses and seminars.

### Health and work environment

The Work Environment and Equality Committee performs overall monitoring of the equality and diversity plan, sickness

absence, occupational injuries and near-accidents, and the employee survey. Ten near-accidents and five minor occupational injuries in the form of accidents to or from the workplace were reported during the year.

### Activities and targets in 2019

All business units and departments have diversity-related activities in the 2019 business plan. A manager training course in recruitment and diversity will be arranged. Efforts to increase the share of working groups with a 40/60 ratio between men and women will continue.

An activity-based working centring on people, IT and flexibility will start to be implemented. Activity-based workplaces are the first step in this change.

### Governance documents and governance

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. Länsförsäkringar AB follows laws and agreements that govern the operations

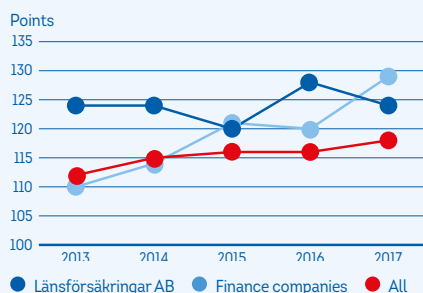
regarding the Employment Protection Act, Discrimination Act, Work Environment Act and collective and co-determination agreements. Länsförsäkringar AB follows the rules of collective agreements when employees leave the company or resign. All employees, except for Group management, have collective agreements.

The Human Resources (HR) department owns the Group-wide governance documents of remuneration policy, personnel policy, pensions, guidelines for company cars and guidelines on suitability assessments of certain decision-makers. Documented procedures and routines are also in place for the diversity and equality plan. The HR Director is responsible for structure, compliance and monitoring, while managers are responsible for implementation.

The results of the employee survey are followed up through feedback and activities at Group and department levels. Risk and impact analyses are carried out ahead of organisation changes at the company and discussions are held with trade unions.

## Tangible results from long-term equality initiatives

Länsförsäkringar AB participates in the Nyckeltalsinstitutet's (Institute of Human Resource Indicators) annual Gender Equality Index JÄMIX to monitor its equality efforts. Länsförsäkringar AB came 84<sup>th</sup> out of 240 companies. Nine different indicators were measured, with Länsförsäkringar AB achieving a score of 124 points out of a maximum 180. Scores for financial companies ranged between 107 and 152.



## An attractive employer

Länsförsäkringar AB's internal attractiveness as an employer is measured using an Employee Net Promotor Score (eNPS), a proven customer experience metric. Länsförsäkringar AB's eNPS for 2018 was 26, compared with 21 in 2016 and 26 in 2017. Länsförsäkringar AB has decided to benchmark its result against the 10% of highest performing companies participating in this benchmark. The highest performing companies scored 32 and 26 is considered to be a good result.

## Systematic efforts in health and work environment

Länsförsäkringar AB was awarded Nyckeltalsinstitutet's prize for best health index in 2018 with 139 points out of 146. The index comprises nine key indicators on health. Länsförsäkringar has low sickness absence. The systematic work on leadership and employeeship, monthly talks between managers and employees on health, health care activities, rehabilitation support and health care insurance were considered to be factors for success.





## Sustainability requirements on suppliers

**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, as well as marketing and communication.

The task of the purchasing function is to make use of Länsförsäkringar's entire purchasing power based on a total cost perspective. Services and products are purchased through procurements to find the suppliers that offer services and products of the right quality and the least environmental impact at a cost that is the most financially advantageous in the long term.

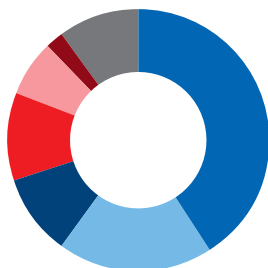
### Risks and opportunities

Länsförsäkringar AB's purchases mostly comprise services. Based on responsible procurement, Länsförsäkringar can positively influence the development of society in terms of work conditions, healthy competition and a better environment. By not considering sustainability in procurement, Länsförsäkringar's purchases could indirectly contribute to improprieties in the supply chain. The largest sustainability risk is deemed to be in the area of work conditions.

### 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. 100 suppliers account for 80% of the total purchasing volumes, which allows for efficient delivery, sustainability and business follow-ups of suppliers.

Purchases in 2018, %



- IT and telecommunications, 41%
- Consultancy services, 19%
- Finance, banking and investments, 10%
- Health and medical care, 11%
- Marketing and communication, 7%
- Claims-related services, 2%
- Other, 10%



### Code of Conduct part of purchasing agreements

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

The Code applies to both potential and existing suppliers and their sub-suppliers. Suppliers are expected to comply with the Code.

On 31 December 2018, 73% (60) of the 100 largest suppliers had signed the Code of Conduct.

### Activities and targets in 2018

Sustainability risks in the largest purchasing categories were analysed in 2018 and a self-assessment form accompanied by a risk assessment model was produced based on the results. This form serves as a fundamental risk assessment of large suppliers. The model was tested in the autumn of 2018.

Three on-site inspections of suppliers took place in 2018. More industries will be included in such visits in 2019 and the visits will be based on the results of extended use of the self-assessment form.

Work conditions, business ethics and environmental impact were discussed with the largest IT suppliers in 2018.

### Activities and targets in 2019

Work methods will be further developed in 2019 and beyond, as part of the continued work on implementing the Code of Conduct for Suppliers. It includes assessing whether sample checks and audits with suppliers are required. Environmental and social risks related to country, line of business and company are assessed in procurement processes and meetings with major suppliers.

### Governance documents and governance

The purchasing and procurement policy stipulates the rules and methods for purchasing and procurement. The Code of Conduct for Suppliers is based on the principles of the UN Global Compact and forms part of the purchasing agreement.

Each agreement manager in the operations has the main responsibility for monitoring existing suppliers.

A dedicated control group is responsible for monitoring, evaluating and managing the largest IT suppliers.



*The Code of Conduct for Suppliers is available in English and Swedish at [lansforsakringar.se/code-of-conduct-suppliers](https://lansforsakringar.se/code-of-conduct-suppliers).*



## 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. The operations continuously enhance efficiency to reduce impact on the environment.

Länsförsäkringar AB's office properties are environmentally classified as energy-efficient and 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. Continuous efforts are made to enhance efficiency in order to reduce the negative environmental impact of the office operations in several areas as regards materials, recycling and waste.

The guidelines for business travel recommend that digital meetings be used in the first instance. If travel is necessary, employees are to travel by rail rather than air if possible. Business travel involving journeys of less than 3.25 hours must always be made by rail and eco-friendly taxis are to be used.

The volume of paper-based communication to customers can be reduced by increasing digital services, thus reducing environmental impact while making information more accessible.

### Activities and targets in 2018

The process of changing certification from the Sweden Green Building Council's standard to BREEAM for Länsförsäkringar AB's office property was initiated during the year. LED lighting and energy controls were installed to reduce electricity consumption.

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

Double climate compensation for Länsförsäkringar AB's 2017 emissions was paid in 2018 via Vi Agroforestry.

Carbon emissions in 2018 amounted to 989,675 kg of carbon dioxide. A specification is provided on page 133. Air travel was the largest source of carbon emissions in 2018.

### Activities and targets in 2019

All departments perform activities to reduce the company's direct environmental

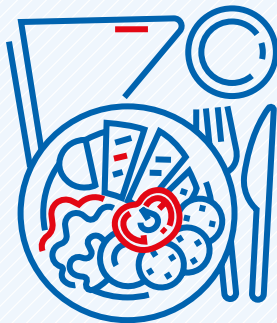
impact. Examples include a higher percentage of digital communication, reduced travel and setting environmental requirements for purchases.

### Governance documents and governance

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 AB supports the precautionary principle, meaning that the operations endeavour to avoid materials and methods with an unknown impact on the environment if tested alternatives are available. There are guidelines on business travel. Follow-ups take place every year and are reported to the Sustainability Committee.

### KRAV-labelled food

Länsförsäkringar AB's staff canteen Länsrätten serves KRAV-labelled food. 17 volume products, such as milk, bananas and coffee, have the KRAV label. Fish is always environmentally certified or green listed, and Swedish produce is prioritised ahead of goods that need to be transported from further away. Red meat is not served on one day of the week. The restaurant has a defined strategy of reducing food waste and serving vegetarian alternatives. Food waste is put through a grinder and is used for biogas.



### Reusing computers

The Länsförsäkringar Alliance partners with a company that recycles the computers used in Länsförsäkringar. 100% of computers were reused in 2018 through resale.



### Climate positive action - planting trees

Länsförsäkringar AB climate compensates via Vi Agroforestry to a project in Tanzania that combines planting trees and sustainable agriculture. The projects helps bind carbon dioxide and creates jobs by planting crops.







## Long-term environmental and social commitment



**Länsförsäkringar AB** and the regional insurance companies have supported independent scientific research into security challenges for society for many years. By making this research available to all, Länsförsäkringar can help benefit society.

### Research as part of 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. By making the research results available in the public domain, Länsförsäkringar contributes to knowledge-based development of security in society.

### Risks and opportunities

Urbanisation, digitisation, a sharing economy and climate change give rise to risks and opportunities. Greater concentrations in society give rise to risks. Another important research area is climate change adaptation where new expertise is needed to both understand the changes and manage them. Research into home security and road safety are other priorities. A key future issue is road safety to reduce the risk of accidents involving the higher number of cyclists in cities.

### Research focus areas

The focus of research is 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.

The objective of the research is to generate new expertise to prevent and understand claims. Research also contributes to furthering understanding of how the development of society will affect the future. Five focus areas are prioritised: Tomorrow's society, road safety, climate change, mutual business models and secure homes.

Research focuses on the Research Fund's calls for proposals, and 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. Länsförsäkringar uses research results in its own business development and in discussions with customers and various stakeholders in society.

The Research Fund awarded SEK 40 M in 2018.

### Research projects completed in 2018

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

#### *Consequences of property owners' risk behaviour for the insurance industry*

The topic of this research was property owners' views of climate change risks based on their age, gender, form of housing and geographic location, and their own and others' responsibility for managing such climate risks. The results are relevant to municipalities, county administrative boards and the insurance industry.

#### *Unprotected road-users*

Cities across Sweden are being restructured from car cities to biking cities to reduce carbon emissions, promote health and reduce road congestion. The results of the final report will be used in, for example, the "Joint Strategy on Safe Use of Bikes and Mopeds on the Road" – a joint initiative that includes the National Society for Road Safety, Police, Swedish Transport Administration, Swedish Transport Agency, Swedish National Road and Transport Research Institute, Swedish Association of Local Authorities, Länsförsäkringar and others.

#### *Climate risks in construction and homes*

Many of Sweden's municipalities, mainly in southern and central Sweden, are subject to climate changes, such as a higher risk of

flooding. The research studied the occurrence and consequences of torrential rain in Swedish counties between 2010 and 2017, meaning that an overall picture of how the various parts of Sweden have been affected by the climate, such as higher frequency of torrential rain, is now available for the first time. The results are relevant to municipalities, county administrative boards and companies.

#### *Mutual companies*

The research project has now analysed how the government's view of the mutual corporate form has changed over time and how mutual insurance companies performed in relation to insurance companies in the limited liability form. The results were communicated to civil society organisations for customer and member-owned companies, higher education institutions and the Swedish Financial Supervisory Authority.

#### *New focus area of digitisation*

Research projects into digitisation were commenced in 2018, focusing on the interplay between technology, society and the insurance industry in the digital conversion. Insurance companies are dependent on their ability to make predictions. They must be able to assess various dimensions of future risk based on previous events collated in statistical data and then used to make predictions in various risk environments.

#### *Governance documents and governance*

Research applications are studied by a committee comprising members with experience from the business sector and academia. The board of the research fund awards financing. This board and the external auditors are responsible for compliance with policy documents and guidelines.



Research field	Ongoing research projects and tests	Start-up:
<b>Tomorrow's society: Digitisation, urbanisation, sharing economy</b>	<ul style="list-style-type: none"> <li>Regional growth against all odds: Driving forces for long-term growth in Nordic regions. Lund University.</li> <li>Regional economic development and transformation in Sweden: Then, now and tomorrow. Lund University.</li> <li>The geography of trust: Trust in local society in a changing Sweden. Ersta Sköndal Bräcke University College.</li> <li>Continuous internal audit using artificial intelligence in insurance companies. University of Gävle.</li> <li>Blockchains for dynamic pricing of innovative insurance products. University of Gothenburg.</li> <li>Transparent algorithms in the insurance industry. RISE SICS.</li> <li>The insurance company in digital ecosystems. University of Gothenburg.</li> </ul>	2017 2018 2017 2018 2018 2018 2018
<b>Road safety</b>	<ul style="list-style-type: none"> <li>Testing 10 winter tires for bicycles. Swedish National Road and Transport Research Institute (VTI) Linköping.</li> </ul>	2018
<b>Climate adaptation</b>	<ul style="list-style-type: none"> <li>Testing the function of 20 sealing layers. RISE in Borås.</li> <li>Lower climate risk in the buildings and homes of the future - lessons from past events and urban planning. Karlstad University.</li> </ul>	2018 2015
<b>Secure homes</b>	<ul style="list-style-type: none"> <li>Nudging my future self: Behavioural economics studies of the financial decisions of young people. Linköping University.</li> <li>Innovative electric systems in buildings – consequences for fire safety. RISE.</li> </ul>	2016 2018

## Natural catastrophes

Global warming is a financial risk 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.

Länsförsäkringar takes preventive measures and exchanges know-how to reduce the risk of being affected by natural catastrophes. All of the 23 regional insurance companies have a plan for preventing natural catastrophes together with natural-catastrophe coordinators. Activities to prevent natural catastrophes include analysing the external environment and following scientific and technological developments. Länsförsäkringar provides information and trains employees, customers, authorities and decision-makers in society 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.

## Testing products and partnership to reduce water damage

The most common form of damage in the home is water damage. Reducing water damage is a gain for the customer and the environment. Tests by Länsförsäkringar's Research Fund showed that the 8 of 20 sealing layers in wet rooms were approved in 2016 compared with 3 of 20 in 2014. A new test was performed together with RISE and Sweden's Construction Ceramic Council in 2018. The results will be presented in 2019. With this partnership, the results of the tests can be communicated more widely throughout the construction industry in the choice of materials, assembly and product development.



# Governance

**Integrating** sustainability into Länsförsäkringar AB's operations is a priority. Länsförsäkringar AB's sustainability work is based on the vision of "Together we create security and opportunities" and the long-term objective is that 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 governance documents that form the basis of such work.

The Head of Sustainability of Länsförsäkringar AB is responsible for the function, governance and standard-setting of sustainability topics in the company.

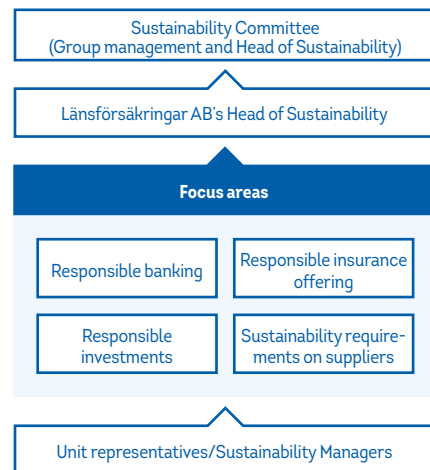
A Sustainability Committee, comprising Group management and the Head of Sustainability, meets at least four times a year to discuss, decide on and follow up priority sustainability topics.

## Monitoring and internal control

Länsförsäkringar AB's corporate governance system aims to ensure healthy and responsible control, risk management and a high level of internal control in the operations.

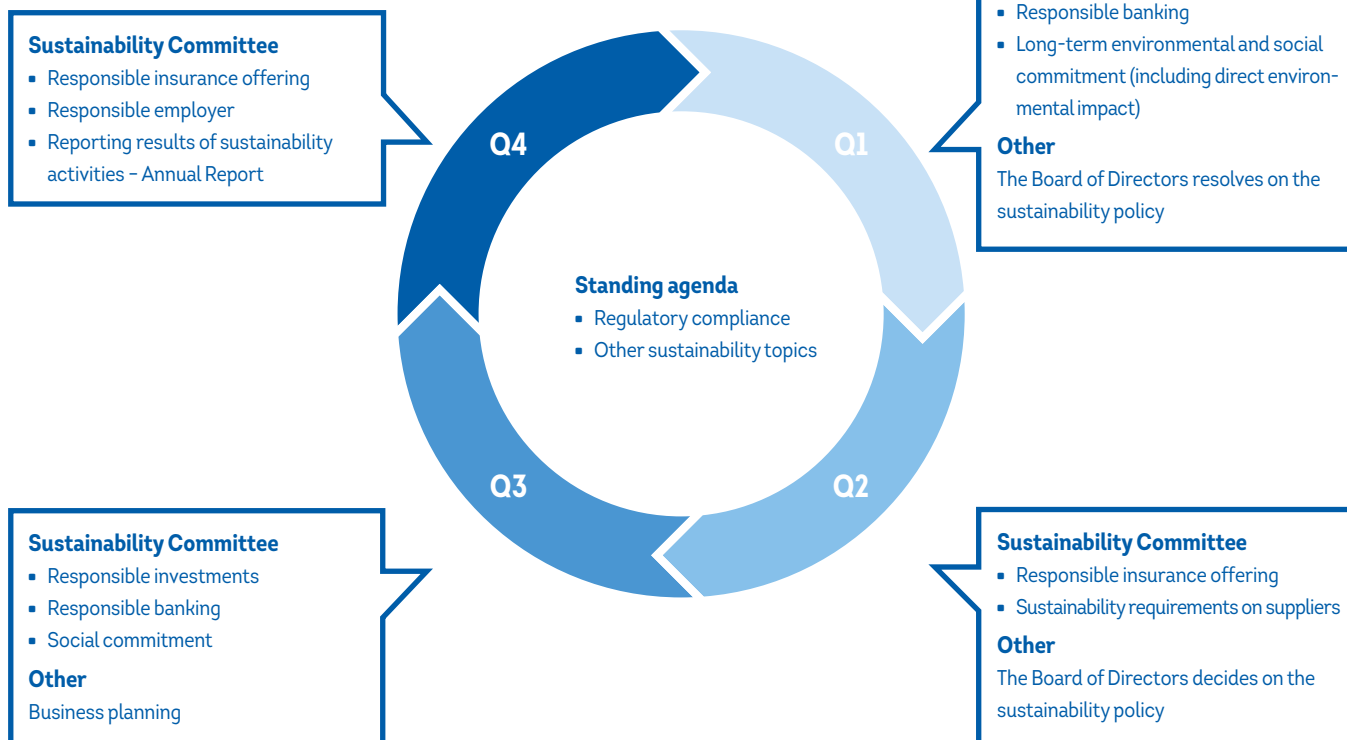
This corporate governance system includes the organisation, internal rules and systems for internal control. Internal control is based on three lines of defence:

- **The first line of defence** is the operations, which are responsible for risk management and monitoring. A deviation reporting system is in place.
- To support internal control, **the second line of defence** exists whereby 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.
- **The third line of defence comprises** Internal Audit, which is the Board's support for quality assurance and evaluation of the organisation's risk management, governance and internal control.



A more detailed description of corporate governance is provided in the Corporate Governance Report of Länsförsäkringar AB's Annual Report.

## Annual sustainability agenda



### Enhanced monitoring of sustainability activities

The target for 2018 was to set clear goals for sustainability activities and to enhance monitoring. Four sustainability teams were formed to coordinate this work:

- Responsible bank offering
- Responsible insurance offering
- Responsible investments
- Purchasing (sustainability requirements on suppliers)

In addition to the Head of Sustainability of Länsförsäkringar AB, sustainability managers and managers from the bank, insurance, fund management and asset management are members of the teams. The sustainability teams aim to ensure that information is exchanged and that activities and targets are monitored.

From autumn 2018, sustainability activities are reported to the Sustainability Committee following a annual sustainability agenda.

### Sustainable goals in business plans

In 2018, all business units and departments at Länsförsäkringar AB set sustainability

activities and goals regarding diversity and lower environmental impact in their 2019 business plans. Goals and activities are also established for a sustainable customer offering.

### UN initiatives provide sustainability framework

Länsförsäkringar AB is a signatory of the UN Global Compact's Ten Principles on human rights, labour, business ethics and environment and seeks to ensure that the operations comply with these principles. Länsförsäkringar AB has also signed the UN Principles for Responsible Investment (PRI) and the UN Principles for Sustainable Insurance (PSI), which, together with the UN Global Compact, form the basis of the sustainability policy.

### Governance documents

The sustainability policy includes Länsförsäkringar AB's material sustainability topics and aims to provide managers and employees with guidance in their daily sustainability work. The policy also outlines environmental considerations and the precautionary principle. The sustainability pol-

icy was updated in 2018 to clarify the link to the UN initiatives signed by Länsförsäkringar AB, the link to internal guidelines and governance documents and the responsibility for sustainability in the operations.

New employees are informed about the content of the sustainability policy and other relevant guidelines in the induction programme. All employees are also to complete a mandatory e-course that includes the Code of Conduct, security and sustainability every year.

Alongside the sustainability policy, Länsförsäkringar AB also has other governance documents and guidelines that describe sustainability governance and focus, divisions of responsibilities, targets, activities and monitoring.

### Monitoring

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

A whistle-blowing function is available to prevent crime or suspected crime in the business.

## Governance documents

### Responsible offering

#### Owned by

Sustainability policy	Director of Corporate Communications
Corporate governance policy	Head of Asset Management
Credit policy and credit instructions	Credit Manager
Policy on anti-money laundering and terror financing	Head of Anti-Money Laundering Bank

### Responsible business conduct

#### Owned by

Sustainability policy	Director of Corporate Communications
Code of Conduct for Employees	Head of Compliance
Personnel policy	HR Director
Equality and diversity plan	HR Director
Purchasing and procurement policy	Head of Purchasing
Code of Conduct for Suppliers	Head of Compliance
Guidelines on identifying and managing conflicts of interest	Head of Compliance
Policy on improper benefits	Head of Compliance

### Long-term environmental and social responsibility

#### Owned by

Sustainability policy	Director of Corporate Communications
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More information about Länsförsäkringar's sustainability work is available on pages 129-139. The GRI index, Annual Report index, UN Global Compact index, stakeholder dialogue, Länsförsäkringar's work on the UN SDGs, statistics and performance indicators are presented here.

# 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 2018 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) and its subsidiaries and Länsförsäkringar Fondliv Försäkrings AB (referred to below as Länsförsäkringar Fondliv).

Länsförsäkringar Liv Försäkrings AB (referred to below as Länsförsäkringar Liv) is wholly owned by Länsförsäkringar AB but is 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 and pensions; to provide business service to the regional insurance companies in areas in which econ-

omies 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 for the regional insurance companies. Financial governance is primarily based on the owners' requirements for effective capital use and a balanced and market-based return on equity according to each subsidiary's operations and risk.

Business service and Länsförsäkringar's joint development activities are conducted in the support functions of the LB Sak unit. The accounting, capital planning and Group controller functions are part of the Economy and 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 high-quality 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

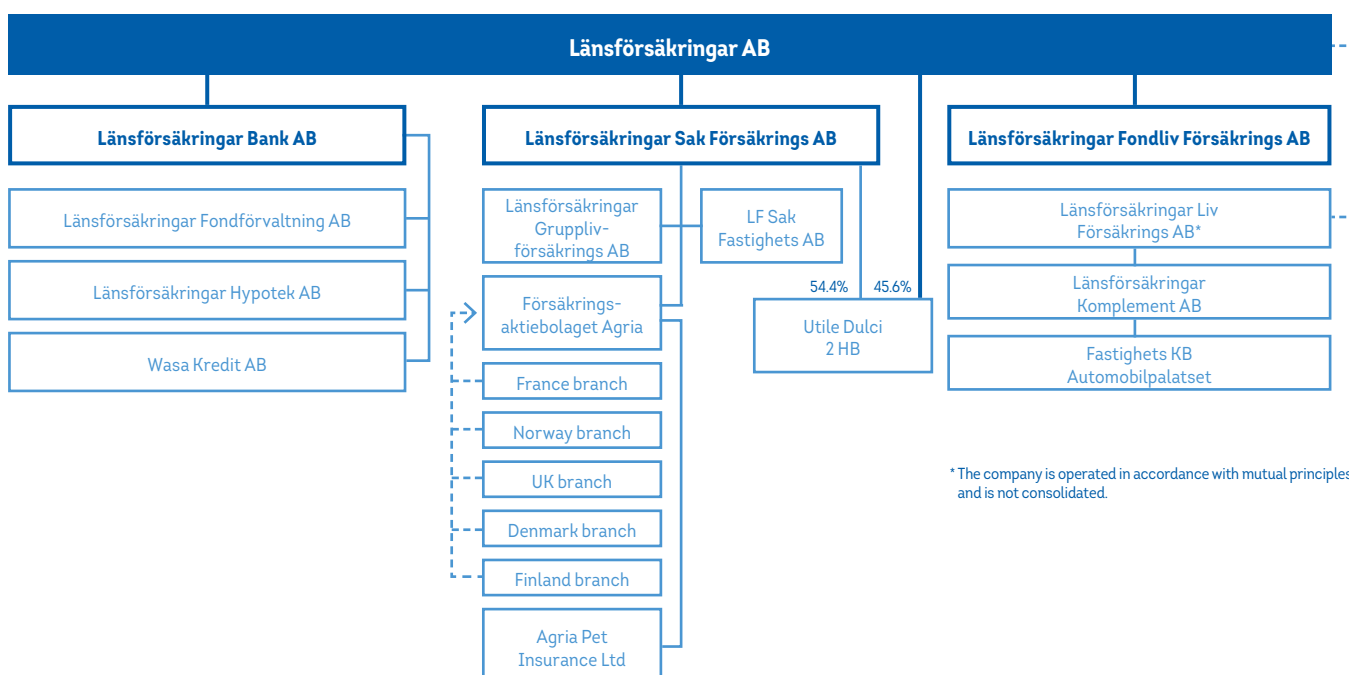
Fredrik Bergström took office as the new President and CEO of Länsförsäkringar AB on 10 September 2018.

On 2 April 2018, Sven Eggefalk took office as President of Länsförsäkringar Bank.

During the year, Agria grew internationally with a new branch in France after initiating a partnership with the French Kennel Club in 2017.

In June, Länsförsäkringar entered into an important partnership with Toyota entailing that Länsförsäkringar took over responsibility for Toyota Försäkring and Lexus Försäkring and associated vehicle-damage guarantees in the Swedish market on 1 January 2019. Technological advances are rapid and the motor insurance market will require new insurance solutions moving forward. With Toyota as a partner that is highly skilled in innovation and strong in sustainability, Länsförsäkringar will be even better equipped to

## Länsförsäkringar AB Group structure, 31 December 2018



understand these new needs and thus continue to offer relevant insurance solutions.

In 2018, Länsförsäkringar AB continued to work according to a long-term business plan aimed at defining 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 the end of the year

No significant events were reported after the end of the year.

#### 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. Expertise, the technical environment and the organisation must be adapted to support rapid developments so as to meet customers' evolving needs.

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 situa-

tion 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.

Personal-risk insurance is expected to remain affected by high sick leave figures, although the rate of increase has slowed slightly. Mental illness remains the most common cause of sick leave. Preventive and early measures at the workplace are the keys to succeeding in turning around this trend. High household indebtedness has led to many people not having sufficient insurance cover. The need for personal-risk insurance in the form of benefits in the event of illness, accident or unemployment is thus expected to continue to increase. Länsförsäkringar is well-positioned for growth given the market's need for employment security solutions and the company's satisfied health care insurance customers and large market share in commercial insurance.

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 entails continued pressure on regulating the sector, which in turn imposes demands on Länsförsäkringar to rapidly adapt its 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. Länsförsäkringar AB worked together with the 23 regional insurance companies in 2018 to identify the UN Sustainable Development Goals (SDGs) where Länsförsäkringar can make the best contribution to sustainable development and these efforts will continue in 2019.

#### Earnings and financial position

##### Group earnings

The Länsförsäkringar AB Group's operating profit was SEK 2,351 M (2,825). The return on equity was 9% (11).

The Länsförsäkringar Sak Group's operating profit amounted to SEK 460 M (1,028). The change in earnings was primarily due to SEK 260 M in positive remuneration in the first quarter of 2017 for the accident and health insurance business transferred to the regional insurance companies, and significantly positive run-off gains in 2017 from claims reserves in prior years. Premiums earned after ceded reinsurance rose 5% to SEK 5,891 M (5,623). The combined ratio amounted to 94% (88).

The Bank Group's operating profit amounted to SEK 1,510 M (1,599). Earnings were impacted by non-recurring items of SEK 407 M related to the final stage of the replacement of the bank's IT platform. Net interest income rose 13% to SEK 4,497 M (3,996), mainly attributable to increased volumes.

Operating profit for Länsförsäkringar Fondliv increased to SEK 673 M (600). Net flow of premiums and capital in 2018 was a positive





SEK 2,444 M (3,225). However, due to the negative return resulting from the unfavourable stock-market sentiment at year-end, total managed assets declined to SEK 126 billion (128) on 31 December 2018.

The Länsförsäkringar AB Group's investment return attributable to the insurance operations' and Parent Company's assets amounted to 2.5% (4.3). Properties, which totalled 26% (23) of the investment assets at the end of the year, yielded a high return during the year, contributing 3.9 percentage points (2.8) to the 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 -0.2 of a percentage point (0.7) to the investment return, mainly wider US credit spreads and rising US interest rates made the most negative contribution. Equities made a negative contribution of -0.8 of a percentage point (1.0) to the investment return in the period. Currencies also made a negative contribution of -0.4 of a percentage point (-0.2). The negative contribution was mainly attributable to costs for protecting the exposure of the portfolio in US holdings.

#### The Group's capital situation

The Länsförsäkringar AB Group's equity increased SEK 2,010 M during the year to SEK 26,867 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.

At 31 December 2018, surplus capital for the Länsförsäkringar AB Group under the rules on financial conglomerates was SEK 10.0 billion, down SEK 0.7 billion for the year. Own funds amounted to SEK 43.9 billion and the capital requirement to SEK 33.9 billion. The capital situation under the rules on insurance operations commensurated with the capital situation under the rules on financial conglomerates on 31 December 2018.

The decline in surplus capital in the Länsförsäkringar AB Group was primarily due to a decrease in Länsförsäkringar Fondliv's solvency ratio to 135% (152) on 31 December 2018. The solvency ratio fell due to the negative market trend at the end of 2018 and commitments in a renewed long-term service agreement with Länsförsäkringar Liv.

The Common Equity Tier 1 capital ratio for the consolidated situation<sup>1)</sup> (the group encompassed by the group rules for banking operations) was 15.7% at year-end 2018. The application of the risk weight floor for Swedish mortgages was changed on 31 December 2018 following a decision by the Swedish Financial Supervisory Authority. This means that capital ratios will decline from this period. The surplus capital in relation to regulatory requirements calculated in SEK is not impacted by this change in method.

<sup>1)</sup>The Länsförsäkringar Bank Group consolidated with Länsförsäkringar AB and the property company Utile Dulci 2 HB.

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 2018 will be published on Länsförsäkringar's website in June 2019.

#### Parent Company earnings

Profit after financial items for the Länsförsäkringar AB Group's Parent Company amounted to SEK 1,328 M (1,638). Profit was positively impacted by dividends and Group contributions of SEK 850 M (750) from Länsförsäkringar Fondliv and SEK 460 M (500) from Länsförsäkringar Sak. Net sales increased to SEK 3,235 M (2,948).

#### Proposed appropriation of profit

According to the statement of financial position for Länsförsäkringar AB, non-restricted equity totalling SEK 13,565,200,187 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	-503,215,815
Retained earnings	7,275,910,887
Net profit for the year	1,321,587,160
<b>Non-restricted equity, 31 December 2018</b>	<b>13,565,200,187</b>

The Board of Directors proposes that unappropriated earnings in the Parent Company of SEK 13,565,200,187 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), Health and also 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, France, 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 amounted to SEK 460 M (1,028) and the combined ratio increased to 94% (88). The technical result for insurance operations amounted to SEK 402 M (977). Claims payments after ceded reinsurance amounted to SEK 4,196 M (3,764) and the claims ratio increased to 71% (67). The expense ratio was 22% (21).

The year-on-year change in earnings was primarily due to positive remuneration of SEK 260 M in the first quarter of 2017, recognised as other income, for the part of the accident and health insurance business that was transferred from Länsförsäkringar Sak to the regional insurance companies. In addition, earnings in the preceding year included significantly positive run-off gains on claims reserves in prior years. Run-off gains were also positive in 2018, with varying effects in different business lines, but at a lower level than in 2017. Claims costs excluding run-off

gains increased slightly in 2018, mainly due to the decline in earnings in accident insurance. Impairment of intangible assets contributed to the change in expense ratio.

Premiums earned after ceded reinsurance rose 5% to SEK 5,891 M (5,623). Premiums earned increased despite the regional insurance companies renewing accident and health insurance policies for adults from 2017. Of the non-life insurance operations' three business areas, growth was highest in Agria where the premium volume increased in all business lines, with the highest growth in the foreign branches.

The Länsförsäkringar Sak Group's investment return amounted to 3.8% (4.5). Properties, which at the end of 2018 totalled 32% (27) of investment assets, contributed 4.9 percentage points (3.6) to the investment return, mainly driven by positive changes in market value. The fixed-income portfolio, which has a short duration, made a negative contribution of -0.1 of a percentage point (0.9), mainly due to wider US credit spreads and rising US interest rates. The equities portfolio made a negative contribution of -0.5 of a percentage point (0.3). Currencies contributed a negative -0.5 of a percentage point (-0.2) to the investment return, primarily from costs for protecting the exposure of the portfolio in US holdings.

### Agria

Agria's technical result amounted to SEK 224 M (279). Agria reported strong but slightly weaker earnings compared with the preceding year. This was mainly the result of establishing the branch that was opened in France in spring 2018 and lower run-off gains. Agria's largest business line in terms of volume – Swedish pet insurance – continued to deliver stable earnings, but with slightly higher claims costs year-on-year. Earnings in the UK continued to trend positively, while claims costs in Norway and Denmark were slightly higher than in the preceding year.

Premiums earned after ceded reinsurance increased 11% to SEK 3,496 M (3,136). Volumes increased in all business areas, with the largest growth in the international operations due to both premium adjustments and a higher number of animals insured.

Following the success of the 423 dog insurance policies launched in 2017, 86 new cat policies were launched in the spring of

2018. Agria is the benchmark and market-leader in the pet insurance segment in Sweden, Norway and Denmark. The operations in Norway and Denmark continued to display a stable trend with increased business volumes. Growth also remained strong for dog and cat insurance in the UK. The announced Brexit will affect the regulatory and business conditions for Agria's operations in the UK. There is great uncertainty regarding both the type of exit deal and future insurance regulations. Agria is closely following developments and taking the necessary actions to handle this transition, focusing on ensuring that the impact on the company's customers is as little as possible.

Agria's research fund celebrated its 80th anniversary during the year. Since it was founded in 1938, Agria has made donations to research for the benefit of pets, horses and livestock. It has helped fund hundreds of research projects that in different ways have improved veterinary medicine expertise in animal health, diagnoses, treatment methods and rehabilitation. Agria is now focusing on continuing to develop automated claims adjustment for the next few years. This means that customers' claims will be adjusted even quicker and more simply by using digital solutions.

### Health

The technical result amounted to SEK 96 M (461). The change in earnings was primarily due to earnings in the preceding year including significant positive run-off gains. Earnings for the part of the health insurance business that was not transferred to the regional insurance companies in 2017 improved as a result of premium adjustments and a review of conditions. Earnings for health care insurance were also stronger year-on-year. However, earnings for accident insurance declined due to higher claims costs in 2018 and a strengthening of reserves for claims in prior years.

Premiums earned amounted to SEK 1,395 M (1,527). In 2017, a portion of the accident and health insurance business was transferred to the regional insurance companies, which is the main reason for the lower premiums earned year-on-year. Premiums earned in health care insurance, health insurance and group life assurance were relatively unchanged.

Sales of the Bo Kvar insurance policy, which comprises an important part of Länsförsäkringar Bank's offering, performed strongly in recent years, with stable premium growth. This policy provides financial protection in the event of death, illness or unemployment and is an important component in providing financial security to customers. All Bo Kvar insurance customers were given access to preventive health services during the year, which had previously only been available for health care insurance customers.

Work on data-driven marketing continued during the year. It should be easy to find the right insurance cover that matches customer needs and to make use of the policy and receive service via digital channels.

### 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 internal and external reinsurance. 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 84 M (9). Earnings for liability insurance improved, mainly due to the inclusion of high run-off losses in earnings in the preceding year. Internationally assumed reinsurance reported high claims costs, for example, from fires in California and the Japanese Typhoon Jebi. Earnings for the Länsförsäkringar Alliance's internal reinsurance, to which Länsförsäkringar Sak contributes a 15% share of assumed reinsurance, were impacted by increased claims costs, primarily from the forest fires and flooding in the summer, but earnings were nevertheless stronger than in the preceding year as a result of positive run-off gains. Premiums earned totalled SEK 1,002 M (961). Premiums earned for liability, cargo and motor insurance as well as assumed international reinsurance increased between 3 and 6%.

A number of new agreements signed at the end of the year resulted in an increase in the portfolio premium for cargo insurance in terms of both premium volume and number

of policies. The portfolio premium was unchanged for liability insurance. 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. Two major cases of legal proceedings are awaiting a decision by the Supreme Court and it is hoped that a ruling will be made in the first half of 2019.

Länsförsäkringar Sak has a small portfolio in motor third-party liability and motor insurance as a supplement to the regional insurance companies' motor insurance business. Agreements on vehicle-damage guarantees and brand insurance were signed with Toyota and Lexus in the summer and came into effect on 1 January 2019.

Länsförsäkringar Sak developed and launched data protection insurance during the year. This policy is offered as a product in the rapidly growing area of cyber insurance. Besides incident management, it provides basic cover for several claim incidents that the Länsförsäkringar Alliance's customers could experience.

### 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 and non-life insurance risks in Länsförsäkringar Sak are calculated using an internal model, whereas capital requirements for other types of risk are calculated by applying the standard formula. Länsförsäkringar Sak's solvency ratio on 31 December 2018 increased to 228% (221).

Länsförsäkringar Sak's own funds rose SEK 280 M during the year to SEK 3,586 M. Own funds were strengthened by earnings during the year, including dividends and Group contributions from subsidiaries. However, own funds were negatively impacted at year-end by Group contributions paid and proposed dividends to the Parent Company totalling SEK 412 M.

The capital requirement increased during the year by SEK 78 M to SEK 1,576 M, primarily driven by higher market risk and the rising value of property holdings.

### Market

The non-life insurance market is mature and premium income increased by just under 5% in 2018 according to statistics from Insurance Sweden.

The market for pet well-being remains strong. In the European countries in which Agria has now established operations, the level of insurance is between 5 and 10% compared with 90% for dogs and 50% for cats in Sweden. Yet the number of animals is high; France, for example, has about 7.6 million dogs. There is immense potential for pet insurance here as veterinary care develops and new technology presents new opportunities for our pets.

The market for accident and health insurance increased about 9% in 2018. Länsförsäkringar's market share also increased slightly to 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. A rising number of people are buying private insurance to increase their financial security in the event of illness, accident, unemployment, pensions and death. Company owners also want to ensure that neither they nor their employees go on long periods of sick leave and health care insurance can thus provide greater security and keep a business's employees healthier.

Two different political decisions were announced during the year that can be expected to impact the health care insurance market. Employers' statutory responsibility for rehabilitation was tightened on 1 July. This means that it will be even more important for smaller companies that do not have HR expertise to obtain external support to meet this responsibility, for example, through health care insurance that contains preventive health activities and rehabilitation. At the same time, fringe-benefit tax was introduced on health care insurance paid by employers.

In cargo insurance, competition for slightly larger corporate customers remains stiff and the premium volume in the Swedish market shrank slightly. In liability insurance, the trend of an increasing number of players showing interest in the small and medium-sized businesses segment continued, 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. Premium levels remained low despite a high number of claims in 2017 globally. There were also many large claims in 2018 relating to, for example, the forest fires in California and the powerful Typhoon Jebi in Japan, that impacted the profitability of the reinsurance 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 561 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 in the form of the Länsförsäkringar Alliance's 3.9 million customers. The main target groups are the 3.2 million retail customers, of whom 2.4 million are home-insurance customers. Other target groups are agricultural customers and small businesses. According to the 2018 Swedish Quality Index customer satisfaction survey, Länsförsäkringar Bank remains the player on the banking market with the most satisfied retail customers. This is an accolade that Länsförsäkringar Bank has won 13 times in the past 15 years. Länsförsäkringar Bank also has the most satisfied mortgage customers. This is confirmation of the banking operations' clear customer focus and high quality.

### Earnings

The Länsförsäkringar Bank Group's operating profit amounted to SEK 1,510 M (1,599). Operating profit declined mainly due to costs of SEK 407 M charged to earnings in the second half of the year, most of which was attributable to the final stage of the replacement of the bank's platform for deposits, lending and payments. The underlying earnings trend remained favourable and operating profit, excluding non-recurring items affecting comparability, amounted to SEK 1,917 M, up 20%.

Net interest income increased 13% to SEK 4,497 M (3,996), mainly attributable to higher volumes. Return on equity amounted to 8.3% (10.0) and was impacted by the above-mentioned non-recurring costs. Return on equity excluding these costs was 10.6%.

Net gains from financial items amounted to SEK 14 M (-49) due to changes in fair

value. Net commission amounted to SEK -773 M (-750) due to higher remuneration to the regional insurance companies as a result of a healthy volume trend.

### Expenses

Operating expenses increased to SEK 2,178 M (1,601), mainly due to the replacement of the bank's platform for deposits, lending and payments. The new platform will mean a major shift in Länsförsäkringar Bank's ability to develop the digital offering and create opportunities to further advance the bank's position in this area. The underlying cost increase excluding non-recurring costs of SEK 407 M was 11%. Länsförsäkringar Bank will transition to the new platform during the second quarter of 2019.

The cost/income ratio before credit losses amounted to 0.58 (0.49). Excluding non-recurring costs of SEK 407 M, the cost/income ratio before credit losses was 0.47.

### Credit losses

The Bank Group applies IFRS 9 Financial Instruments from 1 January 2018. The main financial impact of the standard is on the calculation of loss allowance. Under IFRS 9, the loss allowance is based on expected losses and is calculated on initial recognition.

Credit losses amounted to SEK 95 M (58), net, corresponding to a credit loss level of 0.04% (0.02). Credit-impaired loan receivables (stage 3) before provisions amounted to SEK 742 M, corresponding to a share of credit-impaired loan receivables of 0.17%. The estimated value of collateral for credit-impaired loan receivables was SEK 452 M. The total recognised loss allowance for loan receivables under IFRS 9 amounted to SEK 425 M, of which SEK 242 M pertained to credit-impaired loan receivables. The reserve ratio for credit-impaired loan receivables amounted to 32.6%. In addition to the recognised loss allowance for loan receivables, SEK 74 M of the remuneration to the regional insurance companies' credit-risk commitments for generated business is withheld in accordance with the settlement

model. Including the withheld remuneration to the regional insurance companies, the loss allowance for loan receivables totalled SEK 499 M. The reserve ratio for credit-impaired loan receivables, including withheld remuneration to the regional insurance companies, amounted to 37.0%.

### Business volumes

Business volumes increased 8% to SEK 561 billion (520). Lending improved 11% to SEK 289 billion (261) with continued high credit quality. Lending in Länsförsäkringar Hypotek increased 12% to SEK 221 billion (198). Deposits increased 9% to SEK 108 billion (99). Fund volumes increased 3% to SEK 164 billion (159).

### Customers

The number of customers with Länsförsäkringar as their primary bank increased 9% to 507,000 (467,000) and the average number of products per customer was five. Some 91% of those customers who have the bank as their primary bank are also existing Länsförsäkringar insurance customers. The number of bank cards rose 10% to 722,000 (655,000).

### Deposits and savings

Deposits from the public, primarily comprising household deposits, increased 9% to SEK 108 billion (99). Deposits from small businesses amounted to SEK 12 billion (11). The number of deposit accounts increased 8%. On 31 December 2018, the market share for household deposits was 4.9% (4.8) according to Statistics Sweden. Fund volumes increased 3% to SEK 164 billion (159) attributable to increased inflows in the fund business and changes in value. The negative changes in value were offset by a higher net inflow to Länsförsäkringar Fondförvaltning's funds during the year.

### Loans

All loans are granted in Sweden, in SEK and have a well-diversified geographic distribution. Loans to the public rose 11% to SEK 289



billion (261). The credit quality of lending remained high. Lending in Länsförsäkringar Hypotek increased 12% to SEK 221 billion (198). The percentage of retail mortgages in relation to the total loan portfolio was at 77%. The weighted average loan-to-value ratio (LTV) of the mortgage portfolio amounted to 61% (60). On 31 December 2018, the market share of retail mortgages had strengthened to 6.7% (6.3) according to Statistics Sweden.

Agricultural lending increased 5% to SEK 28 billion (27). Agricultural lending primarily comprises first-lien mortgages to family-owned agricultural operations, and the average commitment was low at SEK 2.3 M. First-lien mortgages for agricultural properties increased to SEK 27 billion (25), corresponding to 95% (94) of agricultural lending. Loans to small businesses in Länsförsäkringar Bank amounted to SEK 2.1 billion (1.8) on 31 December 2018. Lending in Wasa Kredit increased 5% to SEK 23 billion (22).

### 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 204 billion (183), of which covered bonds amounted to SEK 164 billion (147), senior long-term funding to SEK 40 billion (35) and short-term funding to SEK 0.3 billion (1.0). The average remaining term for the long-term funding was 3.5 years (3.5) on 31 December 2018.

Covered bonds were issued during the year at a volume of a nominal SEK 40 billion (39), repurchased covered bonds to a nominal SEK 14 billion (7) and matured covered bonds to a nominal SEK 9 billion (7). Länsförsäkringar Bank issued senior unsecured bonds of a nominal SEK 11 billion (14) during the year, while maturities amounted to a nominal SEK 6 billion (8).

The Swedish National Debt Office decided in June that the liabilities that Länsförsäkringar Bank in the consolidated situation uses to meet the minimum requirement for own funds and eligible liabilities (MREL)

are to be subordinated. The volume of subordinated liabilities must be gradually built up by 2022.

In December, the Debt Office established its annual decisions on resolution plans and MREL for the institutions that the Debt Office deems to be systemically important, which includes Länsförsäkringar Bank. The Debt Office also decided on individual minimum requirements for Länsförsäkringar Bank's subsidiaries, Länsförsäkringar Hypotek and Wasa Kredit, that will start to apply in 2019.

### Liquidity

On 31 December 2018, the liquidity reserve totalled SEK 54 billion (48). The liquidity reserve is invested in securities with very high credit quality that are eligible for transactions with the Riksbank and, where applicable, 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 Liquidity Coverage Ratio (LCR) for the consolidated situation on 31 December 2018 amounted to 305% (339). The Net Stable Funding Ratio (NSFR) for the consolidated situation amounted to 115%<sup>1)</sup> (116) on 31 December 2018.

<sup>1)</sup> The calculation is based on Länsförsäkringar Bank's interpretation of the Basel Committee's most recent Net Stable Funding Ratio proposal.

### 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 2018	31 Dec 2017
IRB Approach	35,482	34,148
retail exposures	27,985	26,798
exposures to corporates	7,496	7,350
Standardised Approach	19,154	17,643
Operational risks	12,306	11,346
Additional requirements according to Article 458 CRR	45,019	-
Total REA	113,283	64,379
Common Equity Tier 1 capital	17,749	14,992
Tier 1 capital	18,677	15,936
Total capital	20,712	18,100
Common Equity Tier 1 capital ratio, %	15.7 <sup>2)</sup>	23.3
Tier 1 ratio, %	16.5 <sup>2)</sup>	24.8
Total capital ratio, %	18.3 <sup>2)</sup>	28.1

<sup>2)</sup> The application of the risk weight floor for Swedish mortgages will change from 31 December 2018, which will reduce the capital ratios from this period.



## Life-assurance and pension insurance business operations

**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 September 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 increased to SEK 673 M (600). Net flow of premiums and capital from existing and new customers in 2018 was a positive SEK 2,444 M (3,225). However, due to the negative return resulting from the unfavourable stock-market sentiment at year-end, total managed assets declined to SEK 126 billion (128) on 31 December 2018.

Total premium income amounted to SEK 9,010 M (9,133), of which capital transferred to the company was SEK 1,304 M (1,444). Premium income after ceded reinsurance for insurance risk increased to SEK 234 M (198). Commission and fee income rose to SEK 1,671 M (1,578) due to growing managed assets in 2018.

Operating expenses rose to SEK 1,106 M (1,028), primarily due to higher distribution costs. Investments were also made in digital development, such as greater functionality in Länsförsäkringar's app and continued robotisation of processes in unit-linked insurance.

#### 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 2018 amounted to 135% (152). The solvency ratio fell due to the negative market trend at the end of 2018 and commitments in a renewed long-term service agreement with Länsförsäkringar Liv.

#### 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 businesses 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 295 billion in 2018, up 13% compared with 2017. Länsförsäkringar Fondliv's market share of the total life-assurance market is 4%. Länsförsäkringar Fondliv's total premium income as defined by Insurance Sweden amounted to SEK 9,010 M (9,133). Capital transferred, which is part of premium income, amounted to SEK 1,304 M (1,444). The individual occupational pension market for unit-linked insurance is Länsförsäkringar's main market. The sub-market accounted for 73% of Länsförsäkringar Fondliv's total premium income. Premium income via pension selection centres accounted for 7%, endowment insurance for 7%, private insurance for 6% and other occupational pensions for 7%.

Länsförsäkringar Fondliv's premium income for guarantee management amounted to SEK 654 M (592). Capital transferred strengthened premium income by SEK 119 M (103).

#### Occupational pensions - the largest market

The occupational pension market is the largest sub-market, comprising 69% (68) of the total life-assurance market measured in premium income. The market grew 12% over the last year, as it did in the previous year, and amounted to SEK 202 billion. Länsförsäkringar Fondliv holds a market share of 4.6%, making the company the eighth 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, for example, 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 38 billion in 2018, up 9% compared with 2017. Länsförsäkringar Fondliv holds a market share of 17.5%.

#### Transfer market

Mobility in the total transfer market increased again and a total of SEK 36 billion was transferred compared with SEK 31 billion in 2017. Länsförsäkringar Fondliv reported a negative net transfer of SEK -1,004 M (-672) for the year. Capital transferred to the company fell 10% during the year, while capital transferred from the company rose 9%, which is the reason for the deterioration in the net transfer amount.

#### Unit-linked insurance

The financial market performance was positive for most of the year but turned in the fourth quarter, which resulted in negative returns in many markets in 2018. This trend was also reflected in the fund range. Just under 90% of the funds in the total range performed negatively. 70% of the funds decreased by between 0 and 10%, and 18% fell more than 10%. However, the performance of 66% of the funds was stronger than the MSCI Sweden Index. Funds targeting equities in China, Asia and European small companies were the categories that reported the weakest performance. Slightly more than 10% of the funds trended positively, with Länsförsäkringar Fastighetsfond reporting the strongest trend, increasing just over 13%. Other funds that noted a positive performance during the year were found in the categories of pharmaceuticals and technology, with returns of about 10%.

Länsförsäkringar Fondliv works continuously on realising a new fund strategy of simplifications while offering a greater choice for customers. The fund range will be increased in both scope and quality. 19 new funds were launched in 2018, leading to more options for customers to invest in different equities and interest-bearing categories and in funds with a sustainability focus. The funds in the recommended range are

carefully analysed and assessed based on criteria including management organisation, return and sustainability. The return in Länsförsäkringar's fund range was strong in terms of the competition during the year. The fund range also has a high sustainability ranking. According to Söderberg & Partners, Länsförsäkringar has the highest rating in sustainability and the fund selection in its fund range, and named Länsförsäkringar Fondliv the 2018 Unit-linked Insurance Company of the Year.

#### **Guarantee management**

Länsförsäkringar Fondliv offers management of pension insurance carrying a guarantee element regarding paid-in premiums. The guarantee principle is that Länsförsäkringar guarantees a portion of the customer's paid-in insurance capital with the possibility of additional returns. A number of changes were made to this savings form from 1 February 2019 to modernise it and adapt it to prevailing market conditions. The aim is to enhance the competitiveness of the offering and to create the conditions for generating secure and long-term returns on pension customers' savings.

The assets are divided between interest-bearing investments, equities and alternative investments, with the interest-bearing portion always being at least 40%. On 31 December 2018, 65% of the investments comprised interest-bearing investments and 35% equities.

Managed assets amounted to SEK 3.2 billion (3.1).

Investment return was -4.0% (6.0).

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

Länsförsäkringar Liv, which is closed for new business, 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 109 billion (115) on 31 December 2018.

#### **Earnings and financial position**

Profit for Länsförsäkringar Liv amounted to SEK 609 M (3,121). The change in profit compared with 2017 was largely due to lower investment income, primarily as a result of weaker stock markets in the fourth quarter, and the negative interest rate trend in 2018.

Despite weak capital markets at the end of the year, earnings for 2018 were positive, mainly due to the risk result of SEK 503 M, transitions to New Trad and changed assumptions for calculating technical liabilities. Transitions to New Trad made a positive contribution to earnings in 2018 based on lower technical provisions. In addition, increases in value of alternative assets, mainly properties and forest, contributed to profit for the year.

Profit was negatively impacted by a fall of about 20 basis points in long-term market interest rates in 2018 and the discount rate for the liability thus declined during the year. Changes in market interest rates affect Länsförsäkringar Liv's earnings 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. Apart from falling market interest rates, discounting was negatively impacted by the Ultimate Forward Rate (UFR) being lowered by 0.15% from 4.2% to 4.05%. The UFR affects the discounting of liabilities with terms of more than ten years. In total, falling interest rates, negative interest rates and a lower UFR had a net impact of SEK -0.9 billion on profit for 2018.

Liabilities to policyholders declined SEK 5.0 billion (2.0) during the year, primarily due to negative cash flows as a result of payouts and external transfers exceeding premium payments.

Operating expenses declined to SEK 412 M (417).

Investment income was positive for Old Trad and negative for New Trad and New World, and totalled SEK -0.5 billion (5.5).

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 the risk-based capital requirement. Länsförsäkringar Liv's solvency ratio on 31 December 2018 was 200% (207). The decline in the solvency ratio was primarily the result of own funds falling slightly during the year due to weaker capital markets in the fourth quarter.

Collective consolidation is calculated as the ratio between total capital and insurance capital. Collective consolidation on 31 December 2018 amounted to 105% (117) in New Trad and 124% (123) in Old Trad.

#### **New Trad**

Customers in Old Trad, New World and Insured Pension are offered the opportunity to transition their existing insurance policies to New Trad for which lower guarantees enable greater flexibility in asset management. Managed assets in New Trad amounted to SEK 22 billion (21). Investments as at 31 December 2018 comprised 59% interest-bearing investments, 34% equities, 5% alternative investments and 2% properties. The investment mix and the risk in the investment portfolio were relatively unchanged in 2018.

Investment return amounted to -0.6% (6.4). Interest-bearing investments, properties and alternative investments contributed positively to the return, while equities contributed negatively. The average return has been 4.9% per year since the start in 2013.

The bonus rate on 31 December 2018 was 5% (6). The bonus rate was lowered from 6% to 5% on 1 October 2018. In connection with this, an extra bonus of 5% was allotted. The average bonus rate has been 7.1% per year since the start in 2013.

The bonus rate for New Trad was lowered from 5% to 3% on 1 January 2019.

#### **Old Trad**

In Old Trad, Länsförsäkringar Liv manages assets of SEK 77 billion (81) on behalf of its customers. The primary aim of risk-taking in the Old Trad investment portfolio is to ensure that the guaranteed bonus can also be realised 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.

Investments in Old Trad on 31 December 2018 comprised 88% interest-bearing securities, 6% equities and the remainder was property and alternative investments. The total risk level in Old Trad declined slightly during the year since the percentage of equities fell in favour of interest-bearing investments.

Investment return amounted to 0.9% (2.7).

The bonus rate on 31 December 2018 was 3% (2). The bonus rate was raised from 2% to 3% on 1 September 2018.

#### **New World**

New World is a traditional insurance policy whereby customers benefit from changes in value in the equities market, while at the same time are guaranteed to recoup over time at least the premiums paid, after deductions for expenses and yield tax. Managed assets amounted to SEK 10 billion (12).

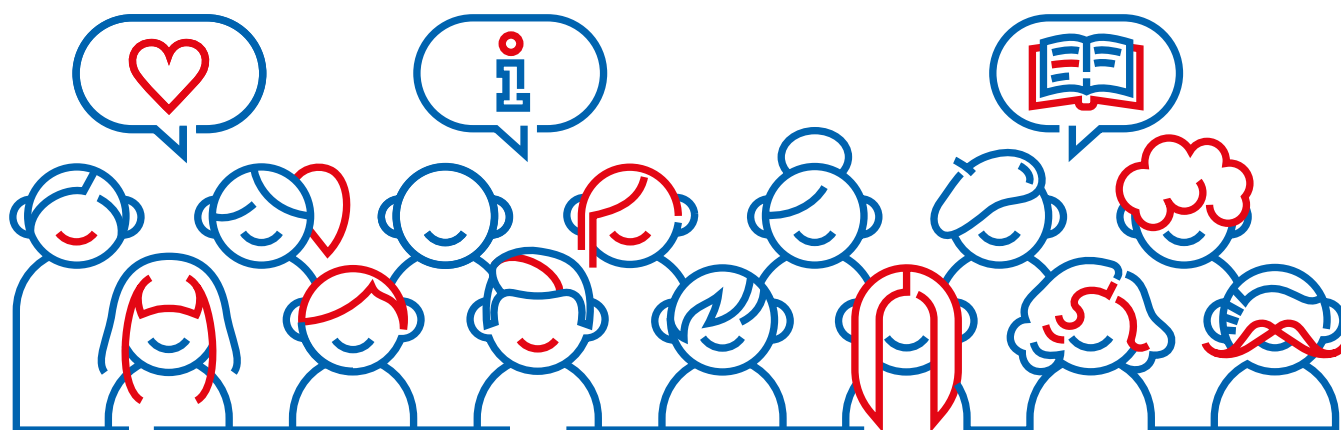
The investment mix for the New World management form can vary within defined intervals, with the percentage of equities comprising 60–80% and the remainder comprising interest-bearing investments. The percentage of equities on 31 December 2018 was 66%. The percentage of equities fell 4 percentage points in November.

Investment return amounted to -7.8% (13.3).

#### **Insured Pension**

Savings in Insured Pension comprise two parts, firstly a bond that extends over the entire savings period and secondly an equities derivatives fund that tracks the equities markets. Insured Pension thus offers savers the opportunity to profit from stock-market upswings, while protecting them from slumps. The performance of savings varies for different savers depending on the share of bonds in each policy. Managed assets in Insured Pension amounted to SEK 1.0 billion (1.9).

In 2018, Insured Pension customers were invited to transfer to New Trad. This offer was well received and a total of more than SEK 800 M in customer capital was transferred to New Trad.



## 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, the focus on cyber risks and climate risks has been intensified over time.

Credit risk in the Länsförsäkringar Bank Group 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. Credit 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 credit 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 primarily comprise 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 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, and how they are managed, is presented in Group note 2 Risk and capital management.

### Employees

Employees are Länsförsäkringar AB's most important resource. Their specialist and professional expertise is vital to carrying out

and developing the operations. Being a responsible employer is important for Länsförsäkringar to attract new employees and retain existing employees. Diversity and equality, skills development, learning, health and work environment and an activity-based working are deemed the key components of an attractive employer.

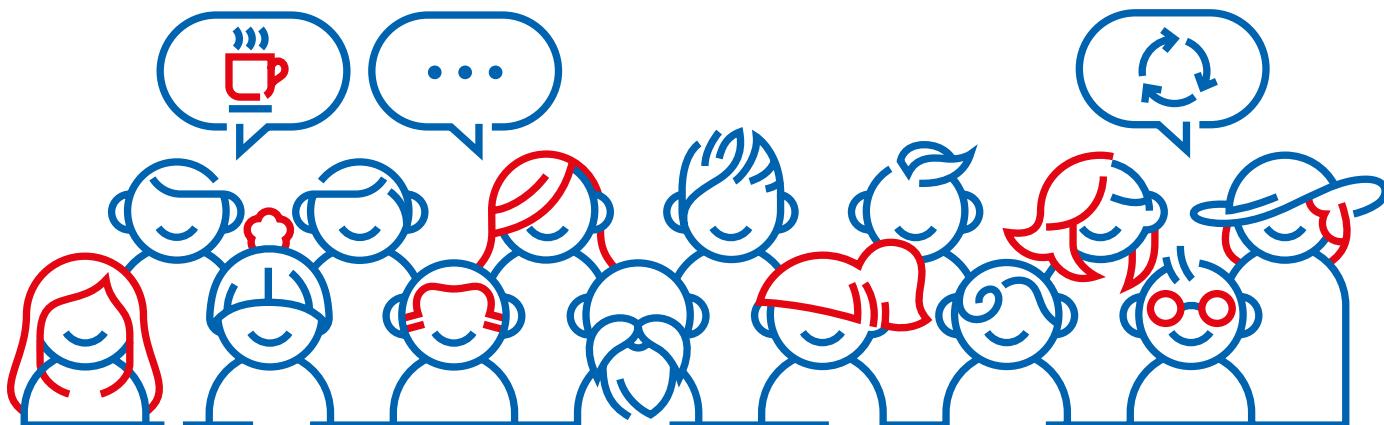
A more detailed description of how the Länsförsäkringar AB Group works as a responsible employer can be found on pages 25–26 and 132–133.

### Sustainability

The Länsförsäkringar AB Group's sustainability activities are 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 taking economic, social and environmental aspects into consideration in business development and business decisions.

The Länsförsäkringar AB Group's statutory Sustainability Report in accordance with Chapter 6, Section 11 of the Swedish Annual Accounts Act can be found on the pages listed in the Index ÅRL Sustainability Report on page 130.

The results of the year's operations and the financial position of the Länsförsäkringar AB Group and the Parent Company at 31 December 2018 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 complies with the applicable parts of the Swedish Corporate Governance Code (the Code). 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
- 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, 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 Läns-

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

***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.

***Fit and proper 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 knowledge and experience (fit), good repute and integrity (proper). A suitability assessment is carried out as part of the employment process and prior to election of Board members at General Meetings. Assessments of whether Board members, senior executives and individuals in other central functions are suitable ("fit and proper") 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 comprises the following governance documents:

- Policy – communicates a position of principle
- Guidelines – overall regulatory framework
- Instructions – detailed rules 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 to 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 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 it is the responsibility of the operations to ensure that control processes for monitoring are in place, implemented and reported. To support the internal-control process, a Compliance function and a Risk Control 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 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. Länsförsäkringar AB Group's Legal Affairs unit 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 also 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 the Head of Legal Affairs at Länsförsäkringar AB, the heads of the legal departments at Länsförsäkringar AB and Group Regulatory Affairs, a representative for the CFO Group, CRO Group and the 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 47.

### **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, known as the Annual General Meeting. No shareholder is entitled to own more 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 2018 Annual General Meeting approved the principles for remuneration and other terms of employment for Group 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 instruc-

tion adopted by the Annual General Meeting of Länsförsäkringar AB. The Nomination Committee is responsible for assessing whether proposed Board members are fit and proper. New Board members are recruited in accordance with the Nomination Committee's instructions and established procedures and processes. The Nomination Committee is to assess whether the Board is appropriately composed, with respect to the company's operations, stage of development and other circumstances, so that the overall competencies and experience necessary for the company are in place, characterised by diversity in terms of, for example, age, gender and ethnic origin, and educational and professional background that promotes independent opinions and critical questioning within the Board. See also the section Fit and proper assessment of the Board of Directors and President/CEO below.

### **Nomination Committee prior to 2019 Annual General Meeting**

The Nomination Committee has comprised Otto Ramel (Chairman) (Länsförsäkringar Skåne), Per-Åke Holgersson (Länsförsäkring Kronoberg), Kjell Lindfors (LF Norrbotten), Anna-Greta Lundh (Länsförsäkringar Södermanland), and Mats Åstrand (Länsförsäkringar Gävleborg) since the 2018 Annual General Meeting of Länsförsäkringar AB. Prior to 2019 Annual General Meeting, the Nomination Committee will:

- Study the evaluation of the Board's work.
- Listen to the Board Chairman's, Board members' and President's views on operations, the Board's work and requirements in relation to knowledge and experience.
- Review and discuss requirements for knowledge and experience with respect to the needs of the operations and regulatory requirements.
- Evaluate the independence of candidates.
- Nominate Board members, including the Chairman of the Board and, in certain cases, a Deputy Chairman.
- Perform fit and proper 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 2018 Annual General Meeting, Mårten Asplund, KPMG AB, was appointed auditor and Anders Tagde, KPMG AB, deputy auditor, both to serve for the period up to the 2019 Annual General Meeting.

The auditors examine Länsförsäkringar AB's Annual Report and Corporate Governance Report, the administration of the Board and the President and the Sustainability Report. At the Annual General Meeting, the auditor presents the audit report and describes the audit process. The auditor presented the audit results and observations to the Board once during 2018. The

auditors also participate in meetings of the Audit Committee.

## Board of Directors

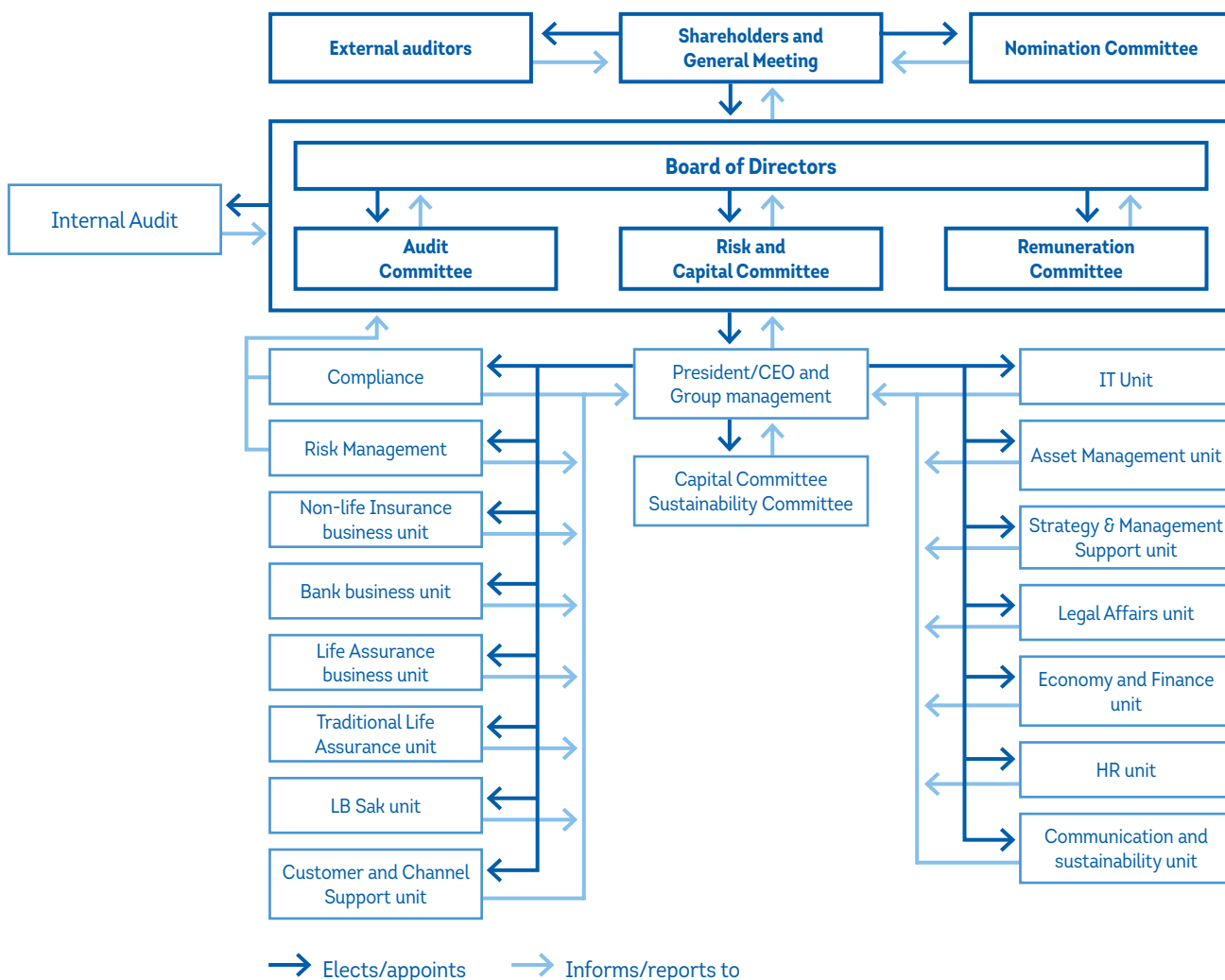
The Board of Directors of Länsförsäkringar AB are appointed by the Annual General Meeting and, in accordance with the Articles of Association, is to comprise between eight and twelve Board members elected by the General Meeting, with or without deputies. In accordance with the Articles of Association, 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 and CEO 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. A presentation of the Board members can be found on pages 140-141.

## 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, dis-

## Länsförsäkringar AB's governance structure



misses and evaluates the President, adopts an appropriate operational organisation for Länsförsäkringar AB and the Länsförsäkringar AB Group as well as 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 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 shall also keep informed of significant events and developments within the company between Board meetings, and shall support 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 formal work plans for each committee. 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 13 meetings in 2018, one of which per capsulam. In 2018, 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 its effects on the operations and IT, IT security and digitisation. 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 49.

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

Every year, the Board Chairman initiates an evaluation of the Board's work. 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.
- internal control of the operational risks.

At the statutory Board meeting immediately following the 2018 Annual General Meeting, Maria Engholm (Chairman), Bengt-Erik Jansson, Mikael Sundquist and Caesar Åfors 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 49.

### **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 2018 Annual General Meeting, Caesar Åfors (Chairman), Susanne Bäck and Jonas Rosman were appointed members of the Risk and Capital Committee.



The number of Risk and Capital Committee meetings and members' attendance at these meetings are presented in the table on page 49.

### 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 2018 Annual General Meeting, Caesar Åfors (Chairman), Maria Engholm and Jonas Rosman were appointed members of the Remuneration Committee.

The number of Remuneration Committee meetings and members' attendance at these meetings are presented in the table on page 49.

### President/CEO and Group management

Fredrik Bergström took office as President and CEO of Länsförsäkringar AB on 10 September 2018 and succeeded Sören Westin who had served as President since 2 Febru-

ary 2018. Fredrik Bergström was born in 1970 and has most recently worked as President of Länsförsäkringar Stockholm since 2013. Prior to that, he held senior positions at companies including SBAB. 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.

The Länsförsäkringar AB Group's operations are organised into three business units: Non-life Insurance, Banking and Life Assurance; a Traditional Life Assurance unit; a unit to support the regional insurance companies' non-life insurance business, LB Sak; the eight Group-wide units: Asset Management, Economy & Finance, Customer and Channel Support, IT, HR, Legal Affairs, Communication and Sustainability, Strategy & Management Support; and the control functions: Internal Audit, Compliance and Risk Control. The latter is part of the Risk Management unit. To ensure the coordination of the operations 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 Group management comprises the Presidents and heads of the business and Group-wide units. The Head of Legal Affairs, HR Director and Director of Corporate Communications are co-opted members of Group management. Group management comprises the management team for the entire Länsförsäkringar AB Group. Group management discusses and decides on issues concerning the Group's units and the Compliance and Risk Management functions.

The President and CEO established a Capital Committee to address 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 and CEO of Länsförsäkringar AB. The Committee is governed by a separate formal work plan. Group management is presented on pages 142-143.

### Control functions

#### Internal Audit

Internal Audit is an independent review function that supports the Board in the evaluation of the corporate governance system, including the organisation's risk management, governance and controls. Based on its reviews and advice, Internal Audit evaluates and ensures that the operations' overall internal governance and control systems are pursued effectively, that the overall reporting to the Board provides a correct and comprehensive view of the operations, that the operations are conducted in accordance with applicable internal and external regulations, and that there is 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 also to provide support and advice to operations, to ensure that operations are informed about new and

### Meetings and attendance

The table below shows the number of meetings held in each body in 2018, and the attendance by each Board member:

	Board of Directors	Audit Committee	Risk and Capital Committee	Remuneration Committee
Total number of meetings	13	7	9	4
Maria Engholm	13	7	-	1
Jan Fock <sup>1)</sup>	7	3	4	3
Tomas Hansson, deputy	0	-	-	-
Bengt-Erik Jansson <sup>2)</sup>	13	4	-	-
Susanne Lindberg	12	-	-	-
Göran Lindell <sup>3)</sup>	13	3	-	2
Linnéa Niklasson	12	-	-	-
Susanne Bäck <sup>4)</sup>	12	-	5	-
Jonas Rosman <sup>5)</sup>	13	3	4	3
Anna Sandqvist	10	-	-	-
Mirek Swartz, deputy	0	-	-	-
Mikael Sundquist <sup>6)</sup>	13	2	-	-
Maria Wallin Wållberg <sup>7)</sup>	4	-	-	-
Christer Villard <sup>8)</sup>	11	-	3	-
Caesar Åfors <sup>9)</sup>	12	4	9	4

<sup>1)</sup> Board member until AGM on 18 May 2018. Member of Audit, Risk and Capital Committee, and Remuneration Committees until 18 May 2018.

<sup>2)</sup> Member of the Audit Committee since 18 May 2018.

<sup>3)</sup> Member of the Audit Committee until 18 May 2018.

<sup>4)</sup> Member of the Risk and Capital Committee since 18 May 2018.

<sup>5)</sup> Member of the Audit Committee until 18 May 2018. Member of the Risk and Capital Committee since 18 May 2018.

<sup>6)</sup> Member of the Audit Committee since 18 May 2018.

<sup>7)</sup> Board member from AGM on 18 May 2018.

<sup>8)</sup> Member of the Risk and Capital Committee until 18 May 2018.

<sup>9)</sup> Member of the Audit Committee since 18 May 2018.



amended regulations and to take part in the implementation of training. Compliance risks and recommendations for action are regularly reported to the President and the 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 and CEO of Länsförsäkringar AB. Risk Management reports regularly to both the Board and President and CEO.

### **Fit and proper assessment of Board and President/CEO**

A suitability ("fit and proper") 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 fit and proper assessment is conducted following established guidelines and with regard to the person's qualifications, knowledge and experience as well as good repute and integrity.

Board members are assessed on the basis of material received from the person to whom the fit and proper 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 not considered suitable 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 fit and proper assessment, the company is to adopt measures to ensure that the person in question either meets the fit and proper criteria or is replaced.

The assessment is that all Board members and the President and CEO fully satisfy the fit and proper criteria.

### **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**

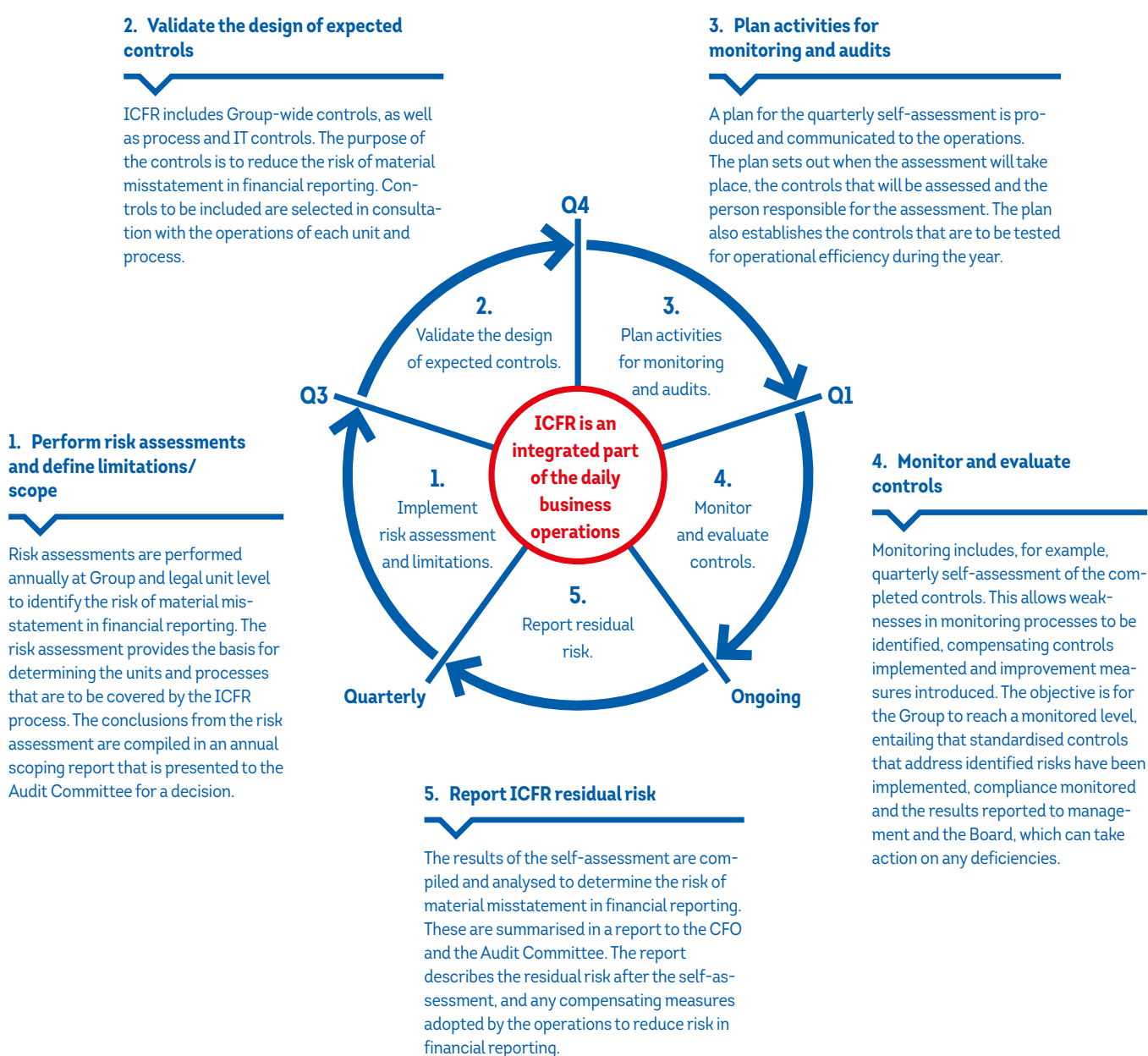
The mandate period for Board members is two years. The company deviates from the Code's provision of a maximum mandate period of one year due to the supremacy of the Annual General Meeting to dismiss and appoint a Board member irrespective of their term. A mandate period of more than one year contributes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

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

A deviation from the provisions of the Code regards 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's responsibility** is to ensure 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 for providing reasonable assurance of the reliability of the financial reporting to management and Board. 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.	2018	2017	2016	2015	2014
<b>GROUP</b>					
Operating profit	2,351	2,825	2,286	2,155	1,469
Net profit for the year	2,190	2,250	1,845	1,765	1,159
Return on equity, % <sup>1)</sup>	9	11	10	11	7
Total assets, SEK billion	507	474	422	385	356
Number of shares, 000s	10,425	10,425	10,425	10,425	10,066
Equity per share, SEK	2,462	2,269	2,046	1,858	1,675
<b>Solvency capital</b>					
Equity	26,867	24,857	22,529	20,538	16,857
Tier 1 capital issued	-1,200	-1,200	-1,200	-1,173	-
Subordinated debt	2,593	2,596	2,595	2,300	2,000
Deferred tax	1,313	1,486	1,320	1,109	910
<b>Total solvency capital</b>	<b>29,573</b>	<b>27,740</b>	<b>25,244</b>	<b>22,774</b>	<b>19,767</b>
Solvency margin, % <sup>2)</sup>	479	467	452	428	455
Own funds for the group (FRL) <sup>3)</sup>	43,870	44,172	40,602	36,905	-
Solvency capital requirement for the group (FRL) <sup>3)</sup>	33,874	33,441	30,121	28,233	-
Own funds for the financial conglomerate <sup>4)</sup>	43,870	44,172	40,352	-	-
Capital requirement for the financial conglomerate <sup>4)</sup>	33,874	33,441	30,121	-	-
Own funds for the financial conglomerate <sup>5)</sup>	-	-	-	21,548	17,802
Necessary capital requirement for the financial conglomerate	-	-	-	15,897	14,988
Average number of employees	1,972	1,915	1,786	1,676	1,596
<b>INSURANCE OPERATIONS<sup>6)</sup></b>					
<i>Non-life insurance operations</i>					
Premiums earned (after ceded reinsurance)	5,623	5,353	5,090	4,836	3,880
Investment income transferred from financial operations	23	26	15	44	130
Claims payments (after ceded reinsurance) <sup>7)</sup>	-3,666	-3,272	-3,336	-2,776	-2,251
<b>Technical result for non-life insurance operations<sup>8)</sup></b>	<b>344</b>	<b>916</b>	<b>390</b>	<b>808</b>	<b>604</b>
<i>Premium income, non-life insurance</i>					
Premium income before ceded reinsurance	7,302	7,124	6,753	6,534	8,444
Premium income after ceded reinsurance	5,703	5,498	5,195	4,959	4,050
<i>Life-assurance operations</i>					
Premium income after ceded reinsurance	510	477	432	383	329
Fees pertaining to financial agreements	755	724	659	649	570
Investment income, net	-133	121	144	-21	108
Claims payments (after ceded reinsurance)	-271	-266	-267	-262	-206
<b>Technical result, life-assurance operations</b>	<b>734</b>	<b>700</b>	<b>541</b>	<b>540</b>	<b>621</b>
<b>Operating profit for insurance operations<sup>9)</sup></b>	<b>1,130</b>	<b>1,628</b>	<b>1,194</b>	<b>1,424</b>	<b>1,164</b>
<i>Key figures</i>					
Cost ratio <sup>10)</sup>	29	27	27	27	29
Expense ratio <sup>11)</sup>	23	21	21	21	22
Claims ratio <sup>12)</sup>	72	67	71	63	65
Combined ratio	94	88	93	84	87
Management cost ratio, life-assurance operations <sup>13)</sup>	0.9	0.9	0.9	1.0	1.1
Direct yield, % <sup>14)</sup>	1.1	-0.2	1.4	0.7	2
Total return, % <sup>15)</sup>	1.5	4.3	4.2	3.9	4.9
<i>Financial position</i>					
Investment assets, SEK billion <sup>16)</sup>	14	14	14	12	12
Unit-linked insurance assets for which the policyholder bears the risk, SEK billion	122	125	112	100	91
Technical provisions (after ceded reinsurance), SEK billion	9	8	8	8	7
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	2018	2017	2016	2015	2014
<b>BANKING OPERATIONS</b>					
Net interest income	4,497	3,996	3,464	2,994	2,580
Operating profit	1,510	1,599	1,467	1,175	935
Net profit for the year	1,182	1,237	1,137	911	712
Return on equity, % <sup>18)</sup>	8.3	10.0	10.1	8.9	8.3
Total assets, SEK billion	350	315	276	251	232
Equity	16,106	14,328	13,182	12,057	9,597
Cost/income ratio before credit losses <sup>19)</sup>	0.58	0.49	0.48	0.57	0.62
Investment margin, % <sup>20)</sup>	1.30	1.32	1.28	1.22	1.15
Core Tier 1 ratio, Bank Group	14.2 <sup>24)</sup>	24.3	24.8	23.7	16.2
Tier 1 ratio, Bank Group, % <sup>21)</sup>	15.5 <sup>24)</sup>	26.8	27.5	26.6	16.2
Capital adequacy ratio, Bank Group, % <sup>22)</sup>	18.2 <sup>24)</sup>	32.1	33.4	32	20.6
Core Tier 1 ratio, consolidated situation, %	15.7 <sup>24)</sup>	23.3	21.2	21.4	13.9
Tier 1 ratio, consolidated situation, % <sup>21)</sup>	16.5 <sup>24)</sup>	24.8	23.2	23.7	13.9
Capital adequacy ratio, consolidated situation, % <sup>22)</sup>	18.3 <sup>24)</sup>	28.1	27.6	28.2	17.5
Credit losses in relation to loans, % <sup>23)</sup>	0.04	0.02	0.02 <sup>25)</sup>	0.00, <sup>25)</sup>	0.00 <sup>25)</sup>

<sup>1)</sup> 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.

<sup>2)</sup> Solvency capital as a percentage of premium income after ceded reinsurance.

<sup>3)</sup> 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 company 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.

<sup>4)</sup> 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.

<sup>5)</sup> 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.

<sup>6)</sup> 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.

<sup>7)</sup> Excluding claims adjustment costs.

<sup>8)</sup> The Länsförsäkringar Sak Group's technical result amounted to SEK 402 M (977) in 2018. 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 58 M (62) in 2018.

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

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

<sup>11)</sup> 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.

<sup>12)</sup> 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.

<sup>13)</sup> 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.

<sup>14)</sup> 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.

<sup>15)</sup> 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.

<sup>16)</sup> 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.

<sup>17)</sup> 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.

<sup>18)</sup> 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.

<sup>19)</sup> Total expenses before credit losses in relation to total income.

<sup>20)</sup> Net interest income in relation to average total assets.

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

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

<sup>23)</sup> Net credit losses in relation to the carrying amount of loans to the public and to credit institutions.

<sup>24)</sup> As of 31 December 2018, the application of the risk weight floor for Swedish mortgages changed, which consequently reduces the capital ratios from this period.

<sup>25)</sup> Includes the dissolution of reserves.

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## Consolidated income statement

SEK M	Note	2018	2017
Premiums before ceded reinsurance		7,690	7,420
Reinsurers' portion of premiums		-1,590	-1,618
<b>Premiums after ceded reinsurance</b>	5	<b>6,100</b>	<b>5,802</b>
Interest income	6	5,229	4,566
Interest expense	7	-729	-573
<b>Net interest income</b>		<b>4,500</b>	<b>3,994</b>
Change in unit-linked insurance assets policyholder bears the risk		-4,539	10,177
Dividends in investment assets for which the policyholder bears the risk		8	6
Investment income, net	8	-26	295
Commission income	9	2,937	2,987
Other operating income	10	2,346	2,466
<b>Total operating income</b>		<b>11,327</b>	<b>25,726</b>
Claims payments before ceded reinsurance		-4,769	-4,368
Reinsurers' portion of claims payments		854	851
<b>Claims payments after ceded reinsurance</b>	11	<b>-3,915</b>	<b>-3,517</b>
Change in life-assurance reserve		-9	-8
Change in unit-linked insurance liabilities policyholder bears the risk		4,668	-10,352
Commission expense	12	-3,216	-3,239
Staff costs	13	-2,228	-2,060
Other administration expenses	14, 15	-4,182	-3,667
Credit losses	16	-95	-58
<b>Total expenses</b>		<b>-8,976</b>	<b>-22,901</b>
<b>Operating profit</b>		<b>2,351</b>	<b>2,825</b>
Tax	17	-162	-575
<b>Net profit for the year</b>		<b>2,190</b>	<b>2,250</b>
Earnings per share before and after dilution, SEK	18	210	216

## Consolidated statement of comprehensive income

SEK M	Note	2018	2017
<b>Net profit for the year</b>		<b>2,190</b>	<b>2,250</b>
<b>Other comprehensive income</b>	35		
<b>Items that may subsequently be transferred to profit or loss</b>			
Translation differences for the year from foreign operations		4	-5
Cash-flow hedges			
of which change in value for the period		3,489	2,364
of which reclassification to profit or loss		-3,547	-2,496
Change in fair value of available-for-sale financial assets			
of which change in value for the period		-44	67
of which reclassification of realised securities to profit or loss		-6	-16
Tax attributable to items that may subsequently be transferred to profit or loss		24	14
<b>Total</b>		<b>-80</b>	<b>-55</b>
<b>Items that cannot be transferred to profit or loss</b>			
Revaluation of owner-occupied property		393	211
Revaluation of defined-benefit pension plans		-	3
Change in fair value of equity instruments measured at fair value		-10	-
Tax attributable to items that cannot be reversed to profit or loss		-74	-47
<b>Total</b>		<b>309</b>	<b>167</b>
<b>Total other comprehensive income for the year, net after tax</b>		<b>229</b>	<b>113</b>
<b>Comprehensive income for the year</b>		<b>2,418</b>	<b>2,362</b>

## Consolidated statement of financial position

SEK M	Note	2018-12-31	2017-12-31
<b>ASSETS</b>			
Goodwill	19	542	538
Other intangible assets	20	4,200	4,304
Deferred tax assets	39	122	47
Property and equipment	21	55	44
Owner-occupied property	22	3,232	2,887
Shares in Länsförsäkringar Liv Försäkrings AB	23	8	8
Shares and participations in associated companies	24	54	48
Reinsurers' portion of technical provisions	37	10,553	10,475
Loans to the public	25, 27	289,426	261,444
Unit-linked insurance assets for which the policyholder bears the risk	26	122,340	124,730
Shares and participations	28	2,700	2,570
Bonds and other interest-bearing securities	29	43,950	44,008
Treasury bills and other eligible bills	30	10,847	10,531
Derivatives	50	6,090	5,182
Change in value of hedge portfolios	31	125	248
Other receivables	32	4,537	3,576
Prepaid expenses and accrued income	33	1,977	1,936
Cash and cash equivalents	34	6,075	1,196
<b>Total assets</b>		<b>506,835</b>	<b>473,773</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	35		
Share capital		1,042	1,042
Other capital contributed		10,272	10,272
Additional Tier 1 instrument		1,200	1,200
Reserves		697	948
Retained earnings, including net profit for the year		13,656	11,394
<b>Total equity</b>		<b>26,867</b>	<b>24,857</b>
Subordinated liabilities	36	2,593	2,596
Technical provisions	37	19,465	18,903
Unit-linked insurance liabilities policyholder bears the risk	38	123,135	125,583
Deferred tax liabilities	39	1,435	1,533
Other provisions	40	119	115
Debt securities in issue	41	210,304	187,870
Deposits from the public	42	106,854	98,197
Due to credit institutions	43	5,992	3,996
Derivatives	50	787	1,187
Change in value of hedge portfolios	31	1,058	1,200
Other liabilities	44	3,638	3,059
Accrued expenses and deferred income	45	4,587	4,676
<b>Total equity and liabilities</b>		<b>506,835</b>	<b>473,773</b>

For information about pledged assets and contingent liabilities, see note 46 Pledged assets and contingent liabilities.

Consolidated statement of changes in shareholders' equity									
SEK M	Aktie- kapital	Övrigt tillskjutet kapital	Primär- kapital	Omräknings- reserv	Omvärder- ingsreserv	Verkligt- värdereserv	Säkrings- reserv	Balanserade vinstmedel inkl årets resultat	Totalt eget kapital
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>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-5</b>	<b>167</b>	<b>40</b>	<b>-90</b>	<b>2,250</b>	<b>2,362</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>
Effect of the change in accounting policy <sup>1)</sup>	-	-	-	-	-	-480	-	393	-87
Opening balance, 1 January 2018 after adjustment for change in accounting policy	1,042	10,272	1,200	-65	985	-347	-106	11,787	24,770
<b>Comprehensive income for the year</b>									
Net profit for the year	-	-	-	-	-	-	-	2,190	2,190
Other comprehensive income	-	-	-	4	319	-49	-45	-	229
<b>Comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>319</b>	<b>-49</b>	<b>-45</b>	<b>2,190</b>	<b>2,418</b>
Dividends paid	-	-	-	-	-	-	-	-300	-300
Realised gain from sale of shares	-	-	-	-	-	-	-	13	13
Tier 1 capital issued	-	-	-	-	-	-	-	-34	-34
<b>Closing equity, 31 December 2018</b>	<b>1,042</b>	<b>10,272</b>	<b>1,200</b>	<b>-61</b>	<b>1,304</b>	<b>-397</b>	<b>-151</b>	<b>13,656</b>	<b>26,867</b>

<sup>1)</sup> Effect due to change in accounting policy from IAS 39 - Financial Instruments: Recognition and measurement to IFRS 9 - Financial Instruments. See note 1 Accounting policies and note 56 Financial effect of change in accounting policy from IAS 39 to IFRS 9.

Consolidated statement of cash flows			
SEK M	Note	2018	2017
<b>Operating activities</b>			
Operating profit		2,351	2,825
Adjustment for non-cash items	53	3,269	3,790
Tax paid		-542	-215
<b>Cash flow from operating activities before changes in working capital</b>		<b>5,079</b>	<b>6,400</b>
<b>Cash flow from changes in working capital</b>			
Change in shares and participations, bonds and other interest-bearing securities and derivatives		-2,864	-7,625
Increase (-)/Decrease (+) in operating receivables		-28,695	-36,612
Increase (+)/Decrease (-) in operating liabilities		11,201	8,195
<b>Cash flow from operating activities</b>		<b>-20,358</b>	<b>-29,642</b>
<b>Investing activities</b>			
Change in shares and participations in associated companies		3	-4
Purchase of intangible assets		-595	-673
Purchase of property and equipment		-34	-28
Investment in property and equipment		-37	-31
Divestment of property and equipment		8	8
<b>Cash flow from investing activities</b>		<b>-655</b>	<b>-729</b>
<b>Financing activities</b>			
Change in debt securities in issue		21,142	30,430
Distributions in Tier 1 Capital instruments		-34	-34
Dividends paid		-300	-
<b>Cash flow from financing activities</b>		<b>21,142</b>	<b>30,397</b>
Net cash flow for the year		4,875	26
Cash and cash equivalents, 1 January		1,196	1,171
Exchange-rate differences in cash and cash equivalents		4	-1
<b>Cash and cash equivalents, 31 December</b>		<b>6,075</b>	<b>1,196</b>

# Notes to the consolidated financial statements

Amounts are stated in SEK M unless specified otherwise.

## Note 1 Accounting policies

### 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 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, is not entitled to variable returns and cannot influence returns. Instead, Länsförsäkringar Liv is recognised and valued as unlisted shares.

### Significant sources of estimation uncertainty

Estimation uncertainty arises in the valuation of expected credit losses since such valuations are based on complex models and assessments. The estimate of expected credit losses is primarily based on models, but an individual assessment is performed for cases in which significant information is available that is not incorporated in these models.

One of the main areas in which important assessments are to be made is the identification of a significant increase in credit risk. Such an assessment of is performed at the end of every reporting period and determines the number of loans transferred from stage 1 to stage 2. An increase in loans in stage 2

entails an increase in the estimated reserves for credit losses ("loss allowances"), while a reduction in loans in stage 2 would have the opposite effect.

Important assessments are also carried out when considering forward-looking information and in the choice of macroeconomic scenarios for calculating expected credit losses. Expected credit losses are to be estimated in a manner that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. The estimate is to include information about past events, current conditions and forecasts of future economic conditions. The forward-looking information used to estimate expected credit losses is based on the Group's internal macroeconomic forecasts. These macroeconomic forecasts take into account both internal and external information and correspond to the forward-looking information used for other purposes, such as forecasts and financial planning. At least three potential macroeconomic scenarios are considered when calculating expected credit losses: a base scenario, a more positive scenario and a more negative scenario. A deterioration in the forecast macro variables in each scenario or an increase in the probability of a negative scenario would generally entail an increase in the estimated loss allowance. An improvement in the forecast macro variables or an increase in the probability of a positive scenario would instead have the opposite effect on the estimated loss allowance. The loss allowance that would arise in the event of a negative and a positive scenario, assigned a probability of 100%, is presented in note 16 Credit losses.

When calculating the life-assurance reserve, assumptions are made regarding the discount rate, mortality, morbidity and expenses. 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.

There is some uncertainty in the estimates for the depreciation period for deferred 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 applied from 1 January 2018

From 1 January 2018, the Group applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

#### IFRS 9 Financial Instruments

IFRS 9 has replaced IAS 39 Financial Instruments: Recognition and Measurement and the standard contains new requirements for the classification and measurement of financial instruments, an expected loss impairment model and simplified conditions for hedge accounting.

Regarding hedge accounting, the Group has decided to apply the option entailing that the rules in IAS 39 will continue to apply for all hedging relationships.

#### Effect of transition to IFRS 9

The Group applies IFRS 9 retrospectively but, in line with the transitional measures, comparative figures have not been restated.

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, see the table Statement of changes in equity. The effect on the statement of financial position is presented in its entirety in note 57. In equity, previous impairment by Länsförsäkringar Liv Försäkrings AB, that impacted retained earnings, was transferred to the fair value reserve. IFRS 9 does not permit valuations at cost since the fair value is not reliably measurable.

A description of the policies for recognising financial instruments is provided in the section Financial assets and liabilities. For a description of comparative figures calculated in accordance with IAS 39, refer to the 2017 Annual Report.

#### IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaced all previously issued standards and interpretations on income on 1 January 2018.



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). For the Group, this standard encompasses revenue reported in commission income and other operating income.

The Group has applied the modified retrospective approach, which entails that the effects of IFRS 15 are recognised as an adjustment to the opening balance of retained earnings. No such effects on opening balances have arisen. For the Group, the standard entails the following reclassifications in profit or loss. Costs for rebating of commissions and fund discounts are recognised as a deduction from commission income instead of as commission expense as previously.

### **New IFRSs that have not yet been applied**

The new or revised standards and interpretations, as adopted by the IASB, described below come into effect for fiscal years beginning on or after 1 January 2019 and have not been applied in advance when preparing these financial statements. Other than those, no other new or revised IFRS and interpretations not yet in force are deemed to have any material effect on the financial statements.

### **IFRS 16 Leases**

IFRS 16 will replace IAS 17 Leases on 1 January 2019. The standard primarily entails that instead of being classified as operating leases, the leases in which the Group is the lessee will be recognised in the statement of financial position. In connection with the transition, the Group will recognise the leases that were previously classified as operating leases in the statement of financial position except for leases of a low value and leases with a term of less than 12 months.

The Group will apply the modified retrospective approach, which entails that the incremental borrowing rate on the transition on 1 January 2019 is used to calculate the lease liability and that the comparative year is recognised according to the current IAS 17. Lease assets recognised in the statement of financial position on transition will correspond to the lease liability, which is why no adjustment to equity arises for the opening balance 2019. Based on the Group's leases on the transition date, IFRS 16 is not expected to entail any material impact on the Group's financial position.

### **IFRS 17 Insurance Contracts**

IFRS 17 Insurance Contracts was published on 18 May 2017 and will replace the currently applicable standard IFRS 4 Insurance Contracts. The new standard has not been approved by the EU but is expected to come into effect for fiscal years beginning on or after 1 January 2022. The standard will eliminate contradictions and weaknesses in the existing method by providing a principle-based set of rules for recognising insurance contracts. IFRS 17 imposes expanded disclosure requirements to increase comparability between different companies.

Länsförsäkringar AB is running a Group project to analyse the effects of the new standard.

### **IFRIC 23 Uncertainty over Income Tax Treatments**

IFRIC 23 Uncertainty over Income Tax Treatments clarifies how IAS 12 Income Taxes is to be applied if there are uncertainties about how tax legislation is to be applied to a certain transaction or under certain circumstances. An example is whether a deduction claimed in a tax return will be accepted by the body or bodies (tax authority) that has the right to decide in such matters.

IFRIC 23 has been approved by the EU and is to be applied to fiscal years beginning on or after 1 January 2019. Early adoption is permitted. The Group has not yet fully evaluated the effect of the interpretation on the consolidated 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 or 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 or 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 or 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.

### **Issued 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.

### **Related parties**

Legal entities closely related to the Länsförsäkringar AB Group include associated companies, Länsförsäkringar Liv Försäkrings AB, the 23 regional insurance companies and their subsidiaries, the 16 local insurance companies, Länsförsäkringar Mäklarservice AB, Länsförsäkringar Fastighetsförmedling AB and Humlegården Fastigheter AB. 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. Other related parties comprise Länsförsäkringar Mäklarservice AB, Länsförsäkringar Fastighetsförmedling AB and Humlegården Fastigheter AB. These companies are wholly owned within the Länsförsäkringar Alliance. The 16 local insurance companies, which together with the regional insurance companies own Länsförsäkringar AB, are also included in other related parties.

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 means that the accounting policies in the operating segments may deviate from the policies applied in the consolidated financial statements. The following accounting policies applied in the operating segments differ from those 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 or 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 approximation 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 is recognised in profit or 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.

### 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.

### Income

Income from contracts with customers is recognised in profit or loss when all steps of the five-step model have been fulfilled:

1. The contract with the customer has been identified
2. The performance obligations in the contract have been identified
3. The transaction price has been determined
4. The transaction price has been allocated to the performance obligations
5. Income is recognised as the performance obligations are satisfied

The Group's division of income from contracts with customers in the note on Commission income and the note on Other operating income corresponds to the structure of the internal reports that Group management uses to monitor the operations.

The Group applies the exemption entailing that disclosures on outstanding performance obligations attributable to contracts with a term of less than one year are not provided.

### Payment mediation and cards

The Bank Group's obligations for payment mediation partly comprise making it possible for customers to make secure and convenient payments and partly involve participating in the payments systems required for carrying out the payments. Income for payment mediation is settled in advance in the form of annual fees and continuously with the transactions being performed. The income received in advance is recognised on settlement as a contract liability and income is distributed evenly over the remaining period. Continuous income is recognised after the transactions have been completed and is settled either immediately or following a slight delay.

### Lending commission

Lending commission primarily refers to additional services that customers can choose when arranging their loans. Income is recognised when the customer receives the service. Arrangement fees are recognised as interest income according to the effective interest method. Lending commission also includes notification and reminder fees for which the Bank Group's obligation is to notify/remind the customer. These fees are recognised as income when the notification or reminder is sent to the customer. Penalty interest is recognised as interest income.

## Securities commission

The Bank Group's securities commission is largely attributable to income in Länsförsäkringar Fondförvaltning. A small portion is attributable to Länsförsäkringar Bank. Commission is based on the following obligations:

The Bank Group receives a management fee from the funds that the subsidiary Länsförsäkringar Fondförvaltning has undertaken to manage. This management fee is based on the current assets in the funds. Income for this fee is recognised monthly since the obligations is deemed to be satisfied and settled in the following month. The bank receives a fixed brokerage fee from the customer for each transaction. When the transaction has been completed, the obligation is deemed to be satisfied and the fee is recognised as income.

Länsförsäkringar Bank and Länsförsäkringar Fondförvaltning receive remuneration from the trading venues in which they operate. The obligation is to distribute and invest in the funds traded on these trading venues. Income is based on the current managed assets that were distributed and invested in the trading venue's funds. Income is recognised every month. Income for the current quarter is settled in the first month of the subsequent quarter.

Länsförsäkringar Fondförvaltning receives remuneration when the company's funds invest in other funds. This remuneration is based on the current managed assets and the obligation is satisfied when the investment is made in the fund. Income is recognised every month and the current quarter's income is settled in the first month of the subsequent quarter.

## Rebating of commissions

Rebating of commissions is received from fund companies that Länsförsäkringar Fondliv has partnership agreements with in order to offer mutual funds to customers. This remuneration comprises commission for distributing the funds and is calculated every day on the brokered portfolio per fund.

Länsförsäkringar Fondliv's obligation is to broker and distribute funds. The obligation is deemed to be satisfied when the funds have been brokered.

Rebating of commissions is variable. Länsförsäkringar Fondliv believes that it is not possible to reliably determine future rebating of commissions due to such uncertainty factors as the amount of future capital since some funds have transfer options and future market trends. Income is recognised when Länsförsäkringar Fondliv receives the rebate and not when the transactions is brokered.

## Fees from financial agreements

Länsförsäkringar Fondliv's obligation is to continuously over time provide and manage the range of mutual funds that the customer can save in. Fees from financial agreements comprise a variable and a fixed annual fee. The variable fee is a percentage of the customer's insurance capital. The fee is calculated every day based on the closing amount and the fixed fee is charged monthly. The fees are recognised as income in line with Länsförsäkringar Fondliv Försäkrings AB providing the management services to the customer.

Länsförsäkringar Bank pays regular commission to the regional insurance companies. The regional insurance companies receive remuneration for their work with Länsförsäkringar Bank's customer-related issues in each of the regional insurance companies' geographic areas. No customer acquisition costs are capitalised since they are deemed to comprises continuous remuneration to the regional insurance companies and thus do not satisfy the requirements for capitalisation of customer acquisition costs

## Deferred acquisition costs

Acquisition costs that have a clear connection to underwriting insurance contracts and financial agreements are recognised as deferred acquisition costs in the statement of financial position 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. These acquisition costs pertain to such costs as commission and expenses for sales that are directly related to acquisitions or renewals of insurance contracts. Acquisition costs in Länsförsäkringar Fondliv are depreciated straight line over seven years. The assumption for the depreciation period is based on statistics relating to the terms of the insurance contracts. The asset is impairment tested every year. 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.

## 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 for the insurance contracts are recognised as premium income in line with premiums being paid. Premiums pertain to direct life assurance and comprise periodic premiums. Premium income is recognised as the total gross premium for direct insurance 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.

### 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 profit or loss comprise interest in the Bank Group calculated according to the effective interest method on financial assets and liabilities measured at amortised cost, and interest from financial assets classified as measured at fair value through other comprehensive income. The effective interest rate includes fees that are deemed to be an integrated part of the effective interest rate for a financial instrument (usually fees that are received as compensation for risk). The effective interest rate corresponds to the rate used to discount contractual future cash flows to the carrying amount of the financial asset or liability.

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.

For assets in stage 3, the interest income is calculated and recognised based on the net carrying amount, meaning after deductions for expected credit losses. For assets in stage 1 and 2, the interest income is calculated and recognised based on the gross carrying amount. See also the section on expected credit losses below.

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: gains/losses from investing activities in the Parent Company and insurance companies, the Bank Group's net gains from financial items and effect of interest-rate revaluations on annuities in insurance operations.

Gains/losses from investing activities include realised and unrealised gains/losses on investment assets, interest income and interest expense as well as exchange-rate gains/losses on investment assets. Dividends received, asset management expenses and other financial expenses are included in investment income.

Net gains from financial items from the Bank Group includes interest compensation, capital gains/losses from divestment of financial assets, 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.

Realised gains or losses are calculated as the difference between the purchase consideration received and the cost of the asset. Unrealised gains or losses comprise 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 a realised gain or loss, except for shares and participations that we have decided to measure at fair value through other comprehensive income.

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.

### **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 recog-

nises expenses for restructuring. Remuneration expected to be paid after 12 months is recognised at its present value.

### **Credit losses**

Credit losses comprise expected credit losses, confirmed credit losses, recoveries of credit losses previously recognised as confirmed and reversals of expected credit losses no longer required. Confirmed credit losses could refer to the entire receivable or parts of it when there is no realistic possibility of recovery. A confirmed credit loss is recognised as a write-off of the gross carrying amount and an add-back of the portion of the allowance for expected credit losses that pertains to a written-off loan or portions of a loan. Recoveries comprise payments of loans that were previously recognised as confirmed credit losses. Expected credit losses are reversed when no impairment requirement is deemed to exist.

### **Taxes**

Income tax comprises current tax and deferred tax. Income tax is recognised in profit or 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 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 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 statement of income 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 amortisation period is determined based on the expected useful life, commencing when the asset becomes available for use. Amortisation takes place through profit or 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 financial 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 or loss. The useful life for computer equipment is estimated to be 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 on 30 June and 31 December. 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 or loss. If revaluation results in a reduction in the carrying amount, the reduction is recognised through profit or 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 in the case of the creation of a new component.

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 rights in the contract are realised, expire or – when the assets are transferred – the company no longer has any significant risks or benefits from the assets and loses control of the assets. 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 assets and liabilities are measured at fair value upon initial recognition in the statement of financial position. Subsequent measurement and recognition take place depending on the measurement category to which the financial instrument belongs.

The Group's financial assets comprise:

- Debt instruments
- Derivative instruments
- Equity instruments

Financial assets are classified and recognised in one the three measurement categories in accordance with the provisions of IFRS 9.

- Amortised cost
- Fair value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI)

### Debt instruments

The Group's financial assets that are debt instruments comprise shares and participations (refers to mutual fund whereby the fund must repay the fund unit if units are to be redeemed), bonds and other interest-bearing securities, loans and receivables classified as other receivables, and cash and cash equivalents. The business model used to manage a debt instrument and its contractual cash flow characteristics determines the classification of a debt instrument.

A requirement for a financial asset to be measured at amortised cost or fair value through other comprehensive income is that the contractual cash flows solely comprise outstanding payment of the principal and interest on the principal. Debt instruments that do not meet the requirement are meas-



ured at fair value through profit or loss regardless of the business model to which the asset is attributable. All debt instruments held in the Group meet these cash flow characteristics. The Group regularly checks that cash flows for the debt instruments measured at amortised cost and fair value through other comprehensive income meet the requirements.

#### *Amortised cost*

The Group manages loans and receivables in a business model whose objective is to realise the assets' cash flows by receiving contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. These assets are therefore measured at amortised cost. Amortised costs refers to the discounted present value of all future payments attributable to the instrument with the discount rate comprising the effective interest rate of the asset on the acquisition date.

#### *Fair value through other comprehensive income*

The Group manages its holdings of treasury bills and other eligible bills and bonds and other interest-bearing securities in the Bank Group in a business model whose objective is to realise the assets' cash flows by both receiving contractual cash flows and through sales. These assets are therefore measured at fair value through other comprehensive income. This recognition means that the assets are continuously measured at fair value through other comprehensive income with the accumulated unrealised changes in values recognised in the fair value reserve. Interest income is recognised in net interest income in profit or loss. If an asset in this category is sold, the previous unrealised gain/loss is reclassified from other comprehensive income to profit or loss and is recognised on the row net gains from financial items.

#### *Fair value through profit or loss*

The Group manages its holdings of mutual funds classified as shares and participations and bonds and other interest-bearing securities in the investment operations of the Parent Company and insurance companies in a business model that entails measurement at fair value through profit or loss since the assets are managed and evaluated based on the fair values of the assets, and since the fair value comprises the basis for the internal monitoring and reporting to senior executives.

The cost of debt instruments measured at fair value through profit or loss comprises the fair value of the assets without additions for transaction costs. This recognition means that the assets are continuously measured at fair value through profit or loss with the accumulated unrealised changes in values recognised in retained earnings. Changes in fair value of these assets are recognised in profit or loss as Investment income, net. If an asset in this category is sold, the previous unrealised gain/loss is recognised in profit or loss as Unrealised gains or losses in investment assets, while the realised gains/losses from the sale of debt instruments are recognised in profit or loss as Investment income, net.

#### *Reclassification of financial instruments*

Financial assets are not normally reclassified after initial recognition. However, a change in business model would entail reclassification.

#### *Derivative instruments*

Derivative instruments are measured at fair value through profit or loss unless they are subject to the rules on hedge accounting. Derivatives with positive values are recognised as assets in the statement of financial position and derivatives with negative values are recognised as liabilities.

#### *Equity instruments*

An equity instrument is every form of agreement that entails a residual right to a company's assets after deductions for all its liabilities. All holdings of equity instruments that comprise holdings of a more strategic nature and that are not held for the purpose of generating investment income are measured at fair value through other comprehensive income. Gains/losses on the sale of equity instruments measured at fair value through other comprehensive income are recognised as a transfer in equity from the fair value reserve to retained earnings and thus do not impact profit or loss.

#### *Financial liabilities*

The Group's financial liabilities are presented in the note Financial assets and liabilities by category. The Group measures all financial liabilities that are not derivatives at amortised cost.

#### **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 can 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 or 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 or loss.

#### **Cash-flow hedges**

The Group applies cash-flow hedging to hedge currency risk in Länsförsäkringar Bank's debt securities in issue in foreign currency. Interest and cross-currency interest rate swaps that are hedging instruments in cash-flow hedging are measured at fair value. The change in value is recognised in other comprehensive income and accumulated in equity to the extent that the change in the value of the swap is effective and corresponds to future cash flows attributable to the hedged item. Changes in value recognised in equity impact profit or loss at the same time as the hedged item impacts profit or loss.

#### **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 or loss and are 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 measurement category of fair value through other comprehensive income. The change in the value of the derivative is recognised in profit or 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.

#### **Expected credit losses**

Reserves for expected credit losses ("loss allowance") are recognised for financial assets measured at amortised cost and debt instruments measured at fair value through other comprehensive income, issued financial guarantees and loan commitments. The initial loss allowance is calculated and recognised on initial recognition and is subsequently continuously adjusted over the lifetime of the financial asset. Initial recognition is defined in the Group as the time of origination of the financial instrument, meaning when the original loan terms were set. In the calculation of loss allowance under IFRS 9, the Group takes into consideration several different future scenarios, including macro factors.

### Model and definitions

The expected loss impairment model is based on dividing the financial assets into 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.

The Group's method for assessing whether there has been a significant increase in credit risk for loans to the public, and issued financial guarantees and loan commitments, 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 Group's method for assessing whether there has been a significant increase in credit risk for loans to credit institutions, and debt instruments measured at fair value through other comprehensive income, is to compare PD based on an external rating on the reporting date in question with PD based on an external rating on the initial reporting date.

When there is no longer any significant increase in credit risk since the initial reporting date, the financial asset is transferred back to stage 1.

- **Stage 3** comprises credit-impaired assets or assets that were credit-impaired on initial recognition. The definition of credit-impaired is consistent with the Group's regulatory definition of default. A counterparty is considered to be in default if a payment is more than 60 days past due. A counterparty is also considered to be in default if there are other reasons to expect that the counterparty cannot meet its undertakings. Assets that were credit-impaired on the initial reporting date are recognised in stage 3 for their entire term without being transferred to stage 1 or stage 2.

Estimating and recognising the loss allowance for stage 1 corresponds to the 12-month expected credit losses. For stages 2 and 3, estimating and recognising the loss allowance corresponds to the full lifetime expected credit losses.

The estimates of expected credit losses for loans to the public, and issued financial guarantees and loan commitments, are based on existing internal ratings-based models and take into account forward-looking information. The loss allowance is achieved by estimating the expected credit loss for the assets' 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 probability of default (PD) and the loss given default (LGD). For stage 1, the loss allowance is estimated as the present value of the 12-month ECL, while the credit loss for stages 2 and 3 is estimated as the present value of the full lifetime expected credit losses. All estimates of the loss allowance including estimates of exposure, PD and LGD take into account forward-looking 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 estimates of expected credit losses for cash and cash equivalents, and debt instruments measured at fair value through other comprehensive income, start from PD based on the external rating and LGD based on the regulatory amounts under the capital adequacy rules, Regulation (EU) No 575/2013 (CRR). This is because these items are not encompassed by existing, internal ratings-based models.

For accounts receivable, the Group uses the simplified method, which entails that a loss allowance is always measured at an amount corresponding to the full lifetime of the expected credit losses.

### Recognition of expected credit losses

Only the Bank Group's share of expected and confirmed credit losses are recognised. The regional insurance companies' share of expected and confirmed credit losses is settled against a buffer of accrued commission. The settlement model, which was introduced on 1 January 2014, regarding the commitment that the regional insurance companies have for credit losses related to the business they have originated, entails that the regional insurance companies cover 80% of the provision requirement in the Bank Group (excluding Wasa Kredit AB), on the date when an impairment is identified, by off-setting this against accrued commission.

The reserve for financial assets measured at amortised cost is recognised as a reduction of the recognised gross carrying amount of the asset.

For financial guarantees and loan commitments, the reserve is recognised as a provision.

The reserve for debt instruments measured at fair value through other comprehensive income is recognised as the fair value reserve in equity and does not impact the carrying amount of the asset. Derecognition reduces the recognised gross amount of the financial asset.

Loss allowance and derecognition of confirmed credit losses are presented in profit or loss as credit losses.

### Modified loans

Modified loans are defined as loans for which the contractual terms have been changed and the change in terms impacts the time and/or the amount of the contractual cash flows of the receivable. Modified loans are derecognised from the statement of financial position if the terms of an existing contract have materially changed. A new loan with the new contractual terms is then recognised in the statement of financial position. Gains or losses arising on a modification are calculated as the difference between the present value of the outstanding cash flows calculated under the changed terms and discounted by the original effective interest rate and the discounted present value of the outstanding original cash flows. The corresponding principles are applied to the recognition of modifications of the Group's financial liabilities.

### Confirmed losses

Confirmed credit 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 or loss on this date.

### Leases

Leases are classified in the consolidated financial statements as either finance or operating leases. A finance lease exists 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 recognised as loans to the public since the risks associated with ownership are transferred to the lessee. 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.

### 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 as 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 or 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 or 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 technical 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.

Changes in claims outstanding for the period are recognised in profit or 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 through profit or 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 related to 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 recognised 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 guarantee.

### Statement of cash flows

The statement of cash flows was prepared in accordance with the direct method.

## Note 2 Risk and capital management

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.

### 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 calculate 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 risk and business risk 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 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 con-

ducted 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.

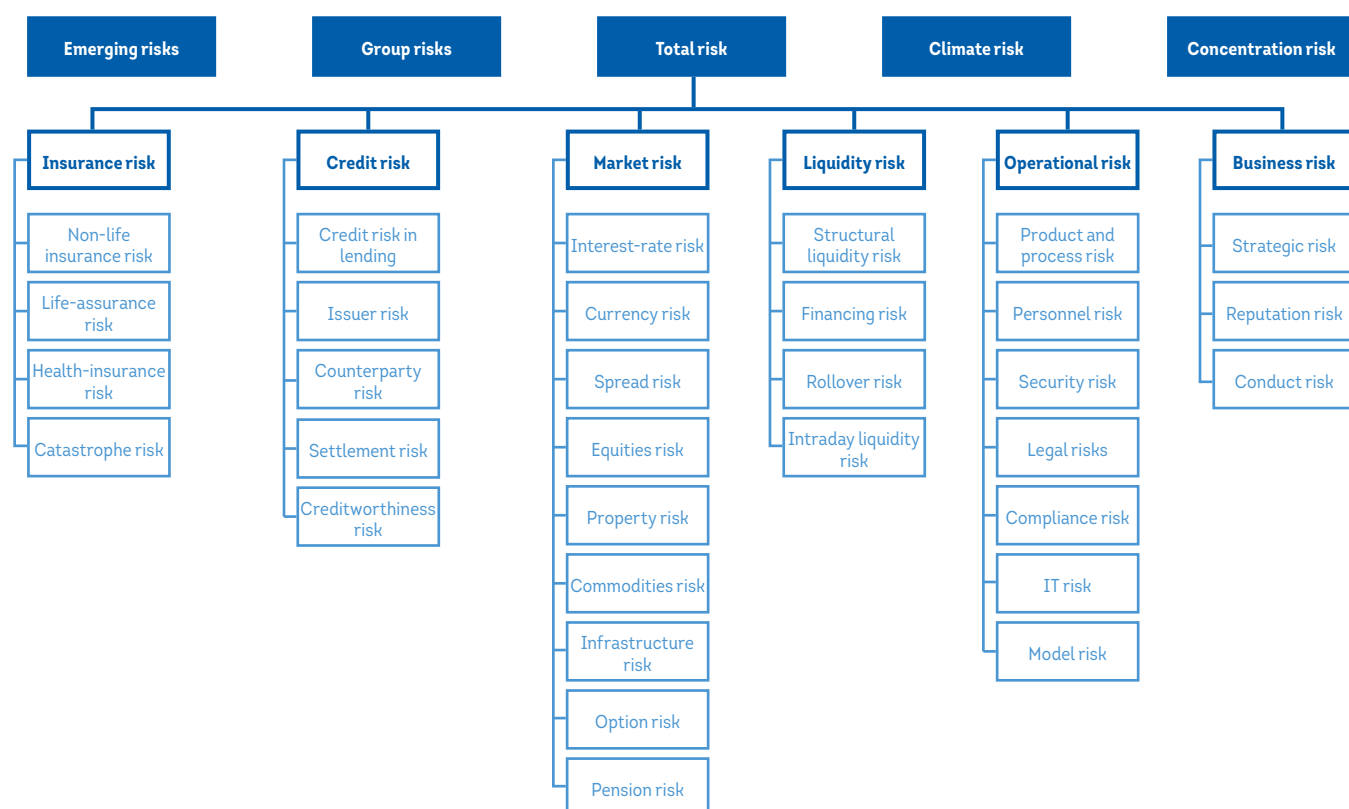
The Actuarial function helps ensure the efficient operation of the risk-management system, for example, by ensuring that data for calculating capital requirements for insurance risks correctly reflects the operations. The Compliance function identifies and reports on risks that may arise as a result 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 credit risk that arises in the banking operations, the unit-linked life-assurance 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 in certain other countries as well.
- 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.

Figure 1. Classification of risk in the Länsförsäkringar AB Group including Länsförsäkringar Liv

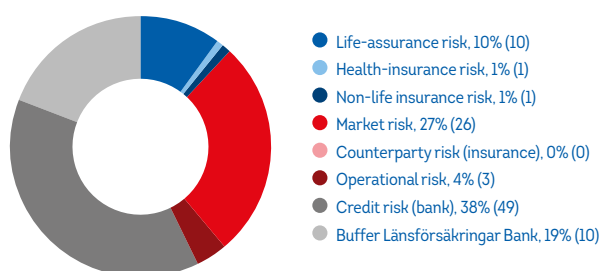




- extensive reinsurance operations are conducted on behalf of the Länsförsäkringar Alliance.
- the risks in the investment assets managed by the Parent Company and insurance subsidiaries for own account are held at a relatively low level.
- loans in the Länsförsäkringar AB Group's banking operations 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 2017 and 2018 is presented in figure 2. The changed method for the application of the risk weight floor for Swedish mortgages introduced on 31 December 2018 has increased the buffer requirement's share of the capital requirement while the capital requirement in SEK remains unchanged.

**Figure 2. Risk profile Länsförsäkringar AB Group excluding Länsförsäkringar Liv on 31 December 2018**



Länsförsäkringar AB applies a joint risk division and definitions of risks to which the operations are exposed. An outline is provided in figure 1.

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 group life assurance in Länsförsäkringar Gruppliv 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 por-

tion of the customer's savings are guaranteed. Unit-linked insurance operations comprise about 97% 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, with well-differentiated groups of policyholders, represents all of society. Länsförsäkringar Sak's main risk concentration in underwriting risk comprises assumed reinsurance 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 and 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. Reinsurance cover is adapted based on each subsidiary's reinsurance needs. The Länsförsäkringar Alliance has shared catastrophe reinsurance cover for accident and life assurance. Länsförsäkringar Sak reinsures itself against the risk of very large claims. The company's own costs per claim incident, retention, and the limit up to which the reinsurance covers the costs per claim incident – or cover – vary from product to product. Pool solutions are also used by the Länsförsäkringar Alliance for reinsuring certain risks. Agria's reinsurance cover comprises an important tool in providing protection from large individual claim incidents and high total claims costs in the more volatile businesses in the company. Länsförsäkringar Gruppliv has reinsurance cover for major accident claim incidents to specifically protect itself from events in which large groups of insured are simultaneously affected by a claim incident. Morbidity and mortality risks in Länsförsäkringar Fondliv are reinsured. The efficiency of reinsurance cover is monitored by the Actuarial function and reported to the Board every year.

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 profit before tax and equity to a number of actuarial assumptions. Table 2 shows the Länsförsäkringar Sak Group's estimated claims costs before and after reinsurance per claim year.

**Table 1. Sensitivity analysis, insurance risk**

		31 Dec 2018		31 Dec 2017	
SEK M		Impact on profit before tax	Impact on equity	Impact on profit before tax	Impact on equity
Länsförsäkringar Fondliv	10% increase in operating expenses	-51	-51	-43	-43
Länsförsäkringar Fondliv	10% lower mortality per year	-5	-5	-5	-5
Länsförsäkringar Fondliv	10% momentary external transfer	-129	-129	-98	-98
Länsförsäkringar Fondliv	10% increase in morbidity	-49	-49	-37	-37
Länsförsäkringar Fondliv	10% lower income	-173	-173	-164	-164
Länsförsäkringar Sak Group	10% lower premium level	-598	-467	-577	-450
Länsförsäkringar Sak Group	10% increased claims frequency/average claim	-420	-328	-373	-291
Länsförsäkringar Sak Group	1% higher annual claims inflation	-164	-128	-167	-130
Länsförsäkringar Sak Group	10% higher mortality per year	-11	-8	-10	-8

**Table 2. Estimated claims costs before and after reinsurance for the Länsförsäkringar Sak Group, per claim year**

SEK M	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
At end of claim year	2,423	2,475	2,413	2,453	2,631	2,831	3,062	3,160	3,444	-
One year later	2,563	2,504	2,418	2,321	2,440	2,649	2,874	3,100	-	-
Two years later	2,521	2,439	2,455	2,330	2,523	2,603	2,764	-	-	-
Three years later	2,472	2,439	2,410	2,348	2,446	2,586	-	-	-	-
Four years later	2,453	2,394	2,423	2,304	2,432	-	-	-	-	-
Five years later	2,435	2,395	2,423	2,286	-	-	-	-	-	-
Six years later	2,410	2,401	2,383	-	-	-	-	-	-	-
Seven years later	2,401	2,401	-	-	-	-	-	-	-	-
Eight years later	2,436	-	-	-	-	-	-	-	-	-
Estimated claims costs	2,435	2,400	2,232	2,286	2,432	2,586	2,764	3,100	3,444	-
Accumulated claims payments	2,273	2,297	2,151	2,220	2,317	2,490	2,627	2,893	2,722	-
Provision for claims payments	161	102	81	66	115	97	136	206	721	1,686
Provision for claims payments, older year classes	-	-	-	-	-	-	-	-	-	861
Provision for claims payments for assumed reinsurance	-	-	-	-	-	-	-	-	-	9,573
<b>Total provision for claims payments, gross</b>	-	-	-	-	-	-	-	-	-	<b>12,119</b>
Annuity reserve, gross	-	-	-	-	-	-	-	-	-	1,546
Claims adjustment reserve, gross	-	-	-	-	-	-	-	-	-	219
<b>Provision for claims outstanding, gross</b>	-	-	-	-	-	-	-	-	-	<b>13,884</b>
Provision for claims payments, reinsurers' portion	-	-	-	-	-	-	-	-	-	9,073
Annuity reserve, reinsurers' portion	-	-	-	-	-	-	-	-	-	1,310
<b>Provision for claims outstanding, reinsurers' portion</b>	-	-	-	-	-	-	-	-	-	<b>10,382</b>
<b>Provision for claims outstanding, for own account</b>	-	-	-	-	-	-	-	-	-	<b>3,501</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 is 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, although such market risks comprise 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 properties and investments in bonds 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 interest-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 Tegelluddsvägen in Stockholm can be considered to be a risk concentration. The value of the properties on 31 December 2018 amounted to SEK 3,232 M (2,887).

### **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

### **Risk sensitivity**

**Table 3. Sensitivity analysis, market risks**

SEK M		31 Dec 2018		31 Dec 2017	
		Impact on profit before tax	Impact on equity	Impact on profit before tax	Impact on equity
Interest-rate risk assets and liabilities net <sup>1)</sup>	100 bp higher nominal market interest rates	-172	-167	-56	-56
Credit-spread risk <sup>2)</sup>	100 bp increased credit spread	-212	-212	-244	-244
Equities risk	10% lower share prices including hedge funds	-270	-270	-254	-257
Property risk	10% lower property prices	-	-323	-	-289
Currency risk <sup>3)</sup>	10% strengthening of all foreign currencies against SEK	14	14	17	17

<sup>1)</sup> Interest-rate risk refers to both cash-flow risk and price risk. Bond holdings are stressed including accrued interest.

<sup>2)</sup> 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.

<sup>3)</sup> Currency risk is presented including indirect exposure via look-through approach of funds for both 2017 and 2018.

### **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 provisions being discounted 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 public and private loan funds.

Tables 5 and 8 show that vast majority of the Group's interest-bearing holding have an AAA rating.

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 Länsförsäkringar 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 to individual currencies) is monitored on a daily basis.

### **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 80% 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 3,232 M (2,887).

### Currency risk

The Group faces currency exposure from insurance liabilities and investment assets as well as from the Länsförsäkringar Bank Group's funding in other currencies. Currency risk is managed using currency and cross-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>	
	2018	2017
BRL	1	-
DKK	1	1
EUR	3	7
GBP	-2	-2
HKD	2	2
INR	1	1
JPY	-2	-2
KRW	1	1
TWD	1	1
USD	7	4
Other currencies	1	2
<b>Total</b>	<b>14</b>	<b>17</b>

<sup>1)</sup> The table presents the earnings impact including indirect exposure via look-through approach of funds for both 2017 and 2018.

### 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 holdings of bonds in the investment portfolios that, in the same way as for credit-spread risk, are mainly attributable to holdings in Swedish mortgage bonds and, to a certain extent, global and US Investment Grade as well as public and private loan funds with mainly High Yield ratings.

In addition, counterparty risk 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 step are presented in table 5.

**Table 5. Parent Company's and insurance subsidiaries' interest-bearing securities per credit quality step**

Market value, SEK M	31 Dec 2018	31 Dec 2017
<b>Bonds and other interest-bearing securities<sup>1)</sup></b>		
AAA – Swedish Government	1	209
AAA – other	5,546	5,991
AA	100	126
A	353	463
BBB	665	883
BB or lower	560	590
No rating available	409	305
<b>Total</b>	<b>7,634</b>	<b>8,567</b>
<b>Derivatives</b>		
AA	-	28
A	23	4
BBB	-	-
BB	-	4
<b>Total</b>	<b>23</b>	<b>36</b>

<sup>1)</sup> Market value including accrued interest.

In addition, the Group has pledged assets for bonds, derivatives, repurchase agreements and pledged securities for a total amount of SEK 6,284 M on 31 December 2018. 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 standardised collateral agreements with all counterparties for OTC derivatives. 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 exposure of the Parent Company and insurance subsidiaries to credit risk from counterparties in financial derivatives and ceded reinsurance both excluding and including collateral received. Exposure to credit risk in other receivables is not deemed to be material since the past history of these receivables shows a low incidence of default receivables and no losses have been confirmed. The method for calculating expected credit losses is described in note 1 Accounting policies.

**Table 6. Parent Company and insurance subsidiaries' counterparty risk to derivatives and reinsurance with respect to collateral received**

Derivatives	31 Dec 2018				31 Dec 2017	
	Collateral				Net exposure	Net exposure
	Maximum credit risk exposure	Cash and cash equivalents	Securities	Other		
AA	-	-	-	-	-	12
A	23	-	-	-	23	8
BBB or lower	-	-	-	-	-	4
<b>Total</b>	<b>23</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23</b>	<b>24</b>
<b>Reinsurance</b>						
Regional insurance companies	6,253	-	-	-	6,253	5,008
AA	376	-	-	-	376	249
A	279	-	-	-	279	163
BBB or lower	45	-	-	-	45	38
<b>Total</b>	<b>6,953</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,953</b>	<b>5,458</b>

## 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 in the Bank Group (excluding Wasa Kredit) 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 Länsförsäkringar Bank Group's credit risk exposure is shown in table 7.

Table 7. Bank Group's credit risk exposure

Credit risk exposure, SEK M	31 Dec 2018	31 Dec 2017
<i>Credit risk exposure for assets recognised in the statement of financial position</i>		
Cash and balances with central banks	22	17
Treasury bills and other eligible bills, etc.	10,847	10,532
Loans to credit institutions	4,486	265
of which collateral in repurchase agreements	-	-
Loans to the public, gross	289,851	261,712
of which collateral in properties and tenant-owned apartments	257,773	231,362
Bonds and other interest-bearing securities	36,790	35,718
Derivative instruments	6,056	5,126
Other assets	561	547
<i>Credit risk exposure for contingent liabilities and other commitments</i>		
Guarantees	35	35
Loan commitments and other credit commitments	20,842	21,979
<b>Total</b>	<b>369,490</b>	<b>335,929</b>

Table 8. Credit quality in the Bank Group by external risk classification

	Gross carrying amount, SEK M	
	31 Dec 2018	31 Dec 2017
<b>Treasury bills and other eligible bills<sup>1)</sup></b>		
AAA-AA	10,847	10,531
<b>Total</b>	<b>10,847</b>	<b>10,531</b>
<b>Bonds and other interest-bearing securities<sup>1)</sup></b>		
AAA-AA	36,790	35,718
<b>Total</b>	<b>36,790</b>	<b>35,718</b>
<b>Loans to credit institutions<sup>1)</sup></b>		
AAA-AA	4,131	68
A	355	196
Not risk classified	-	1
<b>Total</b>	<b>4,486</b>	<b>265</b>
<b>Derivatives<sup>2)</sup></b>		
AAA-AA	1,627	1,680
A	3,896	3,355
Not risk classified	533	90
<b>Total</b>	<b>6,055</b>	<b>5,125</b>

<sup>1)</sup> Stage 1 credit-impaired holdings are not recognised for 2018.

<sup>2)</sup> Refers to maximum exposure

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.

Figure 3. Bank Group loans by segment on 31 December 2018

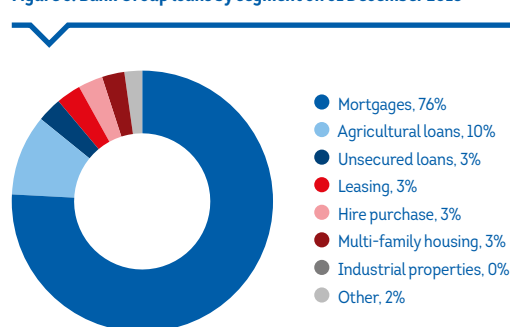
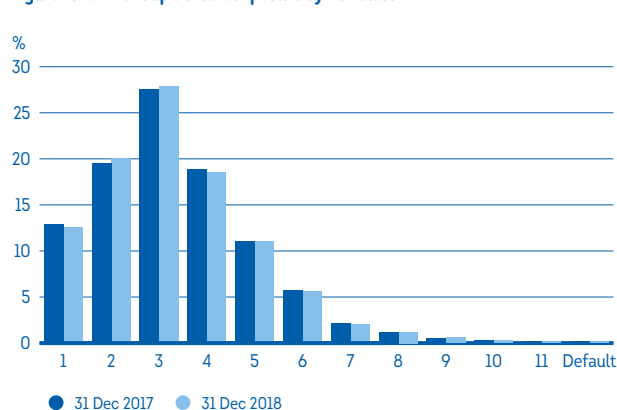


Figure 3 presents the Group's credit exposure according to risk class. The results show a distribution of exposure, with 79% (79) found in the lowest grades 1-4. Exposure is increasing, particularly in the lowest PD grades 1-4. Overall, on 31 December 2018 the distribution of exposure had shifted slightly towards the lower PD grades compared with the year-earlier period, which means a year-on-year improvement in credit quality.

Figure 4. Bank Group's credit exposure by risk class





In addition to the above credit exposure, SEK 7,487 M (5,514) 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 61% (60). 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).

A non-performing loan receivable has a non-performing payment that is more than nine days overdue and that is not classified as credit-impaired according to the Bank Group's expected loss impairment model.

**Table 9. Bank Group's credit-impaired loan receivables by collateral**

SEK M	31 Dec 2018
Residential properties, including tenant-owned apartments	135
Commercial properties	207
Other physical collateral	105
Guarantees	4
Other collateral	-
Unsecured loans	290
<b>Total credit-impaired loan receivables</b>	<b>742</b>

**Table 10. Bank Group's non-performing loan receivables that are not credit-impaired**

SEK M	31 Dec 2018
Receivables overdue by 1-30 days	126
Receivables overdue by 31-60 days	348
Receivables overdue by 61-90 days	69
<b>Total</b>	<b>543</b>

**Non-performing loan receivables not included in impaired loans, SEK M**

SEK M	31 Dec 2017
Receivables overdue by 1-39 days	364
Receivables overdue by 40-60 days	8
<b>Total</b>	<b>373</b>

Counterparty risk in derivative transactions and repurchase agreements is managed by the company having a number of swap counterparties, all with high ratings and with whom collateral agreements have been signed. Each counterparty is also assigned a maximum exposure amount. Table 11 shows the Bank Group's counterparty risk with respect to collateral received.

**Table 11. Bank Group's counterparty risk to derivatives with respect to collateral received**

SEK M	31 Dec 2018				31 Dec 2017	
	Collateral					
	Maximum credit risk exposure	Cash and cash equivalents	Securities	Other	Net exposure	Net exposure
AAA-AA	1,627	389	-	-	1,061	1,120
A	3,896	4,056	-	-	12	154
Not risk classified	533	434	-	-	-	-
<b>Total</b>	<b>6,055</b>	<b>4,879</b>	<b>-</b>	<b>-</b>	<b>1,074</b>	<b>1,274</b>

The Länsförsäkringar Bank Group applies hedge accounting to hedging of interest-rate risk excluding credit-spread risk and currency risk. The Bank Group's derivatives, which comprise interest and cross-currency interest rate swaps, have been acquired in their entirety to hedge the risks of interest and exchange-rate exposure arising during the course of operations. Interest-rate swaps are used to swap fixed interest in SEK to variable interest in SEK. Cross-currency interest rate swaps are used to swap foreign currencies to SEK and fixed foreign interest to variable interest in SEK. The Bank Group's hedge accounting is presented in Table 15.

Refer to note 3 of Länsförsäkringar Bank's Annual Report for a more detailed description of the Länsförsäkringar Bank Group's credit risks and credit risk management.

### 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 Länsförsäkringar 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 a low risk appetite 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 2018, the liquidity reserve amounted to SEK 54.4 billion (48.1) and 49% (58) of the reserve comprised Swedish covered bonds.

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 with covered bonds, primarily in SEK, EUR, CHF and NOK, since the majority of the Bank Group's assets comprise Swedish mortgages. 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 and dividends to owners. To meet liquidity requirements, the Parent Company's maintained cash and cash equivalents, which at year-end amounted to SEK 209 M (254).

**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	2018					2017				
	<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	7,575	9,320	31,681	240,851	289,426	5,205	8,664	28,843	218,732	261,444
Bonds and other interest-bearing securities <sup>1)</sup>	1,539	7,352	31,357	676	40,924	3,226	8,057	26,097	2,068	39,447
Treasury bills and other eligible bills	5,500	–	4,749	–	10,249	5,206	295	4,149	200	9,850
Other assets	5,305	669	2,218	7,375	15,567	7,989	–	–	–	7,989
<b>Liabilities</b>										
Subordinated liabilities	–	–	–	2,600	2,600	–	–	–	2,600	2,600
Technical provisions <sup>2)</sup>	1,468	2,935	3,756	8,151	16,309	1,476	2,994	4,361	10,072	18,903
Debt securities in issue	1,874	14,478	156,515	33,759	206,626	3,266	18,103	123,501	38,890	183,760
Deposits from the public	105,009	2,695	438	–	108,142	93,264	4,404	525	0	98,197
Due to credit institutions	5,993	–	–	–	5,993	3,996	–	–	–	3,996
Other liabilities	268	–	–	–	268	7,265	–	–	–	7,265
<b>Total cash flows, net</b>	<b>-94,693</b>	<b>-2,768</b>	<b>-90,704</b>	<b>204,392</b>	<b>16,227</b>	<b>-87,641</b>	<b>-8,485</b>	<b>-69,302</b>	<b>169,438</b>	<b>4,010</b>
Loans approved but not disbursed	20,839	–	–	–	20,839	17,721	–	–	–	17,721
Derivatives, in and outflows, net	207	1,224	5,708	1,043	8,182	27	4	15	19	65
<b>Total cash flows for financial assets and liabilities and insurance undertakings</b>	<b>-73,648</b>	<b>-1,544</b>	<b>-84,995</b>	<b>205,435</b>	<b>45,248</b>	<b>-69,894</b>	<b>-8,481</b>	<b>-69,287</b>	<b>169,457</b>	<b>21,795</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 inadequate or failed internal processes, human error, erroneous systems or external events and includes legal and compliance risk.

## 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.

## 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 shared framework for identifying, measure and documenting risks in the decision-making process for decisions that could be expected to have a material impact on profitability, risk profile, organisation or brand. The purpose is to ensure efficient decision-making through proactive and appropriate management of the risks so as to thereby achieve established targets with a higher degree of certainty, to ensure compliance with applicable laws and 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. In addition to such physical risks, adjustments to climate change can also entail risks, such as changes in regulations and higher carbon tax or changed behaviours in the markets that lead to stranded assets. 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 changes 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, although analyses are also regularly carried out in connection with changes in the business world or new strategic decisions. 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 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 and, for subsidiaries directly under Länsförsäkringar AB, the Board of Länsförsäkringar AB. 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. Capital targets are also set for the group of companies encompassed by the group rules for banking operations, meaning Länsförsäkringar AB and the companies in the Länsförsäkringar Bank Group (the "consolidated situation").

The Länsförsäkringar AB Group applies Group-wide Guidelines for Financial and Capital Management and Control 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 base 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 documented and adopted 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, and the sister subsidiary Utile Dulci 2 HB, 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 small margin, which is important to, for example, the calculation of the capital requirements at group level for the Parent Company's operations. The banking operations have grown faster than the Group's insurance operations. If this trend were to continue, the banking sector will be the largest sector in 2019 or 2020.

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 total capital requirement for the companies in the Länsförsäkringar Bank Group is added. 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 at group level; 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 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 2018**

SEK M	31 Dec 2018	31 Dec 2017
Own funds before deductions for non-transferable surplus capital	43,990	44,310
<i>of which own funds included from Länsförsäkringar Liv</i>	<i>11,742</i>	<i>12,170</i>
Deductions, non-transferable surplus capital in other insurance subsidiaries than Länsförsäkringar Liv	-120	-136
Own funds, group according to insurance rules	43,870	44,174
Deductions, non-transferable surplus capital in other companies than insurance subsidiaries	-	-
Own funds, financial conglomerate	43,870	44,174
Capital requirement	33,874	33,443
<i>of which capital requirement Länsförsäkringar Liv</i>	<i>11,742</i>	<i>12,170</i>
Surplus capital, group according to insurance rules	9,996	10,731
Surplus capital, financial conglomerate	9,996	10,731

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.

Surplus capital compared with regulatory requirements under the rules on financial conglomerates, and according to the group rules in the insurance sector, declined slightly in 2018. The main reason for this is that own funds in Länsförsäkringar Fondliv's operations fell due to the negative market trend at the end of 2018 and a renewed long-term service agreement with Länsförsäkringar Liv.

### Capital situation under bank group rules

The outcome of the capital situation for the consolidated situation is presented in table 14.

**Table 14. Capital adequacy, consolidated situation**

SEK M	31 Dec 2018	Pro forma <sup>1)</sup> 31 Dec 2018	31 Dec 2017
Common Equity Tier 1 capital	17,749	17,749	14,992
Tier 1 capital	18,667	18,677	15,936
Own funds (total capital)	20,712	20,712	18,100
Risk Exposure Amount	113,283	68,264	64,379
Common Equity Tier 1 capital ratio, %	15.7	26.0	23.3
Tier 1 ratio, %	16.5	27.4	24.8
Capital adequacy ratio, %	18.3	30.3	28.1
Total capital requirement <sup>2)</sup>	16,387	16,387	14,340
Surplus capital of total capital	4,325	4,325	3,760

<sup>1)</sup> With risk weight floor in Pillar II, for comparability with 31 Dec 2017.

<sup>2)</sup> Minimum capital requirement, Pillar II requirement and buffer requirement.

The Financial Supervisory Authority has decided to change the method for calculating capital requirements for mortgages. From 31 December 2018, the risk weight floor for mortgage is included in the minimum capital requirement and thus impacts the risk exposure amount. Accordingly, the capital adequacy ratios will decline substantially, while capital requirements in SEK will not change.

Surplus capital in the consolidated situation increased in 2018 mainly because the amount of dividends from the insurance subsidiaries to Länsförsäkringar AB was relatively significant.

Table 15. Hedge accounting

SEK M	Derivatives		Assets		Liabilities		Hedge accounting	
	Nominal amount		Carrying amount		Carrying amount		Change in value for the year	Accumulated changes in value
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	2018	31 Dec 2018
<b>Fair-value hedges</b>								
Interest-rate contracts								
Hedged items								
Treasury bills and other eligible bills	-	-	5,766	5,252	-	-	11	9
Bonds and other interest-bearing securities	-	-	31,711	32,091	-	-	-106	190
Debt securities in issue	-	-	-	-	-	-	-	-
Hedging instruments								
Interest-rate swaps	32,740	30,676	17	28	151	250	99	-
Ineffectiveness	-	-	-	-	-	-	3	-
<b>Currency contracts</b>								
Hedged items								
Treasury bills and other eligible bills	-	-	440	854	-	-	-0	12
Bonds and other interest-bearing securities	-	-	1,745	1,302	-	-	-16	85
Debt securities in issue	-	-	-	-	47,088	34,954	-208	-646
Hedging instruments								
Cross-currency interest rate swaps	48,450	35,711	1,098	882	137	287	226	-
Ineffectiveness	-	-	-	-	-	-	2	-
<b>Portfolio of fair-value hedges</b>								
Interest-rate contracts								
Hedged items								
Loans to the public	-	-	72,049	65,411	-	-	-123	125
Deposits and funding from the public	-	-	-	-	5,880	9,469	2	-0
Debt securities in issue	-	-	-	-	143,883	131,040	153	-959
Hedging instruments								
Interest-rate swaps	204,867	189,447	1,535	1,872	277	555	-36	-
Ineffectiveness	-	-	-	-	-	-	-3	-
<b>Cash-flow hedges</b>								
Currency contracts								
Hedged items	-	-	-	-	-	-	-15	-
Hedging instruments								
Cross-currency interest rate swaps	50,919	39,202	3,649	2,448	437	193	15	-
Ineffectiveness	-	-	-	-	-	-	-	-
<b>Total hedged items</b>			<b>111,711</b>	<b>104,910</b>	<b>196,851</b>	<b>175,463</b>	<b>-303</b>	<b>-1,183</b>
<b>Total hedging instruments</b>	<b>336,975</b>	<b>295,036</b>	<b>6,298</b>	<b>5,230</b>	<b>1,003</b>	<b>1,285</b>	<b>305</b>	<b>-</b>
<b>Total ineffectiveness</b>							<b>2</b>	
<b>Derivative instruments without hedge accounting</b>								
Equity contracts	0	0	0	-	2	0		
Interest-rate contracts	1,743	1,998	0	8	0	0		
Currency contracts	3,637	4,611	34	63	24	20		
<b>Total derivative instruments without hedge accounting</b>	<b>5,379</b>	<b>6,609</b>	<b>35</b>	<b>71</b>	<b>27</b>	<b>20</b>		
<b>Total derivative instruments</b>	<b>313,691</b>	<b>274,252</b>	<b>6,333</b>	<b>5,245</b>	<b>1,030</b>	<b>1,285</b>		
<b>Offset derivatives</b>	<b>-63,478</b>		<b>-113</b>		<b>-113</b>			
<b>Total derivative instruments after offset</b>	<b>250,213</b>		<b>6,220</b>		<b>917</b>			



**Note 3 Earnings per operating segment**

2018	Non-life insurance	Unit-linked insurance	Bank	Parent company	Eliminations and adjustments	Total
Premiums after ceded reinsurance	5,891	234	-	-	-25	6,100
Net interest income	-	-	4,497	-	3	4,500
Change in unit-linked insurance assets, policyholder bears the risk	-	-4,539	-	-	-	-4,539
Dividends in unit-linked insurance assets, policyholder bears the risk	-	8	-	-	-	8
Investment income, net	23	-140	43	1,498	-1,450	-26
Commission income	25	1,658	1,253	-	2	2,937
Other operating income	408	236	16	3,233	-1,546	2,346
<b>Total operating income</b>	<b>6,347</b>	<b>-2,544</b>	<b>5,809</b>	<b>4,731</b>	<b>-3,016</b>	<b>11,327</b>
Claims payments after ceded reinsurance	-4,196	-109	-	-	389	-3,915
Change in life assurance provision	-	-	-	-	-9	-9
Change in unit-linked insurance liabilities, policyholder bears the risk	-	4,668	-	-	-	4,668
Commission expense	-507	-697	-2,026	-	14	-3,216
Staff costs	-539	-181	-588	-977	58	-2,228
Other administration expenses	-703	-461	-1,590	-2,425	998	-4,182
Credit losses	-	-	-95	-	-	-95
<b>Total expenses</b>	<b>-5,945</b>	<b>3,220</b>	<b>-4,299</b>	<b>-3,403</b>	<b>1,451</b>	<b>-8,976</b>
<b>Technical result</b>	<b>402</b>	<b>676</b>	<b>-</b>	<b>-</b>	<b>-1,078</b>	<b>-</b>
Non-technical income/expenses	59	-3	-	-	-56	-
<b>Operating profit</b>	<b>460</b>	<b>673</b>	<b>1,510</b>	<b>1,328</b>	<b>-1,621</b>	<b>2,351</b>
Tax	-	-	-	-	-	-162
<b>Net profit for the year</b>						
<b>Income distribution</b>						
External income	6,167	-2,979	6,254	1,792	93	11,327
Internal income	180	435	-445	2,939	-3,109	-
<b>Total operating income</b>	<b>6,347</b>	<b>-2,544</b>	<b>5,809</b>	<b>4,731</b>	<b>-3,016</b>	<b>11,327</b>

2017	Non-life insurance	Unit-linked insurance	Bank	Parent company	Eliminations and adjustments	Total
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
Credit 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>

### 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

#### Acquisitions of operations 2018

During 2018, the Länsförsäkringar AB Group did not acquire any operations.

#### Change in additional purchase price 2018

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 2018, the last 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 - M (130) on 31 December 2018.

### Note 5 Premiums after ceded reinsurance

	2018	2017
<b>Non-life insurance</b>		
Premium income, direct insurance, Sweden	5,237	4,965
Premium income, direct insurance, other EEA	9	7
Premium income, received reinsurance	2,015	2,109
Change in provision for unearned premiums	-113	-172
<b>Total premiums earned before ceded reinsurance</b>	<b>7,148</b>	<b>6,908</b>
Premiums for ceded reinsurance	-1,599	-1,626
Reinsurers' portion of change in provision for unearned premiums and unexpired risks	33	28
<b>Total reinsurers' portion of premiums earned</b>	<b>-1,566</b>	<b>-1,598</b>
<b>Total premiums earned after ceded reinsurance</b>	<b>5,582</b>	<b>5,309</b>
<b>Life assurance</b>		
Premium income, group insurance, direct life assurance in Sweden	541	512
<b>Total premium income before ceded reinsurance</b>	<b>541</b>	<b>512</b>
Premiums for ceded reinsurance	-23	-20
<b>Total premiums after ceded reinsurance</b>	<b>518</b>	<b>492</b>
<b>Total premiums after ceded reinsurance</b>	<b>6,100</b>	<b>5,802</b>

### Note 6 Interest income

	2018	2017
Loans to credit institutions	-16 <sup>1)</sup>	-5 <sup>1)</sup>
Loans to the public	5,673	5,267
Interest-bearing securities	157 <sup>1)</sup>	224 <sup>1)</sup>
Derivatives	-585	-920
Other interest income	0	0
<b>Total interest income</b>	<b>5,229</b>	<b>4,566</b>
of which interest income on impaired loans	3	11
of which interest income from financial items not measured at fair value	5,657	5,262
Average interest rate on loans to the public during the year, %	2.1	2.2

<sup>1)</sup> Of which negative interest on Loans to credit institutions of SEK 26 M (16) and Interest-bearing securities of SEK 74 M (58).

### Note 7 Interest expense

	2018	2017
Due to credit institutions	41 <sup>1)</sup>	26 <sup>1)</sup>
Deposits and borrowing from the public	-113 <sup>1)</sup>	-133 <sup>1)</sup>
Interest-bearing securities	-2,092	-1,982
Subordinated liabilities	-50	-55
Derivatives	1,728	1,791
Other interest expense	-243	-220
<b>Total interest expense</b>	<b>-729</b>	<b>-573</b>
of which interest expense from financial items not measured at fair value	-2,457	-2,364
Average interest rate on deposits from the public during the year, %	0.1	0.1

<sup>1)</sup> Of which negative interest on Liabilities to credit institutions of SEK 41 M (27) and Deposits and borrowing from the public of SEK - M (3).

Note 8	Investment income, net	
	2018	2017
Interest income	46 <sup>1)</sup>	4 <sup>1)</sup>
Dividends	39	48
<b>Realised profit, net</b>		
Interest compensation	29	34
Shares and participations	1	234
Interest-bearing securities	-89	19
Derivatives	77	40
Change in claims annuities reserve	-6	-5
Other financial assets	-	4
<b>Total realised profit, net</b>	<b>11</b>	<b>326</b>
<b>Unrealised profit, net</b>		
Shares and participations	88	78
Interest-bearing securities	-376	746
Derivatives	282	-786
Other financial assets	-	-6
<b>Total unrealised profit, net</b>	<b>-6</b>	<b>33</b>
Exchange-rate gains/losses, net	-32	17
Interest expense	-73	-60
Participations in associated companies	7	-3
Depreciation/amortisation and impairment shares and participations	-	-35
Asset management expenses	-17	-34
<b>Investment income, net</b>	<b>-26</b>	<b>295</b>
<b>Investment income, net, by valuation category</b>		
Financial assets measured at fair value through profit or loss	-45	246
Financial assets measured at amortised cost	22	27
Financial liabilities measured at amortised cost	-31	-57
Financial assets measured at fair value through other comprehensive income	8	4
<b>Hedge accounting at fair value</b>		
Hedge accounting at fair value	2	-79
<b>Non-financial items included in investment income, net</b>		
Translation, non-life annuity reserve	-2	-1
Value-preserving interest rates claims annuities reserve	-6	-5
Dividends from group and associated companies	3	2
Depreciation/amortisation and impairment shares and participations	0	-35
Other non-financial items	22	194
<b>Total investment income, net</b>	<b>-26</b>	<b>295</b>

<sup>1)</sup> Of which negative interest on Cash and Bank of SEK 6 M (5) and also Interest-bearing securities of SEK 5 M (7).

Note 9	Commission income	
	2018	2017
Payment mediation commission	94	87
Lending commission	245	232
Inlåningsprovisioner	13	11
Securities commission	1,063	1,179
Card operations	248	213
Fees pertaining to financial agreements unit-linked insurance	755	724
Returprovisioner	461	431
Other commission	51	87
Commission and profit shares in ceded reinsurance	7	23
<b>Total commission income</b>	<b>2,937</b>	<b>2,987</b>

Total commission income primarily refers to income from contracts with customers in the unit-linked insurance and banking segment. Rebating of commissions includes fund discounts of SEK -18 M (-16). Commission and profit shares in ceded reinsurance comprise income attributable to insurance contracts in the non-life insurance segment.

Note 10	Other operating income	
	2018	2017
Service income, regional insurance companies	1,532	1,417
Other service income	506	500
Other income	308	549
<b>Total other operating income</b>	<b>2,346</b>	<b>2,466</b>

Other operating income primarily refers to income from contracts with customers. However, SEK 77 M (77) comprises income attributable to insurance contracts in the unit-linked insurance segment. SEK 87 M (85) comprises rental income in the Parent Company operating segment.

Note 11	Claims payments					
	2018			2017		
	Before ceded reinsurance	Ceded reinsurance	After ceded reinsurance	Before ceded reinsurance	Ceded reinsurance	After ceded reinsurance
Non-life insurance						
Claims paid	-4,480	815	-3,665	-4,245	826	-3,419
Claims annuities paid	-40	-	-40	-37	-	-37
Change in provision for claims incurred and reported	61	-26	35	-167	-125	-293
Change in provision for claims incurred but not reported	-35	39	4	341	135	476
Total	-4,494	828	-3,666	-4,107	836	-3,272
Life assurance						
Claims paid	-211	8	-203	-221	3	-218
Change in provision for claims outstanding	-64	18	-46	-39	12	-28
Total	-275	26	-249	-261	15	-246
Total non-life insurance and life assurance	-4,769	854	-3,915	-4,368	851	-3,517

Note 12 Commission expense			
	2018	2017	
Payment mediation commission	-129	-125	
Management costs	-90	-107	
Securities commission	-78	-258	
Card operations	-135	-118	
Remuneration to the regional insurance companies	-2,294	-2,150	
Commission, direct insurance	-343	-323	
Commission, assumed reinsurance	-100	-96	
Other commission	-47	-62	
<b>Total commission expense</b>	<b>-3,216</b>	<b>-3,239</b>	

**Note 13 Employees, staff costs and remuneration to senior executives**

Average number of employees	2018	2017
<b>Sweden</b>		
Men	789	765
Women	1,000	985
<b>Total Sweden</b>	<b>1,789</b>	<b>1,750</b>
<b>Denmark</b>		
Men	1	1
Women	15	12
<b>Total Denmark</b>	<b>16</b>	<b>13</b>
<b>Finland</b>		
Men	1	-
Women	8	9
<b>Total Finland</b>	<b>9</b>	<b>9</b>
<b>France</b>		
Men	2	-
Women	4	-
<b>Total France</b>	<b>6</b>	<b>-</b>
<b>Norway</b>		
Men	11	6
Women	30	23
<b>Total Norway</b>	<b>41</b>	<b>29</b>
<b>UK</b>		
Men	35	35
Women	76	79
<b>Total UK</b>	<b>111</b>	<b>114</b>
<b>Total number of employees</b>		
Men	839	807
Women	1,133	1,108
<b>Total</b>	<b>1,972</b>	<b>1,915</b>

**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).

**Salaries, other remuneration and social security expenses**

Other employees	2018	2017
Salaries and remuneration	1,294	1,186
of which variable remuneration	2	1
Social security expenses	741	673
of which pension costs	285	253
<b>Total</b>	<b>2,035</b>	<b>1,859</b>

Board of Directors and senior executives, 34 (30)	2018	2017
Salaries and remuneration	70	67
of which variable remuneration	-	-
Social security expenses	52	50
of which pension costs	23	23
<b>Total</b>	<b>122</b>	<b>117</b>

Total salaries, other remuneration and social security expenses	2018	2017
Salaries and remuneration	1,364	1,253
of which variable remuneration	2	1
Social security expenses	794	723
of which pension costs	308	276
<b>Total</b>	<b>2,157</b>	<b>1,976</b>

Länsförsäkringar Bank 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.

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.



### Note 13 Employees, staff costs and remuneration to senior executives, cont.

#### 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 2018	31 Dec 2017
Board members	65	58
President and Executive Vice President	8	18
Other senior executives	94	77
<b>Total loans to the Board of Directors, Presidents/Executive Vice Presidents and other senior executives</b>	<b>167</b>	<b>153</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 2018	31 Dec 2017
Board members	45	41
Other senior executives	49	49

Note 14 Fees and remuneration to auditors	2018	2017
<b>KPMG AB</b>		
- Audit assignments	-13	-12
- Audit operations in addition to the audit assignment	-2	-2
- Tax consulting	-1	-2
- Other assignments	-1	-1
<b>Total fees and cost reimbursements to auditors</b>	<b>-17</b>	<b>-18</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	2018	2017
<b>Other administration expenses</b>		
Costs for premises	-107	-114
Depreciation/amortisation and impairment	-708	-599
IT costs	-1,832	-1,638
Consultant costs	-509	-442
Marketing	-285	-260
Telephone and postage	-92	-99
Other administration expenses	-649	-515
<b>Total other administration expenses</b>	<b>-4,182</b>	<b>-3,667</b>

#### Operating leases

Leases in which the Group is the lessee  
Non-cancellable lease payments amount to

	31 Dec 2018	31 Dec 2017
Within 1 year	70	66
Between 1 and 5 years	112	109
Later than 5 years	1	-
<b>Total</b>	<b>182</b>	<b>174</b>

Note 16 Credit losses		
<b>SEK M</b>	<b>2018</b>	<b>2017</b>
<b>Change in loss allowance for loan receivables</b>		
Stage 1 (not credit-impaired)	6	
Stage 2 (not credit-impaired)	-23	
Stage 3 (credit-impaired)	-53	
<b>Total change in loss allowance for loan receivables</b>	<b>-70</b>	<b>-17<sup>1)</sup></b>
Expense for confirmed credit losses	-119	-131
Payment received for prior confirmed credit losses	84	90
<b>Net expense for the period for credit losses for loan receivables</b>	<b>-105</b>	<b>-58</b>
Change in loss allowance for commitments	2	-
Net expense for other credit losses	9	0
Net expense of the modification result	0	-
<b>Net expense for credit losses</b>	<b>-95</b>	<b>-58</b>

<sup>1)</sup> Refers to change in loss allowance for loan receivables. The change has not been specified by stage since the comparative figures are recognised in accordance with IAS 39.

The settlement model regarding the commitment that the regional insurance companies have for credit losses entails that the regional insurance companies cover 80% of the loss allowance requirement on the date when an impairment is identified for Länsförsäkringar Bank AB and Länsförsäkringar Hypotek AB. Off-setting takes place against, and can amount to a maximum of, accrued commission. Remuneration corresponding to 80% of the provision requirement is withheld on every occasion until the lending mediated by the regional insurance company has been regulated. In 2018, total credit losses amounted to SEK -75 M, of which the Bank Group's recognised credit losses amounted to SEK -95 M and the remainder of SEK 19 M was settled against remuneration to the regional insurance companies.

#### Loss allowance

SEK M	31 Dec 2018	31 Dec 2017
<b>Financial assets measured at amortised cost</b>		
Cash and balances at central banks	0	0
Loans to credit institutions	0	0
Loans to the public	425	356
Other assets	0	0
<b>Financial assets measured at fair value through other comprehensive income</b>		
Treasury bills and other eligible bills	0	0
Bonds and other interest-bearing securities	1	1
<b>Provisions</b>		
Commitments	17	19
Guarantees	0	0
<b>Total loss allowance</b>	<b>443</b>	<b>375</b>

All exposures are in stage 1 except for loans to the public and commitments which have exposure in all three stages. For more information about the change in loss allowance for loans to the public and commitments, refer to notes 25 and 46.

#### Sensitivity analysis of loss allowance in a 100% weight positive and negative scenario

Recognised probability-weighted loss allowance, SEK M	Scenario	Loss allowance according to sensitivity analysis, SEK M	Change compared with probability-weighted loss allowance, %
422	Positive scenario	378	-14.5%
	Negative scenario	547	23.7%

Note 17	Tax	
	2018	2017
<b>Current tax</b>		
Tax expenses for the period	-403	-420
Adjustment of tax expense pertaining to prior years	6	-10
<b>Total current tax</b>	<b>-397</b>	<b>-430</b>
<b>Deferred tax</b>		
Deferred tax pertaining to temporary differences	227	-150
Deferred tax pertaining to capitalised tax value in loss carryforwards	8	4
<b>Total deferred tax</b>	<b>235</b>	<b>-146</b>
<b>Total recognised tax expense</b>	<b>-162</b>	<b>-575</b>
<b>Reconciliation of effective tax rate</b>		
Profit before tax	2 351	2 825
Tax in accordance with applicable tax rate for Parent Company	-517	-622
Effect of other tax rates for foreign companies	8	-3
Tax on non-deductible costs	-427	-605
Tax on non-taxable income	512	658
Tax attributable to earlier years	6	-6
Tax attributable to changed tax rates	18	-
Resolution of deferred tax	239	3
<b>Recognised effective tax on profit for the year</b>	<b>-162</b>	<b>-575</b>
Applicable tax rate, %	22	22
Effective tax rate, %	7	20
<b>Tax attributable to other comprehensive income</b>		
Cash-flow hedges	13	25
Available-for-sale financial assets	11	-11
Revaluation of owner-occupied property	-74	-46
Revaluation of defined-benefit pension plans	-	-1
<b>Total tax attributable to other comprehensive income</b>	<b>-50</b>	<b>-33</b>

Note 18	Earnings per share	
	2018	2017
Net profit/loss attributable to Parent Company's shareholders, SEK M	2,190	2,250
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>210</b>	<b>216</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	
	2018	2017
<b>Cost</b>		
Opening cost, 1 January	538	720
Impairment	-	-179
Exchange-rate differences	3	-3
<b>Closing cost, 31 December</b>	<b>542</b>	<b>538</b>
	2018	2017
Agria Pet Insurance Ltd	170	166
Länsförsäkringar Fondliv Försäkrings AB	372	372
<b>Closing cost, 31 December</b>	<b>542</b>	<b>538</b>
<b>Assumptions for testing of value</b>	2018	2017
Long-term growth, %	2	2
Discount rate, %	5	8

Goodwill testing is based on the value in use or the fair value less selling expenses.

Goodwill for Agria is based on the value in use of future cash flows from the operations based on expected profit less capital requirements. The profit forecast for 2019-2021 has been taken from the Own Risk and Solvency Assessment (ORSA) that is deemed to be reasonable in relation to outcome. The profit forecast for the next ten years (2022-2031) is based on the operations in the UK developing towards more normalised profitability and the achievement of growth by 2031. Normalised profitability is estimated at the combined ratio of 95 and the long-term/perpetual growth is assumed to be 2%. Cash flows for the measurement are based on a cash-generating unit for Agria's entire operations in the UK. The combined ratio in the sensitivity analysis has been increased by 2 percentage points every year (after the forecast period) and 2% growth in premiums earned has been assumed from 2021, resulting in a SEK 417 M decrease. The carrying amount of the margin amounts to a total of slightly more than SEK 161 M.

Fair value is measured based on the present value of future profit in Länsförsäkringar Fondliv's unit-linked insurance portfolio. This future profit is measured and discounted using a market-based, risk-free yield curve according to the regulations of the Swedish Financial Supervisory Authority. Other assumptions are assumptions regarding the current portfolio at the same life expectancy and mortality as well as current levels of costs and other income. For Länsförsäkringar Fondliv, a market consistent embedded value (MCEV) model is used, meaning a fair value less selling expenses. 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.

**Note 20 Other intangible assets**

Capitalised expenditure for development and acquired intangible assets

Capitalised expenses	Internally developed IT systems	Acquired IT systems	Acquired customer-based assets	Total
<b>Cost</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>
Opening cost, 1 January 2018	3,042	283	4,197	7,523
Acquisitions	542	3	50	595
Divestments/disposals	-2	-22	-	-23
Reclassification	28	-	-	28
Exchange-rate differences	1	-	-	1
<b>Closing cost, 31 December 2018</b>	<b>3,611</b>	<b>264</b>	<b>4,247</b>	<b>8,123</b>
<b>Amortisation</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>
Opening accumulated amortisation, 1 January 2018	-1,139	-137	-1,499	-2,774
Amortisation	-153	-22	-142	-317
Divestments/disposals	2	22	-	23
Reclassification	-28	-	-	-28
Exchange-rate differences	0	-	-	0
<b>Closing accumulated amortisation, 31 December 2018</b>	<b>-1,318</b>	<b>-137</b>	<b>-1,641</b>	<b>-3,097</b>
<b>Impairment</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>
Opening accumulated impairment, 1 January 2018	-400	-45	-	-445
Impairment	-319	-62	-	-381
<b>Closing accumulated impairment, 31 December 2018</b>	<b>-719</b>	<b>-107</b>	<b>-</b>	<b>-826</b>
<b>Carrying amount, 31 December</b>				
2017	1,503	102	2,699	4,304
<b>2018</b>	<b>1,574</b>	<b>20</b>	<b>2,606</b>	<b>4,200</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 or loss as Other administration expenses.

During the year, impairment of other intangible assets amounting to SEK 381 M (102) has been made.

<b>Note 21</b> Property and equipment		
	2018	2017
<b>Cost</b>		
Opening cost, 1 January	210	219
Reclassification	-	-19
Acquisitions	33	28
Divestments/disposals	-24	-18
Exchange-rate differences	0	0
<b>Closing cost, 31 December</b>	<b>219</b>	<b>210</b>
<b>Depreciation</b>		
Opening accumulated depreciation, 1 January	-166	-164
Reclassification	-	2
Depreciation	-16	-15
Divestments/disposals	18	11
Exchange-rate differences	0	0
<b>Closing accumulated depreciation, 31 December</b>	<b>-164</b>	<b>-166</b>
<b>Carrying amount, 31 December</b>	<b>55</b>	<b>44</b>

<b>Note 22</b> Owner-occupied property				
	After revaluation 31 Dec 2018	Before revaluation 31 Dec 2018	After revaluation 31 Dec 2017	Before revaluation 31 Dec 2017
Cost, reclassified	4,219	3,780	3,731	3,532
Accumulated amortisation	-986	-884	-845	-800
Carrying amount	3,232	2,897	2,887	2,733
<b>Fair value</b>		<b>3,232</b>		<b>2,887</b>
<b>Revalued depreciated cost</b>				
			<b>2018</b>	<b>2017</b>
Opening balance, 1 January			2,887	2,721
Capitalised improvements			37	31
Depreciation for the year according to plan before revaluation			-84	-76.5
Revaluation of owner-occupied property			393	211
<b>Closing balance, 31 December</b>			<b>3,232</b>	<b>2,887</b>
Historical cost reduced by depreciation according to plan			1,608	1,655
Revaluation effect against revaluation reserve			307	165
<b>Assumption on valuation at fair value</b>				
			<b>2018</b>	<b>2017</b>
Current rental income/market rent, SEK M			155/171	152/157
Computed interest in discounting, %			6.3	6.6
Direct yield requirement, %			4.3	4.5

The Group applies the revaluation technique to the Group's owner-occupied properties. The properties were valued externally by appraiser CBRE Sweden AB on 30 June and 31 December. Fair value was calculated by applying the location-price method, based on reported purchases of comparable properties and an income approach. The income approach is based on a ten-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 added, which was calculated by performing a constant capitalisation of an estimated market-adjusted operating net in year 11. The Group has no borrowing costs for owner-occupied property. For information on fair value valuation techniques, refer to note 49.

<b>Note 23</b> Shares in Länsförsäkringar Liv Försäkringsaktiebolag (publ)								
	Corporate Registration Number	Registered office	Number of shares	Share of equity %	Equity	Earnings	Carrying amount 31 Dec 2018	Carrying amount 31 Dec 2017
Länsförsäkringar Liv Försäkringsaktiebolag (publ)	516401-6627	Stockholm	8,000	100	23,703	609	8	8

Länsförsäkringar AB owns 100% of the shares in Länsförsäkringar Liv Försäkringsaktiebolag (publ) (Länsförsäkringar Liv) but this company is not consolidated. The holding in 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 life-assurance operations, which are conducted according to mutual principles through Länsförsäkringar Liv and whose earnings accrue in their entirety to the policy-

holders, are not recognised in accordance with the purchase method since Länsförsäkringar AB does not have control of the company, is not entitled to variable returns and cannot influence returns. Länsförsäkringar Liv is recognised and valued as unquoted shares in accordance with IFRS 9 Financial Instruments.

**Note 24 Shares and participations in associated companies**

	31 Dec 2018	31 Dec 2017
Carrying amount at beginning of the year	48	82
Profit shares in the associated company	7	4
Other changes in the associated company's equity	-1	-1
Impairment	-	-35
Reclassification	-	-2
<b>Total shares and participations in associated companies</b>	<b>54</b>	<b>48</b>

	Corporate Registration Number	Registered office	Number of shares	Share of equity %	Carrying amount 31 Dec 2018	Carrying amount 31 Dec 2017
CAB Group AB	556131-2223	Örebro	1,582	28.8	42	37
European Alliance Partners Company AG	CH-0203026423-1	Zurich, Switzerland	9,248	12.5	10	9
FörsäkringsGiro Sverige AB	556482-4471	Solna	5,000,000	25.0	-	-
Länsförsäkringsbolagens Fastighets HB Humlegården	916604-6459	Stockholm	188,722	29.1	0	0
Svenska Andelshästar AB	556536-9633	Uppsala	400	40.0	2	1
<b>Total</b>					<b>54</b>	<b>48</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**

Loan receivables are geographically attributable in their entirety to Sweden.

SEK M	31 Dec 2018	31 Dec 2017
Public sector	4,182	2,014
Corporate sector	18,855	18,402
Retail sector	266,814	241,295
Other	0	0
<b>Loan to the public before reserves</b>	<b>289,851</b>	<b>261,712</b>
Reserves	-425	-268
<b>Loans to the public</b>	<b>289,426</b>	<b>261,444</b>
<b>Fixed-interest period</b>		
Remaining term of not more than 3 months	220,879	194,248
Remaining term of more than 3 months but not more than 1 year	15,607	21,625
Remaining term of more than 1 year but not more than 5 years	51,024	43,676
Remaining term of more than 5 years	1,916	1,895
<b>Loans to the public</b>	<b>289,426</b>	<b>261,444</b>

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



## Note 25 Loans to the public, cont.

### Reconciliation of gross carrying amount and loss allowance

SEK M	Not credit-impaired				Credit-impaired				Total	
	Stage 1		Stage 2		Stage 3 (Excluding purchased and new credit-impaired)		Stage 3 (Purchased and new credit-impaired)			
	Gross carry- ing amount	Loss allowance	Gross carry- ing amount	Loss allowance	Gross carry- ing amount	Loss allowance	Gross carry- ing amount	Loss allowance	Gross carry- ing amount	Loss allowance
Opening balance 1 Jan 2018	254,458	-73	6,514	-94	625	-187	115	-2	261,712	-356
New loans	77,934	-61	86	-1	6	-1	33	-2	78,059	-65
Changes:										
Change in loss allowance model or method	-	3	-	3	-	0	-	0	-	6
Repayment	-47,899	35	-1,642	33	-168	32	-35	2	-49,743	103
Change in risk parameters	-	-69	-	-41	-	-48	-	1	-	-158
Other	-	0	-	0	-	-	-	-	-	-0
Transfer between stages:										
Transfer from stage 1 to stage 2	-5,133	48	5,133	-79	-	-	-	-	-	-31
Transfer from stage 2 to stage 1	2,609	-3	-2,609	6	-	-	-	-	-	3
Transfer to stage 3	-208	53	-266	57	474	-165	-	-	-	-55
Transfer from stage 3	66	0	67	0	-133	5	-	-	-	5
Write-off	-	-	-	-	-174	121	-3	1	-176	122
Closing balance 31 Dec 2018	281,827	-67	7,283	-116	631	-242	111	-1	289,851	-425

	Not credit-impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Loans to the public before loss allowances	281,827	7,283	742	289,851
Credit reserve requirement	-85	-139	-275	-498
Withheld remuneration to the regional insurance companies	18	23	33	74
Recognised loss allowance	-67	-116	-242	-425
Loans to the public	281,760	7,167	500	289,426

The settlement model regarding the commitment that the regional insurance companies have for credit losses entails that the regional insurance companies cover 80% of the loss allowance requirement on the date when an impairment is identified for Länsförsäkrings Bank AB and Länsförsäkrings Hypotek AB. Off-setting takes place against, and can amount to a maximum of, accrued commission. Remuneration corresponding to 80% of the provision requirement is withheld on every occasion until the lending mediated by the regional insurance company has been regulated. On 31 December 2018, the total credit reserve requirement for loan receivables amounted to SEK 499 M of which the Bank Group's recognised loss allowance for loan receivables accounted for SEK 425 M and the remainder of SEK 74 M was settled against the remuneration to the regional insurance companies.

The recognised loss allowance increased SEK 70 M during the year. The increase was attributable to the subsidiary Wasa Kredit AB. A higher number of late payers and an increase in default credits resulted in a decline in credit risk parameters which increased the loss allowance. The decline in credit risk parameters was also driven by migration of credits from stage 1 to stage 2 and to stage 3, which contributed to the increase for the year.

The contractual amounts outstanding for financial assets that were written off during the period and that are still encompassed by compliance measured amount to SEK 179 M on 31 December 2018.

Modified loan receivables in loans to the public, SEK M	31 Dec 2018
Loan receivables modified during the period that were in stages 2 and 3 when they were modified	
Amortised cost before modification	255
Modification gain/loss	-0.2
Gross carrying amount for loan receivables that have been modified since initial recognition and on the modification date were in stage 2 or 3 and that were transferred to stage 1 during the period	76

<b>Note 26</b>	<b>Unit-linked insurance assets, policyholder bears the risk</b>		
	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>	
Equity funds	108,651	113,121	
Fixed-income funds	13,689	11,609	
<b>Total unit-linked insurance assets</b>	<b>122,340</b>	<b>124,730</b>	
Amortised cost	101,226	95,490	

Note 27	Financial leasing				
Financial lease agreements specified by maturity structure where the Group is the lessor					
31 Dec 2018	Up to 1 year	1-5 years	More than 5 years	Total	
Present value of future minimum lease fees	2,501	4,196	746	7,443	
Unearned financial income <sup>1)</sup>	499	678	77	1,254	
Gross investment	2,999	4,874	823	8,697	

<b>31 Dec 2017</b>	<b>Up to 1 year</b>	<b>1-5 years</b>	<b>More than 5 years</b>	<b>Total</b>	
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>	

<sup>1)</sup> Attributable to present value calculation.

	<b>2018</b>	<b>2017</b>
Provision for impaired loans pertaining to minimum lease fees	126	59
Variable portion of leasing fees included in net profit for the year	7	7

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.

<b>Note 28</b>	<b>Shares and participations</b>		
<b>Carrying amount</b>	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>	
Listed shares and participations	1,554	1,603	
Unlisted shares and participations	1,146	967	
<b>Total shares and participations</b>	<b>2,700</b>	<b>2,570</b>	

	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>
Fair value	2,697	2,570
Cost	1,875	1,804

<b>Note 29</b>	<b>Bonds and other interest-bearing securities</b>		
<b>Carrying amounts</b>	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>	
Swedish government	1	209	
Swedish mortgage institutions	31,687	31,503	
Other Swedish issuers	5,831	6,922	
Foreign states	1,282	885	
Other issuers	5,149	4,489	
<b>Total bonds and other interest-bearing securities</b>	<b>43,950</b>	<b>44,008</b>	
Fair value	43,950	44,008	
Amortised cost	43,209	43,099	
Nominal value	40,226	39,761	
Listed securities	43,701	43,820	
Unlisted securities	249	188	
Carrying amounts of the securities compared with their nominal amounts			
Total fixed income funds	2,243	2,146	
Total surplus	1,480	2,098	
Total deficit	-1	-0	

For loss allowance, see note 16 Credit losses.

<b>Note 30</b>	<b>Treasury bills and other eligible bills</b>		
<b>Carrying amount</b>	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>	
Swedish government	10,794	10,081	
Finnish government	53	450	
<b>Total treasury bills and other eligible bills</b>	<b>10,847</b>	<b>10,532</b>	
Fair value	10,847	10,532	
Amortised cost	10,746	10,346	
Nominal value	10,256	9,850	

For loss allowance, see note 16 Credit losses.

<b>Note 31</b>	<b>Fair value adjustment of interest-rate-risk hedged items in portfolio hedge</b>	
	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
Carrying amount, 1 January	248	636
Changes during the year pertaining to lending	-123	-388
<b>Carrying amount, 31 December</b>	<b>125</b>	<b>248</b>
<b>Liabilities</b>		
Carrying amount, 1 January	1,200	3,191
Changes during the year pertaining to lending	-2	-4
Changes during the year pertaining to borrowing	-140	-1,987
<b>Carrying amount, 31 December</b>	<b>1,058</b>	<b>1,200</b>

<b>Note 32</b>	<b>Other receivables</b>	
	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>
Receivables pertaining to direct insurance	1,864	1,706
Accounts receivable	399	370
Receivables pertaining to reinsurance	584	281
Deposits with companies that have ceded reinsurance	85	52
Other receivables	1,605	1,168
<b>Total other receivables</b>	<b>4,537</b>	<b>3,576</b>

Accounts receivable related to contracts with customers amounted to SEK 165 M (122) in the Parent Company and SEK 2 M (1) in Länsförsäkringar Fondliv. Accounts receivable pertaining to leases amounted to SEK 223 M (241).

Other receivables related to contracts with customers amounted to SEK 18 M (35) in the Parent Company, SEK 27 M (24) in the Länsförsäkringar Sak Group and SEK 577 M (367) in Länsförsäkringar Fondliv.

In its calculation of loss allowance for other financial assets, the Group uses the simplified method that is described in more detail in note 1 Accounting policies. For loss allowance, see note 16 Credit losses.

<b>Note 33</b>	<b>Prepaid expenses and accrued income</b>	
	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>
Accrued interest and rental income	47	57
Deferred acquisition costs	1,390	1,299
Other accrued income	260	290
Other prepaid expenses	280	291
<b>Total prepaid expenses and accrued income</b>	<b>1,977</b>	<b>1,936</b>
<b>Opening balance Deferred acquisition costs 1 January</b>	<b>1,299</b>	<b>1,246</b>
Capitalised acquisition costs	914	694
Depreciation	-703	-637
Impairment	-120	-4
<b>Closing balance Deferred acquisition costs 31 December</b>	<b>1,390</b>	<b>1,299</b>

<b>Note 34</b>	<b>Cash and cash equivalents</b>	
	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>
Cash and balances with central banks	22	17
Balances with other banks	6,053	1,179
<b>Total cash and cash equivalents</b>	<b>6,075</b>	<b>1,196</b>

For loss allowance, see note 16 Credit losses.

	Restricted equity		Non-restricted equity including comprehensive income for the year	Total equity
	Share capital	Restricted reserves		
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>	-	-3	<b>116</b>	<b>113</b>
<b>Comprehensive income for the year</b>	-	-3	<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>
Effect of change in accounting policy <sup>1)</sup>	-	-	-87	-87
Opening equity, 1 January 2018 after adjustment for change in accounting policy	1,042	6,554	17,174	24,770
Net profit for the year	-	-	2,190	2,190
Change in translation reserve	-	4	-	4
Change in revaluation reserve	-	-	393	393
Change in fair value reserve	-	-	-60	-60
Change in hedging reserve	-	-	-58	-58
Tax on items recognised in other comprehensive income	-	-	-50	-50
<b>Total other comprehensive income</b>	-	<b>4</b>	<b>225</b>	<b>229</b>
<b>Comprehensive income for the year</b>	-	<b>4</b>	<b>2,414</b>	<b>2,418</b>
Dividends paid	-	-	-300	-300
Tier 1 capital issued	-	-	-34	-34
Transfer between restricted and non-restricted equity	-	-13	13	-
Realised gain from sale of shares	-	-	13	13
<b>Closing equity, 31 December 2018</b>	<b>1,042</b>	<b>6,545</b>	<b>19,280</b>	<b>26,867</b>

<sup>1)</sup> Effect due to change in accounting policy from IAS 39 - Financial Instruments: Recognition and measurement to IFRS 9 - Financial Instruments.

The quotient value per share is SEK 100. All shares are ordinary shares. Of the shares issued on 31 December 2018, 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.

	2018	2017
<b>Translation reserve</b>		
Opening translation reserve, 1 January	-65	-60
Translation differences for the year	4	-5
<b>Closing translation reserve, 31 December</b>	<b>-61</b>	<b>-65</b>
<b>Revaluation reserve</b>		
Opening revaluation reserve, 1 January	985	818
Revaluation of owner-occupied property	393	211
Revaluation of defined-benefit pension plans	-	3
Tax attributable to revaluation for the year	-74	-47
<b>Closing revaluation reserve, 31 December</b>	<b>1,304</b>	<b>985</b>
<b>Fair value reserve</b>		
Opening fair value reserve, 1 January	133	94
Effect of change in accounting policy	-480	-
Change for the year in fair value of available-for-sale financial assets	-60	51
Tax attributable to change for the year	11	-11
<b>Closing fair value reserve, 31 December</b>	<b>-397</b>	<b>133</b>
<b>Hedging reserve</b>		
Opening hedging reserve, 1 January	-106	-16
Change for the year in cash-flow hedges	-58	-115
Tax attributable to change for the year	13	25
<b>Closing hedging reserve, 31 December</b>	<b>-151</b>	<b>-106</b>

#### 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

It is proposed that no dividends be paid in 2018. 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.

<b>Note 36</b>	<b>Subordinated liabilities</b>
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	31 Dec 2018	31 Dec 2017
Subordinated debts with three-month floating interest rates	1,696	2,098
Subordinated debts with a fixed interest rate	897	499
<b>Total subordinated liabilities</b>	<b>2,593</b>	<b>2,596</b>

The subordinated loans listed and can be redeemed on 26 April 2021 and 1 March 2023 at the earliest. These loans fall due on 26 April 2026 and 1 March 2028. Interest on the variable loans was 1.9% and 0.8% on 31 December 2018. The interest rate on fixed loans is 2.7% and 1.8%.

<b>Note 37</b>	<b>Technical provisions</b>
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	2018			2017		
	Gross	Reinsurers' portion	Net	Gross	Reinsurers' portion	Net
<b>Unearned premiums</b>						
Opening balance, 1 January	2,171	91	2,080	2,013	63	1,950
Provisions during the period	113	33	81	173	28	145
Exchange-rate changes	31	-0	31	-15	0	-15
<b>Closing balance, 31 December</b>	<b>2,315</b>	<b>124</b>	<b>2,191</b>	<b>2,171</b>	<b>91</b>	<b>2,080</b>
of which non-life insurance	2,315	124	2,191	2,171	91	2,080
<b>Unexpired risk</b>						
Opening balance, 1 January	1	-	1	2	-	2
Provisions during the period	-1	-	-1	-0	-	-0
<b>Closing balance, 31 December</b>	<b>1</b>	<b>-</b>	<b>1</b>	<b>1</b>	<b>-</b>	<b>1</b>
of which non-life insurance				1	-	1
<b>Life-assurance provision</b>						
Opening balance, 1 January	2,508	-	2,508	2,264	-	2,264
Provisions during the period	9	-	9	8	-	8
Deposits	452	-	452	424	-	424
Payments	-94	-	-94	-97	-	-97
Difference between premiums paid and provisions for new operation	-42	-	-42	-56	-	-56
Costs withdrawn	-18	-	-18	-19	-	-19
Change in provision due to change in interest-rate assumption	17	-	17	-5	-	-5
Change due to changed cost assumption	9	-	9	-14	-	-14
Change due to amended transfer assumption	5	-	5	-25	-	-25
Other changes	-1	-	-1	28	-	28
<b>Closing balance, 31 December</b>	<b>2,846</b>	<b>-</b>	<b>2,846</b>	<b>2,508</b>	<b>-</b>	<b>2,508</b>
of which life assurance	2,846	-	2,846	2,508	-	2,508
<b>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 opening balance, 1 January</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>
Provisions for the period	40	31	8	-138	22	-159
Interest-rate translation of provision for claim annuities	8	-	8	6	-	6
Transferred insurance portfolio	-	-	-	-182	-	-182
Exchange-rate changes	33	13	19	-2	7	-10
<b>Closing balance, 31 December</b>	<b>14,303</b>	<b>10,429</b>	<b>3,874</b>	<b>14,222</b>	<b>10,384</b>	<b>3,838</b>
of which non-life insurance	13,884	10,382	3,501	13,869	10,355	3,513
of which life assurance	419	47	373	354	29	325
<b>Specification of closing balance claims outstanding</b>						
Claims incurred and reported	4,910	4,481	429	4,800	4,491	309
Claims incurred but not reported	7,624	5,948	1,676	7,545	5,893	1,652
Claims annuities	1,546	-	1,546	1,665	-	1,665
Claims adjustment costs	223	-	223	212	-	212
<b>Total closing balance, 31 December</b>	<b>14,303</b>	<b>10,429</b>	<b>3,874</b>	<b>14,222</b>	<b>10,384</b>	<b>3,838</b>
<b>Carrying amount at year-end</b>	<b>19,465</b>	<b>10,553</b>	<b>8,912</b>	<b>18,903</b>	<b>10,475</b>	<b>8,427</b>
of which non-life insurance	16,200	10,506	5,693	16,041	10,447	5,594
of which life assurance	3,265	47	3,218	2,862	29	2,833
<b>Run-off profit/loss, non-life insurance</b>	<b>572</b>	<b>-334</b>	<b>238</b>	<b>502</b>	<b>-188</b>	<b>314</b>



## Note 37 Technical provisions, cont.

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 38 Unit-linked insurance liabilities, policyholder bears the risk

Unit-linked insurance commitments	31 Dec 2018	31 Dec 2017
Opening balance	124,969	111,801
Payments	8,339	8,526
Migrations, repurchases and cancellations	-2,802	-2,546
Paid remuneration	-2,463	-2,226
Costs withdrawn	-733	-694
Change in value	-4,514	10,202
Yield tax	-114	-98
Other changes	11	4
<b>Closed balance, unit-linked insurance commitments</b>	<b>122,693</b>	<b>124,969</b>
Conditional bonus	442	614
<b>Total</b>	<b>123,135</b>	<b>125,583</b>

## Note 39 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 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Intangible assets	-55	-2	9	9	-46	7
Property	1	2	401	337	403	339
Financial assets	1	1	-	179	1	180
Receivables	-5	-5	-	-	-5	-5
Other assets	-	-	1	1	1	1
Liabilities	-50	-37	0	3	-50	-34
Loss carryforwards	-16	-8	-	-	-16	-8
Untaxed reserves	-	-	1,025	1,007	1,025	1,007
<b>Deferred tax asset (-) / deferred tax liability (+)</b>	<b>-124</b>	<b>-49</b>	<b>1,437</b>	<b>1,535</b>	<b>1,313</b>	<b>1,486</b>
Offset	2	2	-	-2	-	-
<b>Net deferred tax asset (-) / deferred tax liability (+)</b>	<b>-122</b>	<b>-47</b>	<b>1,435</b>	<b>1,533</b>	<b>1,313</b>	<b>1,486</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

2018	Amount at 1 January	Currency translation	Recognised in profit or loss	Recognised in other comprehensive income	Amount at 31 December
Intangible assets	7	-	-53	-	-46
Property	339	-	-11	74	403
Financial assets	180	-	-179	-	1
Receivables	-5	-	0	-	-5
Other assets	1	0	0	-	1
Liabilities	-34	-	-3	-13	-50
Loss carryforwards	-8	-	-8	-	-16
Untaxed reserves	1,007	-	18	-	1,025
<b>Deferred tax assets (-) / deferred tax liabilities (+)</b>	<b>1,486</b>	<b>0</b>	<b>-235</b>	<b>61</b>	<b>1,313</b>

2017	Amount at 1 January	Currency translation	Recognised in profit or 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>

Note 40	Other provisions	
	31 Dec 2018	31 Dec 2017
Provision for pensions being paid	47	38
Provisions for early retirement in accordance with pension agreement	-	9
Other provisions	72	69
<b>Total other provisions</b>	<b>119</b>	<b>115</b>

#### Defined-benefit pension plans

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).

#### 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 2019 are expected to total SEK 136 M.

	2018	2017
Expenses for defined-contribution plans	272	254

Note 41	Debt securities in issue	
	31 Dec 2018	31 Dec 2017
Commercial papers	324	967
Bond loans <sup>1)</sup>	209,927	186,845
Cashier's cheques issued	53	58
<b>Total debt securities in issue</b>	<b>210,304</b>	<b>187,870</b>

<sup>1)</sup> Covered bonds in the Group amount to SEK 171,195 M (152,812).

Note 42	Deposits from the public	
	31 Dec 2018	31 Dec 2017
Deposits from insurance companies	2,155	2,668
Deposits from households	92,221	84,169
Deposits from other Swedish public	12,478	11,360
<b>Total deposits from the public</b>	<b>106,854</b>	<b>98,197</b>

Note 43	Due to credit institutions	
	31 Dec 2018	31 Dec 2017
Swedish banks	5,817	3,943
Other Swedish credit institutions	175	53
<b>Total liabilities due to credit institutions</b>	<b>5,992</b>	<b>3,996</b>
Payable on demand	43	51

Genuine repurchase transactions amounted to SEK 159 M (53).

Note 44	Other liabilities	
	31 Dec 2018	31 Dec 2017
Liabilities pertaining to direct insurance	821	838
Due to Länsförsäkringar Liv Försäkrings AB	13	165
Liabilities, assumed reinsurance	159	-
Liabilities, reinsurance	460	287
Accounts payable	296	279
Tax liabilities	171	230
Deposits from reinsurers	59	44
Other liabilities	1,659	1,216
<b>Total other liabilities</b>	<b>3,638</b>	<b>3,059</b>

Note 45	Accrued expenses and deferred income	
	31 Dec 2018	31 Dec 2017
Accrued interest expense	1,146	1,241
Other accrued expenses	2,052	1,979
Prepaid rent	242	244
Other deferred income	1,148	1,212
<b>Total accrued expenses and deferred income</b>	<b>4,587</b>	<b>4,676</b>

**Note 46 Pledged assets and contingent liabilities**

	31 Dec 2018	31 Dec 2017
<b>Pledged assets</b>		
Total registered investment assets on behalf of policyholders	132,094	134,039
Pledged securities in the Riksbank	2,597	2,638
Pledged securities in Euroclear	1,966	2,092
Pledged shares in subsidiaries	-	335
Loan receivables, covered bonds	211,412	188,396
Loan receivables, substitute collaterals	9,500	9,275
Collateral paid due to repurchase agreement	159	53
Securities collateral paid, derivatives	1,542	798
Other collateral for securities	20	22
Chattel mortgages, associated companies	0	0
<b>Total pledged assets</b>	<b>359,289</b>	<b>337,648</b>
<b>Contingent liabilities</b>		
Guarantees	37	37
<b>Total contingent liabilities</b>	<b>37</b>	<b>37</b>
<b>Other commitments</b>		
Loans approved but not disbursed	16,559	17,721
Unutilised portion of overdraft facilities	2,563	2,601
Remaining amount to invest in investment assets	207	185
Unutilised portion of credit card facilities	1,719	1,657
<b>Total other commitments</b>	<b>21,048</b>	<b>22,165</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.

Länsförsäkringar Liv decided in 2018 to enter into a run-off agreement with Länsförsäkringar AB and with Länsförsäkringar Fondliv for Länsförsäkringar Liv's run off. In light of this, a decision was made to sign a 20-year service agreement under which Länsförsäkringar AB and Länsförsäkringar Fondliv undertake to deliver services at a pre-determined price per year. The remuneration levels in the agreement reflect Länsförsäkringar AB's and Länsförsäkringar Fondliv's plans to gradually reduce the cost for the services rendered. The agreement includes a renegotiation clause that entails that the parties can review the remuneration level every 36 months if the circumstances have significantly changed. The agreement impacts the Länsförsäkringar AB Group's solvency situation as per 31 December 2018. The solvency ratio declined by approximately 2 percentage points, primarily as a result of the agreement's effect on Länsförsäkringar Fondliv's assumption regarding operating expense cash flow.

**Loan commitments and other credit commitments**

	Not credit-impaired				Credit impaired				Total	
	Stage 1		Stage 2		Stage 3 (Excluding purchased and new credit-impaired)		Stage 3 (Purchased and new credit-impaired)			
	Credit risk exposure	Loss allowance	Credit risk exposure	Loss allowance	Credit risk exposure	Loss allowance	Credit risk exposure	Loss allowance	Credit risk exposure	Loss allowance
<b>SEK M</b>										
<b>Opening balance, 1 Jan 2018</b>	<b>21,657</b>	<b>-12</b>	<b>299</b>	<b>-6</b>	<b>22</b>	<b>-0</b>	<b>1</b>	<b>-0</b>	<b>21,979</b>	<b>-18</b>
<b>New loan commitments and increase in existing loan commitments</b>	<b>62,291</b>	<b>-14</b>	<b>76</b>	<b>-3</b>	<b>4</b>	<b>-0</b>	<b>25</b>	<b>-1</b>	<b>62,397</b>	<b>-18</b>
<b>Changes:</b>										
Change in loss allowance model or method	-	0	-	0	-	-	-	0	-	0
Net change in existing loan commitments and credit commitments (utilised and repaid)	-23,712	3	-66	1	-16	0	-14	0	-23,808	4
Change in risk parameters	-	1	-	2	-	-0	-	0	-	3
<b>Transfer of loan commitments and credit commitments:</b>										
Transfer from stage 1 to stage 2	-583	3	583	-6	-	-	-	-	-	-2
Transfer from stage 2 to stage 1	129	-1	-129	1	-	-	-	-	-	0
Transfer to stage 3	-9	0	-1	0	10	-0	-	-	-	0
Transfer from stage 3	1	0	3	0	-4	0	-	-	-	0
Expired loan commitments	-39,278	9	-428	5	-9	1	-11	1	-39,727	15
<b>Closing balance 31 Dec 2018</b>	<b>20,497</b>	<b>-11</b>	<b>337</b>	<b>-6</b>	<b>7</b>	<b>-0</b>	<b>1</b>	<b>0</b>	<b>20,842</b>	<b>-17</b>

Loss allowance reduced by SEK 2 M during the year due to the higher degree of utilisation of existing loan commitments and credit commitments and loan commitments that expired during the period.

The settlement model regarding the commitment that the regional insurance companies have for credit losses entails that the regional insurance companies cover 80% of the loss allowance requirement on the date when an impairment is identified for Läns-

försäkringar Bank AB and Länsförsäkringar Hypotek AB. For more information on the settlement model, refer to note 25 Loans to the public. On 31 December 2018, the total loss allowance for commitments amounted to SEK 20 M, of which the Bank Group's recognised loss allowance amounted to SEK 17 M and the remainder of SEK 3 M was sett-led against remuneration to the regional insurance companies.

Amount expected to be recovered	31 Dec 2018			31 Dec 2017		
	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
<b>Assets</b>						
Goodwill	-	542	542	-	538	538
Other intangible assets	90	4,110	4,200	91	4,213	4,304
Deferred tax assets	70	53	122	40	7	47
Property and equipment	28	26	55	31	13	44
Owner-occupied property	-	3,232	3,232	62	2,824	2,887
Shares in Länsförsäkringar Liv Försäkrings AB	-	8	8	-	8	8
Shares and participations in associated companies	-	54	54	-	48	48
Reinsurers' portion of technical provisions	919	9,634	10,553	1,083	9,393	10,475
Loans to the public	16,895	272,531	289,426	9,272	252,172	261,444
Unit-linked insurance assets, policyholder bears the risk	7,654	114,686	122,340	11,609	113,120	124,730
Shares and participations	66	2,634	2,700	38	2,532	2,570
Bonds and other interest-bearing securities	7,730	36,220	43,950	10,294	33,714	44,008
Treasury bills and other eligible bills	5,522	5,324	10,847	5,512	5,019	10,531
Derivatives	543	5,548	6,090	436	4,745	5,182
Change in value of hedge portfolios	107	18	125	216	32	248
Other receivables	4,533	4	4,537	2,882	695	3,576
Prepaid expenses and accrued income	1,026	951	1,977	931	1,005	1,936
Cash and cash equivalents	6,075	-	6,075	1,196	-	1,196
<b>Total assets</b>	<b>51,260</b>	<b>455,576</b>	<b>506,835</b>	<b>43,693</b>	<b>430,079</b>	<b>473,773</b>

Amount expected to be settled	31 Dec 2018			31 Dec 2017		
	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
<b>Liabilities</b>						
Subordinated liabilities	-	2,593	2,593	-	2,596	2,596
Technical provisions	4,588	14,877	19,465	4,470	14,433	18,903
Unit-linked insurance liabilities, policyholder bears the risk	7,676	115,459	123,135	8,031	117,552	125,583
Deferred tax liabilities	2	1,432	1,435	3	1,531	1,533
Other provisions	8	111	119	6	109	115
Debt securities in issue	15,959	194,345	210,304	21,034	166,836	187,870
Deposits from the public	106,416	438	106,854	92,916	5,281	98,197
Due to credit institutions	5,992	-	5,992	3,996	-	3,996
Derivatives	179	608	787	274	913	1,187
Change in value of hedge portfolios	48	1,010	1,058	83	1,117	1,200
Other liabilities	3,586	52	3,638	3,028	31	3,059
Accrued expenses and deferred income	4,265	323	4,587	4,676	-	4,676
<b>Total liabilities</b>	<b>148,719</b>	<b>331,249</b>	<b>479,968</b>	<b>138,516</b>	<b>310,399</b>	<b>448,916</b>

**Note 48** Classification of financial assets and liabilities

	Financial assets measured at fair value in profit or loss			Financial assets measured at fair value through other comprehensive income			Total	Fair value
	Financial assets measured according to fair value option	Held for trading	Equity instruments	Derivatives used in hedge accounting	Available-for-sale financial assets	Loan receivables and accounts receivable		
31 Dec 2018								
Assets								
Shares in Länsförsäkringar Liv Försäkrings AB	-	-	-	-	-	8	8	8
Loans to the public	-	-	-	289,426	-	-	289,426	290,228
Unit-linked insurance assets, policyholder bears the risk	122,340	-	-	-	-	-	122,340	122,340
Shares and participations	1,546	-	1,037	-	-	117	2,700	2,700
Bonds and other interest- bearing securities	7,160	-	-	-	36,790	-	43,950	43,950
Treasury bills and other eligible bills	-	-	-	-	10,847	-	10,847	10,847
Derivatives	35	6,055	-	-	-	-	6,090	6,090
Other receivables	-	-	-	506	-	-	506	-
Prepaid expenses and accrued income	-	-	-	150	-	-	150	-
Cash and cash equivalents	-	-	-	6,075	-	-	6,075	-
Total assets	131,081	6,055	1,037	296,157	47,637	125	482,093	

31 Dec 2018	Financial liabilities measured at fair value in profit or loss		Other financial liabilities	Total	Fair value
	Financial liabilities measured according to fair value option	Derivatives used in hedge accounting			
Liabilities					
Subordinated liabilities	-	-	2,593	2,593	2,632
Debt securities in issue	-	-	210,304	210,304	214,315
Deposits from the public	-	-	106,854	106,854	108,677
Due to credit institutions	-	-	5,992	5,992	-
Derivatives	27	760	-	787	787
Other liabilities	-	-	792	792	-
Accrued expenses and deferred income	-	-	1,499	1,499	-
<b>Total liabilities</b>	<b>27</b>	<b>760</b>	<b>328,034</b>	<b>328,821</b>	



**Note 48 Classification of financial assets and liabilities, cont.**

31 Dec 2017	Financial assets measured at fair value in profit or loss			Available-for-sale financial assets	Loan receivables and accounts receivable	Total	Fair value
	Financial assets measured according to fair value option	Held for trading	Derivatives used in hedge accounting				
Assets							
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	-
Prepaid expenses and accrued income	-	-	-	-	590	590	-
Cash and cash equivalents	-	-	-	-	1,196	1,196	-
Total assets	134,831	71	5,111	47,022	263,026	450,651	

31 Dec 2017	Financial assets measured at fair value in profit or loss			Other financial liabilities	Total	Fair value
	Financial assets measured according to fair value option	Held for trading	Derivatives used in hedge accounting			
Liabilities						
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	1,166	-	1,187	1,187
Other liabilities	-	-	-	875	875	-
Accrued expenses and deferred income	-	-	-	3,582	3,582	-
Total liabilities	-	20	1,166	297,116	298,303	

Gains and losses are recognised in profit or loss in Investment income, net.

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 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 2018				31 Dec 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Owner-occupied property	-	-	3,232	3,232	-	-	2,887	2,887
Shares in Länsförsäkringar Liv Försäkrings AB	-	-	8	8	-	-	-	-
Unit-linked insurance assets, policyholder bears the risk	122,340	-	-	122,340	124,730	-	-	124,730
Shares and participations	1,555	43	1,103	2,700	1,603	13	954	2,570
Bonds and other interest-bearing securities	43,700	-	250	43,950	43,820	-	188	44,008
Treasury bills and other eligible bills	10,847	-	-	10,847	10,531	-	-	10,531
Derivatives	1	6,090	-	6,090	1	5,181	-	5,182
<b>Liabilities</b>								
Derivatives	3	784	-	787	0	1,187	-	1,187

Change level 3	Owner-occupied property	Shares in Länsförsäkringar Liv Försäkrings AB	Shares and participations	Bonds and other interest-bearing securities	Other receivables	Total
Opening balance, 1 January 2018	2,887	-	954	188	-	4,029
Acquisitions	37	-	0	62	-	99
Divestments	-	-	-10	-16	-	-26
	-	8	-	-	-	8
Recognised in net profit/loss for the year	-84	-	159	15	-	89
Recognised in other comprehensive income	393	-	-	-	-	393
<b>Closing balance, 31 December 2018</b>	<b>3,232</b>	<b>8</b>	<b>1,103</b>	<b>250</b>	<b>-</b>	<b>4,593</b>
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 2017</b>	<b>2,887</b>	<b>-</b>	<b>954</b>	<b>188</b>	<b>-</b>	<b>4,029</b>

There were no significant transfers between Level 1 and Level 2 during 2018 or during 2017. There were no transfers from Level 3 in 2018 or 2017.

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 fair value. Holdings in Länsförsäkringar AB and the insurance companies 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 that cannot be reliably measured based on listing in an active market. Instead, regular valuations are performed based on, for example, recent company reports and forecast results.

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**

Fair values for deposits from the public (Level 2) and loans to the public (Level 3) have been calculated using discounted expected cash flows where the discount rates applied are the current deposit and lending rates (including discounts). During the year, loans to the public were transferred from Level 2 to Level 3 since the discounts used for calculating fair value are not observable in a market.

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 market prices and the fair value is determined based on the yield curve of each currency.

**Note 50 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 counterparties and corresponding netting agreements for reverse repurchase agreements, mean-

ing 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 2018	Gross amount	Offset in the balance sheet	Amount recognised in the balance sheet	Master netting agreements	Collaterals Received (-) / Pledged (+)	Net amount
Assets						
Derivatives	6,204	-113	6,090	-286	-4,613	1,191
Liabilities						
Derivatives	-901	113	-787	286	25	-476
Repurchase agreements	-159	-	-159	-	159	-
Total	5,144	-	5,144	-	-4,429	715

31 Dec 2017	Gross amount	Offset in the balance sheet	Amount recognised in the balance sheet	Related amounts that are not offset in the balance sheet		Net amount
				Master netting agreements	Collaterals Received (-) / Pledged (+)	
Assets						
Derivatives	5,182	-	5,182	-1,133	-2,803	1,246
Liabilities						
Derivatives	-1,187	-	-1,187	1,133	10	-43
Repurchase agreements	-53	-	-53	-	53	-
Total	3,942	-	3,942	-	-2,740	1,203

The Group uses derivative instruments to reduce risks or enhance management efficiency and, when used, these are recognised according to the policies for hedge accounting. Disclosures on the Group's derivative instruments are provided in table 15 in note 2 Risk and capital management.

**Note 51 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 nonrecurring 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 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 2018****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 Försäkrings 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 51 Disclosures on related parties, cont.

### Related-party transactions 2018

	Income	Expenses	Receivables	Liabilities	Commitments
Associated companies	3	-	-	-	-
Länsförsäkringar Liv	353	31	102	1,005	-
<b>Owners</b>					
Regional insurance companies	3,614	4,463	8,792	13,471	57
<b>Other related parties</b>					
Länsförsäkringar Mäklarservice AB	24	15	4	46	6
Länsförsäkringar Fastighetsförmedling AB	2	0	1	0	-
Other	3	0	6	1	3
<b>Total other related parties</b>	<b>30</b>	<b>15</b>	<b>11</b>	<b>47</b>	<b>9</b>

### Interest income and interest expense 2018

	Interest income	Interest expense
Regional insurance companies	55	35
Länsförsäkringar Liv Försäkrings AB	-	5
Other	1	-

### Related-party transactions 2017

	Income	Expenses	Receivables	Liabilities	Commitments
Associated companies	2	-	-	-	-
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 Fastighetsförmedling 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

Receivables from and liabilities to regional insurance companies include technical provisions.

### Agreements

Länsförsäkringar Liv decided in 2018 to enter into a run-off agreement with Länsförsäkringar AB and with Länsförsäkringar Fondliv for Länsförsäkringar Liv's run off. Note 46 Pledged assets and contingent liabilities provides additional information about this agreement.

Significant agreements for the Länsförsäkringar AB Group primarily comprise agreements 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 transactions with related parties, see the Länsförsäkringar Liv Försäkrings AB's 2018 Annual Report.

## Note 52 Group companies

Holding in directly and indirectly owned subsidiaries	Registered office of subsidiary, country	Participating interest in %	
		31 Dec 2018	31 Dec 2017
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 53 Supplementary information to statement of cash flows

	2018	2017
<b>Interest paid and dividends received</b>		
Dividends received	39	48
Interest received	96	107
Interest paid	-150	-114
<b>Adjustment for non-cash items</b>		
Depreciation/amortisation and impairment of assets	708	599
Unrealised gains/losses on investment assets	4,700	-10,363
Technical provisions after ceded reinsurance	-1,964	13,387
Pension provisions	16	-15
Other provisions	-12	-7
Other items not affecting liquidity	-180	159
<b>Total</b>	<b>3,269</b>	<b>3,760</b>

## Note 54 Events after balance-sheet date

No significant events were reported after the balance-sheet date.

## Note 55 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 2018 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.

**Note 56** Financial effect of change in accounting policy from IAS 39 to IFRS 9

**Consolidated statement of financial position for Länsförsäkringar AB Group**

SEK M	1 January 2018 IAS 39	Adjustment	1 January 2018 IFRS 9
<b>Assets</b>			
Goodwill	538		538
Other intangible assets	4,304		4,304
Deferred tax assets	47		47
Property and equipment	44		44
Owner-occupied property	2,887		2,887
Shares in Länsförsäkringar Liv Försäkrings AB	8		8
Shares and participations in associated companies	48		48
Reinsurers' portion of technical provisions	10,475		10,475
Loans to the public	261,444	-88	261,356
Unit-linked insurance assets – policyholder bears the risk	124,730		124,730
Shares and participations	2,570		2,570
Bonds and other interest-bearing securities	44,008		44,008
Treasury bills and other eligible bills	10,531		10,531
Derivatives	5,182		5,182
Change in value of hedge portfolios	248		248
Other receivables	3,576	33	3,609
Prepaid expenses and accrued income	1,936	-5	1,931
Cash and cash equivalents	1,196		1,196
<b>Total assets</b>	<b>473,773</b>	<b>-60</b>	<b>473,713</b>
<b>Equity and liabilities</b>			
Equity			
Share capital	1,042		1,042
Other capital contributed	10,272		10,272
Additional Tier 1 instruments	1,200		1,200
Reserves	948	-544	404
Retained earnings including profit for the period	11,394	457	11,851
<b>Total equity</b>	<b>24,857</b>	<b>-87</b>	<b>24,770</b>
<b>Subordinated liabilities</b>	<b>2,596</b>		<b>2,596</b>
Technical provisions	18,903		18,903
Unit-linked insurance liabilities – policyholder bears the risk	125,583		125,583
Deferred tax liabilities	1,533		1,533
Other provisions	115	19	134
Debt securities in issue	187,870		187,870
Deposits from the public	98,197		98,197
Due to credit institutions	3,996		3,996
Derivatives	1,187		1,187
Change in value of hedge portfolios	1,200		1,200
Other liabilities	3,059	9	3,068
Accrued expenses and deferred income	4,676		4,676
<b>Total equity and liabilities</b>	<b>473,773</b>	<b>27</b>	<b>473,800</b>

The transition from IAS 39 to IFRS 9 entails that the Länsförsäkringar AB Group's equity declined SEK 87 M. The Länsförsäkringar AB Group's loss allowance increased SEK 88 M and the regional insurance companies' commitments for credit losses for generated business increased SEK 33 M. The loss allowance for loan commitments and guarantees amounted to SEK 19 M.



**Note 56 Financial effect of change in accounting policy from IAS 39 to IFRS 9, cont.**
**Financial assets and liabilities by category according to IFRS 9**

SEK M	Carrying amount 1 January 2018	Category according to IAS 39	Category according to IFRS 9
<b>Assets</b>			
Shares in Länsförsäkringar Liv Försäkrings AB	8	Available-for-sale financial assets	Fair value through other comprehensive income
Loans to the public	261,356	Loans and receivables	Amortised cost
Unit-linked insurance assets – policyholder bears the risk	124,730	Financial assets designated at fair value through profit or loss	Fair value through profit or loss
Shares and participations	2,570		
of which: strategic investments	101		
	55	Financial assets designated at fair value through profit or loss	Fair value through other comprehensive income
	46	Available-for-sale financial assets	Fair value through other comprehensive income
of which: other shares and participations	2,469	Financial assets designated at fair value through profit or loss	Fair value through profit or loss
Bonds and other interest-bearing securities	44,008		
of which: holdings in the insurance companies	7,570	Financial assets designated at fair value through profit or loss	Fair value through profit or loss
of which: holdings in Länsförsäkringar AB	720	Available-for-sale financial assets	Fair value through profit or loss
of which: holdings in the Bank Group	35,718	Available-for-sale financial assets	Fair value through other comprehensive income
Treasury bills and other eligible bills	10,531	Available-for-sale financial assets	Fair value through other comprehensive income
Derivatives	5,182		
of which: hedge accounting	5,111	Derivatives for hedge accounting	Derivatives for hedge accounting
of which: other	71	Held for trading	Fair value through profit or loss
Other receivables	425	Loans and receivables	Amortised cost
Cash and cash equivalents	1,196	Loans and receivables	Amortised cost
<b>Total assets</b>	<b>450,006</b>		
<b>Liabilities</b>			
Subordinated liabilities	2,596	Other financial liabilities	Other financial liabilities
Debt securities in issue	187,870	Other financial liabilities	Other financial liabilities
Deposits from the public	98,197	Other financial liabilities	Other financial liabilities
Due to credit institutions	3,996	Other financial liabilities	Other financial liabilities
Derivatives	1,187		
of which: hedge accounting	1,166	Derivatives for hedge accounting	Derivatives for hedge accounting
of which: other	20	Held for trading	Fair value through profit or loss
Other liabilities	875	Other financial liabilities	Other financial liabilities
<b>Total liabilities</b>	<b>294,721</b>		

**Reconciliation of loss allowance for transition to IFRS 9**

SEK M	1 January 2018 IAS 39	Adjustment	1 January 2018 IFRS 9
<b>Financial assets measured at amortised cost</b>			
Cash and cash equivalents	–	0.0	0.0
Loans to the public	267.5	88.3	355.8
Other receivables	–	–	–
<b>Financial assets measured at fair value through other comprehensive income</b>			
Treasury bills and other eligible bills	–	0.2	0.2
Bonds and other interest-bearing securities	–	0.5	0.5
Loan commitments and other credit commitments	–	18.5	18.5
Guarantees	–	0.1	0.1
<b>Total loss allowance</b>	<b>267.5</b>	<b>107.6</b>	<b>375.1</b>

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## Income statement for the Parent Company

SEK M	Note	2018	2017
<b>Net sales</b>	3	3,235	2,948
Operating expenses			
External expenses	4, 5, 7	-2,340	-2,163
Staff costs	6	-959	-888
Depreciation/amortisation and impairment of property and equipment and intangible assets	12, 13	-105	-133
<b>Operating loss</b>		<b>-169</b>	<b>-236</b>
<b>Profit/loss from financial items</b>			
Profit from participations in Group companies	8	1,506	1,931
Interest income and similar profit/loss items	9	-2	5
Interest expense and similar profit/loss items	10	-7	-63
<b>Profit after financial items</b>		<b>1,328</b>	<b>1,638</b>
Tax	11	-7	-13
<b>Net profit for the year</b>		<b>1,322</b>	<b>1,625</b>

## Statement of comprehensive income for the Parent Company

SEK M	2018	2017
<b>Net profit for the year</b>	<b>1,322</b>	<b>1,625</b>
<b>Other comprehensive income</b>		
<b>Items that have been or may be transferred to profit or loss</b>		
Cash-flow hedges	-	17
Change in fair value of debt instruments measured at fair value through other comprehensive income	-	-6
Tax attributable to items that have been or may be transferred to profit or loss	-	-2
<b>Items that cannot be transferred to profit or loss</b>		
Change in fair value of equity instruments measured at fair value through other comprehensive income	0	-
<b>Total other comprehensive income for the year, net after tax</b>	<b>0</b>	<b>9</b>
<b>Comprehensive income for the year</b>	<b>1,321</b>	<b>1,633</b>

## Balance sheet for the Parent Company

SEK M	Note	31 Dec 2018	31 Dec 2017
<b>ASSETS</b>			
<b>Fixed assets</b>			
Intangible assets	12	373	398
Property and equipment	13	45	61
<i>Financial assets</i>			
Shares and participations in Group companies	14	17,742	16,891
Participating interests in other companies	14	1,016	1,021
Deferred tax assets	16	5	4
Other securities held as fixed assets	15	907	737
<b>Total financial assets</b>		<b>19,671</b>	<b>18,653</b>
<b>Total fixed assets</b>		<b>20,089</b>	<b>19,112</b>
<b>Current assets</b>			
<i>Current receivables</i>			
Receivables from Group companies	26	461	677
Receivables from other related parties	26	182	142
Other receivables		85	53
Prepaid expenses and accrued income	17	84	106
<b>Total current receivables</b>		<b>813</b>	<b>978</b>
Cash and bank balances		209	254
<b>Total current assets</b>		<b>1,022</b>	<b>1,232</b>
<b>Total assets</b>	<b>23</b>	<b>21,111</b>	<b>20,345</b>

Balance sheet for the Parent Company, cont.			
SEK M	Note	31 Dec 2018	31 Dec 2017
<b>EQUITY, PROVISIONS AND LIABILITIES</b>			
<b>Equity</b>	18		
<i>Restricted equity</i>			
Share capital		1,042	1,042
Statutory reserve		5,025	4,991
<b>Total restricted equity</b>		<b>6,068</b>	<b>6,033</b>
<i>Non-restricted equity</i>			
Share premium reserve		5,471	5,471
Fair value reserve		-503	1
Retained earnings		7,276	5,481
Net profit for the year		1,322	1,625
<b>Total non-restricted equity</b>		<b>13,565</b>	<b>12,578</b>
<b>Total equity</b>		<b>19,633</b>	<b>18,611</b>
<b>Provisions</b>			
Provisions for pensions and similar commitments	19	19	22
Other provisions	20	27	42
<b>Total provisions</b>		<b>46</b>	<b>65</b>
<b>Long-term liabilities</b>			
Liabilities to other related parties	26	323	216
<b>Total long-term liabilities</b>			<b>216</b>
<b>Current liabilities</b>			
Accounts payable		187	166
Liabilities to Group companies	26	246	292
Liabilities to other related parties	26	307	586
Other liabilities		43	36
Accrued expenses and deferred income	21	326	373
<b>Total current liabilities</b>		<b>1,109</b>	<b>1,453</b>
<b>Total equity, provisions and liabilities</b>	<b>23</b>	<b>21,111</b>	<b>20,345</b>

For information on pledged assets and contingent liabilities, see note 22.



## Statement of changes in equity for the Parent Company

SEK M	Restricted equity			Fair value reserves		Non-restricted equity			Total equity
	Share capital	Development expenditures fund	Statutory reserve	Fair value reserve	Hedging reserve	Share premium reserve	Retained earnings	Net profit/loss for the year	
Opening equity, 1 January 2017	1,042	241	4,801	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>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-4</b>	<b>13</b>	<b>-</b>	<b>-</b>	<b>1,625</b>	<b>1,633</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>
Effect of the change in accounting policy <sup>1)</sup>	-	-	-	-504	-	-	504	-	-
Opening equity, 1 January 2018 after adjustment for change in accounting policy	1,042	189	4,801	-503	-	5,471	5,985	1,625	18,611
<b>Comprehensive income for the year</b>									
Net profit for the year	-	-	-	-	-	-	-	1,322	1,322
Other comprehensive income	-	-	-	0	-	-	-	-	0
<b>Comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,322</b>	<b>1,322</b>
Dividends paid	-	-	-	-	-	-	-300	-	-300
Appropriation of profit	-	-	-	-	-	-	1,625	-1,625	-
Capitalised proprietary development expenditures	-	34	-	-	-	-	-34	-	0
<b>Closing equity, 31 December 2018</b>	<b>1,042</b>	<b>224</b>	<b>4,801</b>	<b>-503</b>	<b>0</b>	<b>5,471</b>	<b>7,276</b>	<b>1,322</b>	<b>19,633</b>

<sup>1)</sup> Effect due to change in accounting policy from IAS 39 - Financial Instruments: Recognition and measurement to IFRS 9 - Financial Instruments.

## Cash flow statement for the Parent Company

SEK M	Note	2018	2017
<b>Operating activities</b>			
Profit after financial items		1,328	1,638
Adjustment for non-cash items	27	-109	-209
Income tax paid		-43	-38
<b>Cash flow from operating activities before changes in working capital</b>		<b>1,176</b>	<b>1,391</b>
<b>Cash flow from changes in working capital</b>			
Increase (-)/Decrease (+) in operating receivables		185	371
Increase (+)/Decrease (-) in operating liabilities		-244	50
<b>Cash flow from operating activities</b>		<b>1,118</b>	<b>1,812</b>
<b>Investing activities</b>			
Acquisition of shares in Group company		-800	-55
Acquisition of intangible assets		-61	-50
Acquisition of property and equipment		-2	-8
Divestment of property and equipment		-	2
<b>Cash flow from investing activities</b>		<b>-863</b>	<b>-111</b>
<b>Financing activities</b>			
Dividends paid		-300	-
Amortisations of loans		-	-1,699
<b>Cash flow from financing activities</b>		<b>-300</b>	<b>-1,699</b>
Net cash flow for the year		-45	3
Cash and cash equivalents, 1 January		254	251
<b>Cash and cash equivalents, 31 December</b>		<b>209</b>	<b>254</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 and 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 applied from 1 January 2018

From 1 January 2018, Länsförsäkringar AB applies the following new accounting policies for the reporting of financial instruments (IFRS 9) and revenue from contracts with customers (IFRS 15). The changes in accounting policies applied by the Parent Company from 1 January 2018 correspond to the changes for the Group and are described in the Group's note 1 Accounting policies. Länsförsäkringar AB's classification of financial assets and liabilities according to IFRS 9 and the differences compared with IAS 39 are presented in note 31.

### Effect of transition to IFRS 9

In line with the transitional measures, Länsförsäkringar AB has chosen not to restate comparative information for prior periods and has no transition effects of IFRS 9 recognised in retained earnings on 1 January 2018. IFRS 9 also did not entail any differences for the measurement of balance-sheet items compared with previous carrying amounts under IAS 39. Changes in value of equity instruments that previously impacted retained earnings and that are measured at fair value through other comprehensive income under IFRS 9 were transferred to the fair value reserve.

Changes in value of debt instruments that were previously recognised in the fair value reserve and that are measured at fair value through profit or loss under IFRS 9 were transferred to retained earnings. In equity, previous impairment by Länsförsäkringar Liv Försäkrings AB that impacted retained earnings was also transferred to the fair value reserve since IFRS 9 no longer permits measurement at cost.

### New IFRS and interpretations that have not yet started to be applied

A number of new or amended standards and interpretations described below will not take effect until forthcoming fiscal years, and have not been applied in advance when preparing these financial statements. The expected effects that the application of these new or amended standards may have on the Parent Company's financial statements are described below. Other than those, no other new or revised IFRS and interpretations not yet in force are deemed to have any material effect on the financial statements.

### IFRS 16 Leases

IFRS 16 Leases was issued on 13 January 2016 and is to replace IAS 17 Leases. The new standard comes into effect on 1 January 2019 and early adoption is permitted provided that IFRS 15 Revenue from Contracts with Customers is also applied. IFRS 16 has been approved by the EU.

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 for the lessee. The standard provides certain recognition exemptions for lessees for assets of low value and for leases with a term of 12 months or less. The standard contains more extensive disclosure requirements.

Länsförsäkringar AB intends to use the option in RFR 2 to not apply IFRS 16 to legal entities due to the relationship between accounting and taxation,

which is why the new lease standard is not deemed to have any impact on the company.

There are no other amended accounting policies applied in the Parent Company, except for those stated in note 1 for the Group.

### IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 Uncertainty over Income Tax Treatments clarifies how IAS 12 Income Taxes is to be applied if there are uncertainties about how tax legislation is to be applied to a certain transaction or under certain circumstances. An example is whether a deduction claimed in a tax return will be accepted by the body or bodies (tax authority) that has the right to decide in such matters.

IFRIC 23 has been approved by the EU and is to be applied to fiscal years beginning on or after 1 January 2019. Early adoption is permitted. The company has not yet fully evaluated the effect of the interpretation on the company's financial statements.

### 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 and 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 income statement, balance sheet and cash-flow statements are used for reports that are referred to as statement of income, 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 shareholders' 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 statements 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.

### Group contributions

Group contributions are recognised in accordance with the main rule of 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 leases are recognised in accordance with the rules for operating leases.

### Borrowing costs

Borrowing costs in the Parent Company are charged to earnings for the period to which they are attributable.

<b>Note 2</b>	<b>Risks and risk management</b>
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In addition to shares in and receivables from Group companies, the Parent Company also has other securities held as non-current assets. However, these holdings are limited in size relative to the investment assets of the Group's insurance companies. At year-end 2018, the Parent Company's holdings in Länsförsäkringar Fastighetsförmedling AB amounted to SEK 3 M (4), participations in tenant-owned apartments to SEK 5 M (5), shares in Länsförsäkringar Liv Försäkrings AB (publ) to SEK 8 M (8) and interest-bearing bonds to SEK 891 M (720). In addition, bank balances amounted to SEK 209 M (254). At the end of the year, the Parent Company signed a renewed long-term service agreement with Länsförsäkringar Liv Försäkrings AB. In addition to the above mentioned assets and liabilities, the Parent Company's risks derive from the operations of the subsidiaries. Refer also to the Board of Directors' Report and the Group's note 2 Risk and capital management.

<b>Note 3</b>	<b>Net sales</b>
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	2018	2017
<b>Income from contracts with customers</b>		
Income from companies in the Länsförsäkringar AB Group	1,346	1,213
Income from Länsförsäkringar Liv	219	233
Income from the regional insurance companies	1,488	1,376
Income from other related parties	23	15
Income from external customers	72	26
<b>Total income from contracts with customers</b>	<b>3,148</b>	<b>2,863</b>
Rental income	87	85
<b>Net sales</b>	<b>3,235</b>	<b>2,948</b>

<b>Note 4</b>	<b>External expenses</b>
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	2018	2017
Cost of premises, note 5	-126	-127
Other cost of premises	-50	-66
Marketing	-63	-63
Consultants	-769	-641
Fees to auditors, note 7	-4	-4
IT costs	-1,121	-1,023
Printed matter, telephony and postage	-94	-101
Other expenses	-114	-138
<b>Total</b>	<b>-2,340</b>	<b>-2,163</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.

<b>Note 5</b>	<b>Operational leasing</b>
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#### Lease agreements in which the company is the lessee

Irrevocable lease payments pertaining to rent for premises amount to:

	2018	2017
Within one year	-129	-124
Later than one year but within five years	-259	-372
<b>Total</b>	<b>-388</b>	<b>-496</b>

A rental charge of SEK -126 M (-127) was recognised in profit for 2018.

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.

#### Note 5 Operational leasing, cont.

#### Lease agreements in which the company is the lessor

Irrevocable lease payments pertaining to rent for premises amount to:

	2018	2017
Within one year	87	88
Later than one year but within five years	174	264
<b>Total</b>	<b>261</b>	<b>352</b>

In 2017, rental income amounting to SEK 87 M (88) was recognised.

The company leases premises to Group companies. Internal lease contracts are valid for ten years up to and including December 2021.

<b>Note 6</b>	<b>Employees, staff costs and remuneration to senior executives</b>
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	2018	2017
Average number of employees, Sweden		
Men	335	319
Women	338	331
<b>Total number of employees</b>	<b>673</b>	<b>650</b>
<b>Salaries, other remuneration and social security expenses</b>		
<i>Other employees</i>		
Salaries and remuneration	512	476
Social security expenses	333	303
of which pension costs	135	123
<b>Total</b>	<b>846</b>	<b>779</b>
<i>Board of Directors and senior executives, 18 (18)</i>		
Salaries and remuneration	39	34
of which, fixed salary to the President and Executive Vice President	15	13
of which fixed salary to other senior executives	21	17
Social security expenses	23	23
of which pension costs	10	10
<b>Total</b>	<b>62</b>	<b>57</b>
<i>Total salaries, other remuneration and social security expenses</i>		
Salaries and remuneration	551	510
Social security expenses	356	326
of which pension costs	147	133
<b>Total</b>	<b>907</b>	<b>836</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 and to Board members from the Länsförsäkringar AB Group.

#### 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

2018	Basic salary	Other remuneration	Pension costs	Total	Pension costs as a percentage of pensionable salary, %
					Defined-contribution
Fredrik Bergström, President	1.8	0	0.5	2.3	35
Sören Westin, Former President	3.7	0	0.4	4.1	35
Johan Agerman, Former President	3.4	5.9	1.2	10.5	35
Ann Sommer, Executive Vice President	3.7	0	1.5	5.2	40
Ceasar Åfors, Chairman of the Board	0.7	-	-	0.7	-
Jan Fock, Former Deputy Chairman of the Board	0.5	-	-	0.5	-
Maria Engholm, Deputy Chairman of the Board	0.6	-	-	0.6	-
Mikael Sundquist, Board member	0.3	-	-	0.3	-
Jonas Rosman, Board member	0.4	-	-	0.4	-
Christer Villard, Board member	0.3	-	-	0.3	-
Göran Lindell, Board member	0.3	-	-	0.3	-
Susanne Båsk, Board member	0.3	-	-	0.3	-
Bengt-Erik Jansson, Board member	0.3	-	-	0.3	-
Maria Wallin Wållberg, Board member	0.2	-	-	0.2	-
<b>Other senior executives</b>					
Parent Company (9 people)	20.5	0.3	8.3	29.1	42
Subsidiaries and Länsförsäkringar Liv (3 people)	10.6	0.1	4.4	15.2	38
<b>Total 2018</b>	<b>47.7</b>	<b>6.2</b>	<b>16.4</b>	<b>70.5</b>	
Total remuneration from Parent Company	33.4	6.2	10.5	50.0	
Total remuneration from subsidiaries and Länsförsäkringar Liv	14.3	0.1	5.9	20.4	

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	-
Ceasar 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 Båsk, 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	42
<b>Total 2017</b>	<b>43.3</b>	<b>5.3</b>	<b>15.3</b>	<b>64</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	

Other remuneration of a former President in 2018 refers to severance pay.

## 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 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. 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 2018	31 Dec 2017
Board members	10	9
President and Executive Vice Presidents	8	5
Other senior executives	21	22
<b>Total</b>	<b>39</b>	<b>36</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 2018	31 Dec 2017
Board members	50	42
Other senior executives	62	62

## Note 7

### Fees and remuneration to auditors

	2018	2017
<b>KPMG AB</b>		
- audit assignments	-4	-4
- audit operations in addition to the audit assignment	-	-0
- tax consulting	0	-
- other assignment	0	-
<b>Total</b>	<b>-5</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.

## Note 8

### Profit from participations in group companies

	2018	2017
Dividends from subsidiaries	1,310	1,590
Group contributions received	150	290
Share of profit in partnership	46	51
<b>Total</b>	<b>1,506</b>	<b>1,931</b>

## Note 9

### Interest income and similar profit/loss items

	2018	2017
Interest income, other <sup>1)</sup>	-1	-3
Interest income, bonds and interest-bearing securities <sup>2)</sup>	-2	0
Capital gains, currencies	0	0
Capital gains, shares and participations	-	2
Capital gains, interest-bearing securities Group companies	0	7
<b>Total</b>	<b>-2</b>	<b>5</b>

<sup>1)</sup> Of which negative interest on Cash and bank of SEK 0.8 M (0.7).

<sup>2)</sup> Of which negative interest on Bonds and other interest-bearing securities of SEK 1.5 M (3.4).

## Note 10

### Interest expense and similar profit/loss items

	2018	2017
Interest expense, Länsförsäkringar Liv	-5	-11
Interest expense, bonds and interest-bearing securities	0	-29
Interest expenses, derivatives	-	-19
Interest expenses, other	0	0
Capital losses, currencies	0	0
Unrealised losses, interest-bearing securities	-2	-
Unrealised losses, shares and participations	0	-2
Realised losses, derivatives	-	-1
Unrealised losses, derivatives	-	0
<b>Total</b>	<b>-7</b>	<b>-63</b>



Note 11	Tax	
	2018	2017
<b>Current tax</b>		
Tax income for the period	-10	-12
Adjustment of tax expense pertaining to prior years	1	2
<b>Deferred tax income (+) / tax expense (-)</b>		
Deferred tax pertaining to temporary differences	2	-4
<b>Total recognised tax income (+) / tax expense (-)</b>	<b>-7</b>	<b>-13</b>
<b>Reconciliation of effective tax rate</b>		
Profit before tax	1,328	1,638
Tax at applicable tax rate	-292	-360
Tax on non-deductible costs	-8	-15
Tax on non-taxable income	292	359
Tax attributable to prior year	1	2
<b>Recognised effective tax</b>	<b>-7</b>	<b>-13</b>
Applicable tax rate, %	22	22
Effective tax rate, %	0,5	0,8

Note 12	Intangible assets	
	2018	2017
<b>Capitalised IT costs</b>		
<b>Cost</b>		
Opening cost, 1 January	639	585
Reclassification	-	5
Acquisitions	62	49
<b>Closing cost, 31 December</b>	<b>701</b>	<b>639</b>
<b>Amortisation</b>		
Opening accumulated amortisation, 1 January	-108	-82
Reclassification	-	-2
Amortisation	-26	-24
<b>Closing accumulated amortisation, 31 December</b>	<b>-134</b>	<b>-108</b>
<b>Impairment</b>		
Opening accumulated impairment, 1 January	-134	-45
Impairment	-61	-89
<b>Closing accumulated impairment, 31 December</b>	<b>-195</b>	<b>-134</b>
<b>Carrying amount, 31 December</b>	<b>373</b>	<b>398</b>

In 2018, SEK 58 M (47) was accrued in ongoing intangible projects due to a new non-life insurance system that is expected to be capitalised and amortised from 2019.

An acquired finance and monitoring system was written down by SEK 51 M during the year and has a remaining carrying amount of SEK 21 M (80). The originally estimated useful life was deemed to be 15 years. In connection with the impairment test, a new assessment of the useful life was made and is expected to be ten years, which means that the system will be fully amortised in 2021.

Other intangible assets are amortised over a period of 5 years.

Note 13	Property and equipment	
	2018	2017
<b>Improvement to third-party properties</b>		
<b>Cost</b>		
Opening cost, 1 January	253	253
<b>Closing cost, 31 December</b>	<b>253</b>	<b>253</b>
<b>Depreciation</b>		
Opening accumulated depreciation, 1 January	-149	-135
Depreciation	-14	-14
<b>Closing accumulated depreciation, 31 December</b>	<b>-163</b>	<b>-149</b>
<b>Impairment</b>		
Opening accumulated impairment, 1 January	-57	-57
<b>Closing accumulated impairment, 31 December</b>	<b>-57</b>	<b>-57</b>
<b>Carrying amount, 31 December</b>	<b>33</b>	<b>47</b>
<b>Equipment</b>		
<b>Cost</b>		
Opening cost, 1 January	86	90
Reclassification	-	-5
Acquisitions	5	-7
Divestments/disposals	-6	8
<b>Closing cost, 31 December</b>	<b>84</b>	<b>86</b>
<b>Depreciation</b>		
Opening accumulated depreciation, 1 January	-69	-70
Reclassification	-	2
Depreciation	-4	-5
Divestments/disposals	4	4
<b>Closing accumulated depreciation, 31 December</b>	<b>-69</b>	<b>-69</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>12</b>	<b>14</b>
	<b>2018</b>	<b>2017</b>
<b>Total carrying amount, 31 December</b>	<b>45</b>	<b>61</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.

<b>Note 14</b>	<b>Shares and participations in group companies</b>
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	2018	2017
<b>Cost</b>		
Opening cost, 1 January	21,471	21,417
Shareholder contributions	800	-
Acquisitions	50	-
Withdrawal	-51	-46
Capital gains from partnerships	46	34
Amended accounting policy for partnerships	-	66
<b>Closing cost, 31 December</b>	<b>22,316</b>	<b>21,471</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>18,758</b>	<b>17,912</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 2018, %	Participating interest 2017, %	Carrying amount 31 Dec 2018	Carrying amount 31 Dec 2017
Länsförsäkringar Bank AB (publ)	516401-9878	9,548,708	100	100	9,230	8,430
Länsförsäkringar Fondliv Försäkrings AB (publ)	516401-8219	10,000	100	100	5,305	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	1,016	1,021
<b>Shares and participations in Group companies</b>					<b>18,758</b>	<b>17,912</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 Försäkringsaktiebolag (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.

<b>Note 15</b>	<b>Other securities held as fixed assets</b>
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	2018	2017
Opening balance, 1 January	737	863
Revaluation of tenant-owned apartments	0	-1
Sale of tenant-owned apartment	-	-4
Revaluation of Länsförsäkringar Fastighetsförmedling AB	0	0
Acquisitions of bonds and interest-bearing securities	169	-
Change in value of bonds and interest-bearing securities	1	16
Sale of bonds and interest-bearing securities	-	-136
<b>Carrying amount, 31 December</b>	<b>907</b>	<b>737</b>

Company name	Number of shares and participations	Carrying amount 31 Dec 2018	Carrying amount 31 Dec 2017
Länsförsäkringar Liv Försäkrings AB (publ)	8 000	8	8
Brf Mässen	1	5	5
Länsförsäkringar Fastighetsförmedling AB	930	3	4
Listed bonds issued by other Swedish issuers		891	720
<b>Total</b>		<b>907</b>	<b>737</b>

**Note 16** Deferred tax assets and liabilities

	Deferred tax assets		Deferred tax liabilities		Net	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Property and equipment	1	2	-	-	1	2
Financial assets	1	1	-	-	1	1
Pension provisions	-7	-7	-	-	-7	-7
<b>Deferred tax assets (-)/deferred tax liabilities (+)</b>	<b>-5</b>	<b>-4</b>	<b>-</b>	<b>-</b>	<b>-5</b>	<b>-4</b>
Offset	-	-	-	-	-	-
<b>Net deferred tax asset (-)/deferred tax liability (+)</b>	<b>-5</b>	<b>-4</b>	<b>-</b>	<b>-</b>	<b>-5</b>	<b>-4</b>

**Change in deferred tax in temporary differences and loss carryforwards 2018**

	Amount at 1 January	Recognised in profit or loss	Recognised in other comprehensive income	Amount at 31 December
Property and equipment	2	-1	-	1
Financial assets	1	0	-	1
Pension provisions	-7	0	-	-7
<b>Deferred tax assets (-)/deferred tax liability (+)</b>	<b>-4</b>	<b>-1</b>	<b>-</b>	<b>-5</b>

**Change in deferred tax in temporary differences and loss carryforwards 2017**

	Amount at 1 January	Recognised in profit or loss	Recognised in other comprehensive income	Amount at 31 December
Property and equipment	3	-1	-	2
Financial assets	-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>

Länsförsäkringar AB has no deferred tax recognised directly against equity.

**Note 17** Prepaid expenses and accrued income

	31 Dec 2018	31 Dec 2017
Other accrued income	2	28
Prepaid expenses	83	79
<b>Total</b>	<b>84</b>	<b>106</b>

## Note 18 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 2018 Number	31 Dec 2017 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 fund

##### 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.

### Share ownership in Länsförsäkringar AB

Company	Number of shares			Share capital, %
	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 Älvsborg	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 Gävleborg	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
Länsförsäkring Kronoberg	36,701	203,130	-	2.3
Länsförsäkringar Värmland	31,160	202,208	-	2.2
LF 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
<b>Total number of shares</b>	<b>1,532,678</b>	<b>8,885,949</b>	<b>5,955</b>	<b>100</b>

<b>Note 19</b>	<b>Provisions for pensions and similar commitments</b>	
	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>
Pension provisions	12	12
Provisions for early retirement in accordance with pension agreement	0	5
Other provisions	6	5
<b>Total provisions for pensions</b>	<b>19</b>	<b>22</b>

Pension provisions of SEK 12 M (12) are encompassed by the Pension Obligations Vesting Act.

#### Defined-benefit pension plans

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).

#### 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 2019 are expected to total SEK 64 M.

	<b>2018</b>	<b>2017</b>
Expenses for defined-contribution plans	130	122

<b>Note 20</b>	<b>Other provisions</b>	
	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>
Provision for interest subsidies for personnel loans to former employees who have retired.	18	20
Other provisions	9	22
<b>Total</b>	<b>27</b>	<b>42</b>

<b>Note 21</b>	<b>Accrued expenses and deferred income</b>	
	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>
Holiday pay liability	56	49
Social security expenses	19	18
Special employer's contribution	66	34
Provisions for staff costs	12	7
Other accrued expenses	173	265
<b>Total</b>	<b>326</b>	<b>373</b>

<b>Note 22</b>	<b>Pledged assets and contingent liabilities</b>	
	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>
<b>Pledged assets</b>		
Pledged shares in subsidiaries	-	300
<b>Contingent liabilities</b>		
Part-owner of Utile Dulci 2 HB	13	23

Länsförsäkringar Liv decided in 2018 to enter into a run-off agreement with Länsförsäkringar AB and with Länsförsäkringar Fondliv for Länsförsäkringar Liv's run off. The Group's note 46 Pledged assets and contingent liabilities provides additional information about this agreement.

**Note 23** Anticipated recovery and settlement periods for assets, provisions and liabilities

Amount expected to be recovered	31 Dec 2018			31 Dec 2017		
	within 12 months	after 12 months	Total	within 12 months	after 12 months	Total
<b>Fixed assets</b>						
Intangible assets <sup>1)</sup>	50	323	373	54	344	398
Property and equipment <sup>1)</sup>	20	25	45	18	43	61
Shares and participations in Group companies	-	17,742	17,742	-	16,891	16,891
Participating interests in other companies	-	1,016	1,016	-	1,021	1,021
Deferred tax assets	5	-	5	4	-	4
Other securities held as fixed assets	-	907	907	-	737	737
<b>Total fixed assets</b>	<b>75</b>	<b>20,014</b>	<b>20,089</b>	<b>76</b>	<b>19,036</b>	<b>19,112</b>
<b>Current assets</b>						
Receivables from Group companies	461	-	461	677	-	677
Receivables from other related parties	182	-	182	142	-	142
Other receivables	85	-	85	53	-	53
Prepaid expenses and accrued income	84	-	84	106	-	106
Cash and bank balances	209	-	209	254	-	254
<b>Total current assets</b>	<b>1,021</b>	<b>-</b>	<b>1,021</b>	<b>1,232</b>	<b>-</b>	<b>1,232</b>
<b>Total assets</b>	<b>1,096</b>	<b>20,014</b>	<b>21,111</b>	<b>1,308</b>	<b>19,036</b>	<b>20,345</b>

<sup>1)</sup> The amount that is expected to be recovered within 12 months corresponds to depreciation for the year.

Amount expected to be settled	31 Dec 2018			31 Dec 2017		
	within 12 months	after 12 months	Total	within 12 months	after 12 months	Total
<b>Provisions</b>						
Provisions for pensions and similar commitments	-	19	19	-	22	22
Other provisions	-	27	27	-	42	42
<b>Total provisions</b>	<b>-</b>	<b>46</b>	<b>46</b>	<b>-</b>	<b>65</b>	<b>65</b>
<b>Long-term liabilities</b>						
Liabilities to other related parties	-	323	323	-	216	216
<b>Total long-term liabilities</b>	<b>-</b>	<b>323</b>	<b>323</b>	<b>-</b>	<b>216</b>	<b>216</b>
<b>Current liabilities</b>						
Accounts payable	187	-	187	166	-	166
Liabilities to Group companies	246	-	246	292	-	292
Liabilities to other related parties	307	-	307	586	-	586
Other liabilities	43	-	43	36	-	36
Accrued expenses and deferred income	326	-	326	373	-	373
<b>Total current liabilities</b>	<b>1,109</b>	<b>-</b>	<b>1,109</b>	<b>1,453</b>	<b>-</b>	<b>1,453</b>
<b>Total liabilities and provisions</b>	<b>1,109</b>	<b>369</b>	<b>1,478</b>	<b>1,453</b>	<b>281</b>	<b>1,733</b>



**Note 24** Classification of financial assets and liabilities

31 Dec 2018	Financial assets measured at fair value in profit or loss		Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income		Total	Fair value
	Measured at fair value in profit or loss	Equity instruments		Debt instruments	Equity instruments		
Assets							
Other securities held as fixed assets	891	-	-	-	-	891	891
Shares and participations	-	-	-	-	8	8	8
Shares in Länsförsäkringar Liv Försäkrings AB	-	-	-	-	8	8	8
Receivables from Group companies	-	-	419	-	-	419	419
Receivables from other related parties	-	-	-	-	-	-	-
Other receivables	-	-	185	-	-	185	185
Prepaid expenses and accrued income	-	-	17	-	-	17	17
Current investments	-	-	-	-	-	-	-
Cash and bank balances	-	-	209	-	-	209	209
Total	891	-	829	-	17	1,737	1,737

31 Dec 2018	Financial liabilities measured at fair value in profit or loss	Financial liabilities measured at amortised cost	Total	Fair value
<b>Liabilities</b>				
Liabilities to Group companies	-	246	246	246
Liabilities to other related parties	-	629	629	629
Other liabilities and accounts payable	-	230	230	230
Accrued expenses and deferred income	-	326	326	326
<b>Total</b>	<b>-</b>	<b>1,432</b>	<b>1,432</b>	<b>1,432</b>

31 Dec 2017	Financial assets measured at fair value in profit or loss		Derivatives used in hedge accounting	Available-for-sale financial assets	Loan receivables and accounts receivable	Total	Fair value
	Financial assets measured according to fair value option	Held for trading					
Assets							
Other securities held as fixed assets	4	-	-	720	-	724	724
Shares and participations	5	-	-	-	-	5	5
Shares in Länsförsäkringar Liv Försäkrings AB	-	-	-	8	-	8	8
Receivables from Group companies	-	-	-	-	639	639	639
Receivables from other related parties	-	-	-	-	135	135	135
Other receivables	-	-	-	-	15	15	15
Prepaid expenses and accrued income	-	-	-	-	4	4	4
Cash and bank balances	-	-	-	-	254	254	254
Total	9	-	-	728	1,047	1,784	1,784

	Financial liabilities measured at fair value in profit or loss		Derivatives used in hedge accounting	Other financial liabilities	Total	Fair value
31 Dec 2017	Financial liabilities measured according to fair value option	Held for trading				
Liabilities						
Liabilities to Group companies	-	-	-	292	292	292
Liabilities to other related parties	-	-	-	547	547	547
Other liabilities and accounts payable	-	-	-	170	170	170
Accrued expenses and deferred income	-	-	-	265	265	265
Total	-	-	-	1 274	1 274	1 274

The fair value of assets classified as Loan receivables and accounts receivables 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 25 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.

	2018				2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Shares and participations	–	5	12	17	–	5	4	9
Bonds and other interest-bearing securities	891	–	–	891	720	–	–	720

There were no significant transfers between Level 1 and Level 2 during 2018 or during 2017. There were no transfers from Level 3 in 2018 or 2017.

Shares and participations in Level 3 are measured at equity per share based on the most recent company report. Shares in Länsförsäkringar Liv Försäkrings AB are valued at the company's share capital. The life-assurance operations are conducted in accordance with mutual principles through Länsförsäkringar Liv Försäkrings AB, whose earn-

ings are not distributed to the owner; instead they accrue in their entirety to the policyholders. 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.

### Change level 3

	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>

	Shares and participations	Total
Opening balance 1 January 2018	4	4
Application of IFRS 9	8	8
Recognised in other comprehensive income	0	0
<b>Closing balance 31 December 2018</b>	<b>12</b>	<b>12</b>

**Note 26 Disclosures on related parties**

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 con-

sumption. Joint development projects and joint service are financed collectively and invoiced based on an established distribution key.

Related-party transactions 2018		Group companies	Länsförsäkringar Liv	Regional insurance companies	Other related parties	Total
Income	Services sold	1,392	219	1,488	23	3,122
	Rent, premises	87	-	-	-	87
	Financial income	1,460	-	-	-	1,460
Expenses	Services purchased	-17	-3	-22	-4	-47
	Rent, premises	-126	-	-	-	-126
	Financial costs	-	-5	-	-	-5
Receivables	Cash and cash equivalents with Länsförsäkringar Bank	245	-	-	-	245
	Other receivables	216	16	165	0	398
Liabilities	Interest-bearing liabilities	-	0	-	-	-
	Other liabilities	246	38	592	-	876

Related-party transactions 2017		Group companies	Länsförsäkringar 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

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.

Länsförsäkringar Liv decided in 2018 to enter into a run-off agreement with Länsförsäkringar AB and with Länsförsäkringar Fondliv for Länsförsäkringar Liv's run off. The Group's note 46 Pledged assets and contingent liabilities provides additional information about this agreement.

Related subsidiaries are specified in note 14 Shares and participations in Group companies.

**Note 27 Supplementary information to the cash-flow statement**

	2018	2017
<b>Interest paid and dividends received</b>		
Dividends received from subsidiaries	1,310	1,590
Withdrawal subsidiaries	51	51
Interest received	2	4
Interest paid	-5	-59
<b>Adjustment for non-cash items</b>		
Depreciation/amortisation and impairment of assets	105	133
Realised gains and losses	0	8
Unrealised gains and losses	-2	-2
Provisions	-18	-14
Hedging reserve	2	11
Group contributions received that are regulated in the following fiscal year	-150	-290
Profit participation subsidiaries	-46	-55
<b>Total</b>	<b>-109</b>	<b>-209</b>

Cash and cash equivalents comprise bank balances.

**Note 28 Financial transactions not recognised in the balance sheet**

Länsförsäkringar AB has external suppliers of IT operations at a cost of SEK 394 M (309). 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 29 Events after balance-sheet date**

No significant events were reported after the balance-sheet date.

**Note 30 Proposed appropriation of profit**

According to the statement of financial position for Länsförsäkringar AB, non-restricted equity totalling SEK 13,565,200,187 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	-503,215,815
Retained earnings	7,275,910,887
Net profit for the year	1,321,587,160
<b>Non-restricted equity, 31 December 2018</b>	<b>13,565,200,187</b>

The Board of Directors proposes that SEK 13,565,200,187 of the unappropriated earnings in the Parent Company be carried forward, of which SEK 5 470 917 955 to the share premium reserve.

**Not 31 Transition to IFRS 9 Financial Instruments**

Länsförsäkringar AB began applying IFRS 9 Financial Instruments from 1 January 2018. Changes to accounting policies attributable to IFRS 9 are described in note 1 Accounting policies.

**Financial assets and liabilities by category according to IFRS 9**

SEK M	Carrying amount 1 January 2018	Category according to IAS 39	Category according to IFRS 9
<b>Assets</b>			
Other securities held as fixed assets	729		
of which: bonds and other interest bearing securities	720	Available-for-sale financial assets	Fair value through profit or loss
of which: strategic investments	9	Financial assets designated at fair value through profit or loss	Fair value through other comprehensive income
Shares in Länsförsäkringar Liv Försäkrings AB	8	Available-for-sale financial assets	Fair value through other comprehensive income
Receivables from Group companies	677	Loans and receivables	Amortised cost
Receivables from other related parties	142	Loans and receivables	Amortised cost
Other receivables	53	Loans and receivables	Amortised cost
Prepaid expenses and accrued income	106	Loans and receivables	Amortised cost
Cash and bank balances	254	Loans and receivables	Amortised cost
<b>Total assets</b>	<b>1,970</b>		
<b>Liabilities</b>			
Liabilities to Group companies	292	Other financial liabilities	Amortised cost
Liabilities to other related parties	802	Other financial liabilities	Amortised cost
Other liabilities and accounts payable	202	Other financial liabilities	Amortised cost
Accrued expenses and deferred income	373	Other financial liabilities	Amortised cost
<b>Total liabilities</b>	<b>1,669</b>		

Loss allowances for cash and bank balances and receivables amounted to zero or almost zero.

# 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, 27 March 2019

Caesar Åfors  
*Chairman*

Maria Engholm  
*Deputy Chairman*

Susanne Bäck  
*Board member*

Bengt-Erik Jansson  
*Board member*

Göran Lindell  
*Board member*

Jonas Rosman  
*Board member*

Mikael Sundquist  
*Board member*

Christer Villard  
*Board member*

Maria Wallin Wällberg  
*Board member*

Susanne Lindberg  
*Employee Representative*

Linnéa Niklasson  
*Employee Representative*

Anna Sandqvist  
*Employee Representative*

Fredrik Bergström  
*President*

My audit report was submitted on 27 March 2019

Mårten Asplund  
*Authorized Public Accountant*

The Annual Report and the consolidated financial statements above were approved for publishing by the Board of Directors on 27 March 2019. 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 17 May 2019.

# Auditor's Report

To the general meeting of the shareholders of Länsförsäkringar AB, 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 for the year 2018, except for the corporate governance statement on pages 44–50. The annual accounts and consolidated accounts of the company are included on pages 33–126 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 2018 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 and present fairly, in all material respects, the financial position of the group as of 31 December 2018 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. My opinions do not cover the corporate governance statement on pages 44–50. 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 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 1–32 and 129–147. 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, 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 Directors' 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 for the year 2018 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 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 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 44–50 has been prepared in accordance with the Annual Accounts Act.

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.

Stockholm 27 March 2019

Mårten Asplund  
Authorized Public Accountant

# About the Sustainability Report

**Länsförsäkringar AB's sustainability report** is prepared annually and is an integrated part of the company's annual report. The 2018 report has been prepared in accordance with the Core level of the GRI Standards 2016. The Sustainability Report also contains the company's reporting according to Chapter 6, Section 11 of the Swedish Annual Accounts Act (ÅRL), as well as the company's Communication on Progress to the UN Global Compact.

## Accounting period and scope

Unless otherwise stated, the Sustainability Report pertains to Länsförsäkringar AB and its subsidiaries, Länsförsäkringar Sak, Agria, Länsförsäkringar Gruppliv, Länsförsäkringar Liv, Länsförsäkringar Bank, Länsförsäkringar Fondförvaltning, Länsförsäkringar Hypotek, Wasa Kredit and Länsförsäkringar Fondliv. Information and data applies to the period from 1 January to 31 December 2018. The previous Sustainability Report was published on 13 March 2018.

## Materiality analysis

The Sustainability Report describes how Länsförsäkringar AB works with its most significant issues and the impact of its operations on society, humans and the environment. It also describes how Länsförsäkringar AB works on sustainability

risks and how sustainability topics are an integrated part of the business model.

The sustainability topic of regulatory compliance changed name in 2018 to business ethics but encompasses the same topic content as in 2017.

In 2018, a materiality analysis was carried out that will form the basis for continued work on sustainability topics. The results from the new materiality analysis will be fully reported in the 2019 Sustainability Report. An important part of the materiality analysis was the stakeholder dialogue with Länsförsäkringar's most important stakeholders, which took place in the autumn of 2018. The following stakeholders responded to a questionnaire and were interviewed in depth:

- Regional insurance companies (owners and customer managers)

- Employees
- Customers (brokers and corporate customers)
- Civil society organisations
- Asset managers

The stakeholders' expectations of Länsförsäkringar AB regarding sustainability topics were taken into account when the internal working group prioritised sustainability topics. Group management validated the results in December 2018. In 2019, governance and measures will be prepared for these significant issues.

## Data and figures

Information about how the data has been collated is provided in the GRI-index.

## Sustainability topic

Responsible investments

Responsible banking

Responsible insurance offering

Business ethics

Responsible employer

Sustainability requirements on suppliers

Direct environmental impact

Long-term environmental and social commitment

## Material impact

External

External

External

Internal and external

Internal

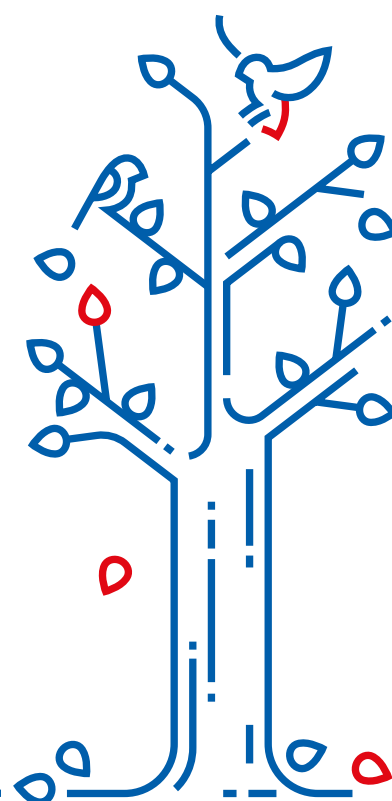
External

External

Internal and external

## Questions about the 2018 Sustainability Report

Questions about Länsförsäkringar AB's 2018 Sustainability Report can be directed to the company's Head of Sustainability, Christina Kusoffsky Hillesöy, via e-mail: [christina.hillesoy@lansforsakringar.se](mailto:christina.hillesoy@lansforsakringar.se)



# Index Sustainability Report

**The sustainability report** in accordance with Chapter 6, Section 11 of the Swedish Annual Accounts Act (ÅRL) encompasses Länsförsäkringar AB and its subsidiaries Länsförsäkringar Sak, Agria, Länsförsäkringar Gruppliv, Länsförsäkringar Bank, Länsförsäkringar Fondförvaltning, Länsförsäkringar Hypotek, Wasa Kredit and Länsförsäkringar Fondliv. Länsförsäkringar Liv submits its own sustainability report. The sustainability disclosures can be found by following the pages references below.

	Explanation	Page reference
<b>Overall</b>	Business model	4-7, 10-11
	Organisation and monitoring	31-32
	Key impacts, risks and opportunities	9, 14
<b>Social and personnel-related issues</b>	Policy on social and personnel-related issues	31-32
	Social and personnel-related issues risks and risk management	21-27, 29-30
	Social and personnel-related issues goals and outcomes	132-133
<b>Climate and environmental issues</b>	Climate and environmental policy	32
	Climate and environmental risks and risk management	14, 16-17, 19
	Climate and environmental goals and outcomes	16-23, 133
<b>Respect for human rights</b>	Human rights policy	18, 27
	Human rights risks and risk management	16, 19, 27
	Human rights goals and outcomes	17-18, 27
<b>Combating corruption</b>	Anti-corruption policy	18, 24
	Anti-corruption risks and risk management	16, 19, 24
	Anti-corruption goals and outcomes	17-18, 24

## UN Sustainable Development Goals

Examples of how Länsförsäkringar AB works with the SDGs and where it believes it can make a difference and contribute to a sustainable development.



### 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 5

#### Gender equality

Promoting equality and diversity (SDG 10) through the work of the Nomination Committee, in recruitment processes and in dialogues with companies and suppliers.



### Goal 8

#### Decent work and economic growth

Work conditions in Länsförsäkringar's own operations. Dialogue on work conditions with companies in investment operations and with suppliers. Digital offerings that make financial services more available.



### Goal 9

#### Industrial innovation and infrastructure

Engagement and investments in companies that supply sustainable innovations, product and services.

# Stakeholder dialogue

**Länsförsäkringar AB** and regional insurance companies affect millions of people through their operations. More than 3.9 million customers in the Länsförsäkringar Alliance, more than 2,000 suppliers in Länsförsäkringar AB and 1,900 employees in Länsförsäkringar AB all have an idea of what Länsförsäkringar is. Stakeholder dialogue are a chance for Länsförsäkringar to discuss and ascertain stakeholders' expectations. In 2018, a targeted sustainability dialogue was held with key stakeholders.

Priority stakeholders	Communication channels	Issues	Activities in 2018
<b>Owners and Board</b>	Reporting, Board meetings, various forums and consulting bodies and AGM.	Mission of operations, product development, policies and guidelines, risks and long-term objectives.	Ongoing dialogue on sustainability topics and objectives. Targeted dialogues.
<b>Customers</b>	Customer surveys, customer meetings and questionnaires.	Availability, service and quality, responsible investments, environmental and social responsibility integrated into offering, transparency and a tool to select sustainable products.	Tools for selecting sustainable funds on the fund platform – sustainability globes, sustainability scores, sustainability profile and carbon measurements. Expanded range of sustainable funds. Interviews with corporate customers and brokerage companies about Länsförsäkringar's sustainability efforts.
<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 and lectures. Employee survey. Monthly manager-employee reviews. Flexible workplace projects.
<b>Suppliers</b>	Procurement, self-assessment questionnaires and meetings.	Environmental and social responsibility, sustainability risks in the supply chain.	Dialogue meetings on sustainability topics, site visits and risk surveys of the largest sustainability risks. Developing a risk assessment model and self-assessment form.
<b>Partners, trade organisations and civil society organisations</b>	Partnerships, meetings, questionnaires and exchanging know-how.	Industry-wide challenges within environmental and social responsibility, responsible investments, responsible lending, transparency, climate change.	Greater transparency concerning responsible investments in the corporate governance report. Updated the sustainability overview for Länsförsäkringar Fondförvaltning and for lending in Länsförsäkringar Bank. Provided sustainability research results. Conducted dialogues with civil society organisations about their expectations for Länsförsäkringar AB's sustainability efforts.
<b>Authorities</b>	Reporting and meetings.	Responsible offering, transparency and climate risks.	Dialogue on natural catastrophes and climate risks.
<b>Investors</b>	Reporting, meetings and responded to questionnaires.	Responsible offering, common social challenges, environmental and social risks, and transparency.	Greater transparency on sustainability, stakeholder dialogue, responded to questionnaires.



## 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 suppliers and companies in investment operations to report on sustainability.



## Goal 13

### Climate action

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



## Goal 16

### Peace, justice and strong institutions

Dialogue with companies regarding anti-corruption, anti-money laundering and preventing terror financing in banking and insurance operations.

# Statistics and key figures

## Employee statistics Länsförsäkringar AB Group including Länsförsäkringar Liv

### Employee response to employee survey<sup>1)</sup>

%	2018	2017	2016
Believe that diversity in working groups is valued	83	84	81
Believe that Länsförsäkringar AB is an equal opportunity workplace	87	87	85
Believe that they receive regular feedback from their manager	81	82	83
Believe that one's own skills are developed in line with changing work requirements	78	79	77
Believe that they have a reasonable stress level in their work	70	70	64
Believe that they have a good work/life balance	81	81	80

<sup>1)</sup> The response rate for the employee survey was 96% in 2018, 95% in 2017.

### Employees

Number	2018	2017	2016
Permanent employees	1,910	1,847	1,759
of whom, men	816	777	730
of whom, women	1,094	1,070	1,029
Permanent employees recruited during the year	210	247	185
Permanent employees who have left and now work at another company in the Länsförsäkringar Alliance	5	9	13
Permanent employees who left during the year	176	170	125

### Employee turnover

%	2018	2017	2016
Permanent employees	9.5	9.7	7.2

### Employee age range

Number	2018	2017	2016
0-30 years of age	178	209	184
31-40 years of age	464	460	454
41-50 years of age	602	634	594
51-60 years of age	547	463	439
61-	122	81	88
Average age, women	44	44	44
Average age, men	44	44	44

### New employees recruited during the year

Number	2018		2017		2016	
	Women	Men	Women	Men	Women	Men
0-30 years of age	27	19	35	32	23	17
31-40 years of age	32	39	31	45	27	35
41-50 years of age	31	28	41	35	41	22
51-60 years of age	21	10	12	12	13	7
61-	0	3	3	1	-	-
<b>Total</b>	<b>111</b>	<b>99</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.

### Manager age range

Number	2018		2017		2016	
	Women	Men	Women	Men	Women	Men
0-30 years of age	2	0	3	2	1	4
31-40 years of age	19	19	21	20	23	21
41-50 years of age	61	57	56	56	46	55
51-60 years of age	47	40	35	27	33	29
61-	3	8	1	5	-	5
<b>Total</b>	<b>132</b>	<b>124</b>	<b>116</b>	<b>110</b>	<b>103</b>	<b>14</b>
<b>Total</b>	<b>256</b>		<b>226</b>		<b>217</b>	

### Average age of managers

Year	2018	2017	2016
Women	47	46	46
Men	47	47	46

### Sickness absence

%	2018	2017	2016
Total sickness absence as a percentage of ordinary working hours	3.0	3.0	3.1

### Gender distribution among managers

%	2018		2017		2016	
	Women	Men	Women	Men	Women	Men
Group management	62	38	57	43	50	50
Heads of department	47	53	53	47	48	52
Group managers and team leaders	52	48	50	50	47	53

### Gender distribution among management and Board

Number	2018		2017		2016	
	Women	Men	Women	Men	Women	Men
Group management including President	8	5	5	5	4	6
Management teams <sup>1)</sup>	31	35	33	36	25	37
Board members <sup>2)</sup>	23	47	22	49	28	38

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

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

## Carbon emissions in the operations

### Sources of carbon emissions<sup>1)</sup>

	2018		2017		2016	
	CO <sub>2</sub> emissions, kg	Consumption MWh	CO <sub>2</sub> emissions, kg	Consumption MWh	CO <sub>2</sub> emissions, kg	Consumption MWh
District heating – properties and offices <sup>2)</sup>	103,445	1,515	121,310	1,619	85,708	1,343
Electricity consumption – operations	38,369	3,762	36,003	3,530	33,436	3,278
Electricity consumption – properties	11,639	1,141	11,150	1,093	10,983	1,077
Paper print-outs	3,148	7,301	4,607	13,243	4,956	26,221
<b>Total</b>	<b>156,601</b>	<b>13,719</b>	<b>191,122</b>	<b>6,255</b>	<b>107,692</b>	<b>5,138</b>

### Sources of carbon emissions<sup>3)</sup>

	2018		2017		2016	
	CO <sub>2</sub> emissions, kg	Km travelled	CO <sub>2</sub> emissions, kg	Km travelled	CO <sub>2</sub> emissions, kg	Km travelled
Flights	648,814	5,675,482	620,426	5,284,022	556,816	4,465,921
Company car journeys	152,599	1,315,508	153,685	1,399,053	177,198	1,510,907
Private car journeys	31,657	257,377	32,635	265,322	29,257	230,368
Rail journeys	3	1,059,863	2	978,943	3	941,507
<b>Total</b>	<b>833,074</b>	<b>8,308,050</b>	<b>806,748</b>	<b>7,927,340</b>	<b>763,274</b>	<b>7,148,703</b>
<b>Total carbon emissions in operations</b>	<b>989,675</b>		<b>997,870</b>		<b>898,357</b>	
<b>Total carbon emissions per employee</b>	<b>518</b>		<b>540</b>		<b>511</b>	

<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> Scope 3 under the GHG Protocol.



# Our partnerships

## Sustainability at Länsförsäkringar

### **PSI – Principles for Sustainable Insurance**

A UN initiative of principles on integrating sustainability into insurance offerings. Länsförsäkringar Sak has been a member since the end of 2016.

### **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.

### **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.

### **INI – International Network of Insurance**

A network of more than 120 market-leading insurance companies all over the world who work together to help each other's corporate customers that have foreign operations but local insurance solutions.

### **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.

## Investment partnerships

### **PRI – Principles for Responsible Investments**

A UN initiative of six Principles for investors concerning the integration of sustainability in investment decisions, engagement and collaboration. Länsförsäkringar AB is a member and submits annual reports on the implementation of these principles to PRI. Länsförsäkringar participates in investor initiatives to influence other companies and stakeholders in sustainability topics.

### **Access to Medicine Foundation**

A foundation founded by the British and Netherlands governments together with the Bill & Melinda Gates Foundation. The foundation seeks to improve access to medicine for people around the world. Every other year it produces an index that shows the actions pharmaceutical companies are taking to improve conditions for people without access to basic medicine. Länsförsäkringar supports this initiative.

### **CDP**

A civil society organisation that collects global environmental information from companies. The initiative is supported by over 800 institutional investors worldwide. Through dialogue with companies and by supporting the CDP's work, investors want to increase transparency and promote environmental reporting, and encourage companies to work actively to reduce their environmental impact. Länsförsäkringar supports the CDP.

### **GES – Global Engagement Service**

A common cooperative platform for active owners. Länsförsäkringar AB actively participates in this forum together with institutional investors all over the world to influence companies to act responsibly. Part of Sustainability from 2019.

### **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 Fondförvaltning is an active member.

### **Sustainable Value Creation**

"Sustainable Value Creation" is a collaborative project comprising 17 of Sweden's largest institutional investors. The project aims to highlight the importance of working with sustainability topics in a structured manner. Länsförsäkringar is an active member.

### **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 develops best practice in corporate governance and the Swedish Corporate Governance Code. Länsförsäkringar Fondförvaltning is an active member.

### **Montreal Pledge**

Länsförsäkringar AB has signed the PRI Montreal Pledge, an initiative whereby investors pledge to measure and publicly disclose the carbon footprint of their investment portfolios. The Montreal Pledge is supported by both PRI and the United Nations Environment Programme Finance Initiative (UNEP FI).

### **Swesif – Sweden forum for sustainable investments**

An independent network forum for organisations that work for or with sustainable investments in Sweden. Swesif's goal is to increase knowledge and interest surrounding sustainable investments.

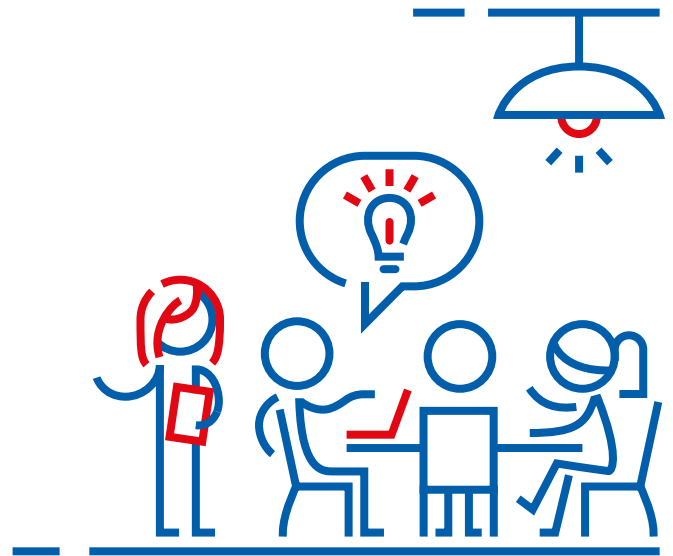
## Partnerships in banking

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

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 Financial Coalition.

### Swedish Bankers' Association

An association of banks in Sweden whose tasks include spreading knowledge about banks and their role for growth and welfare in society. Länsförsäkringar is a member of the board and the Sustainability Committee.



## Other partnerships

### Global Compact

A UN initiative for responsible business conduct with ten principles on human rights, labour, environment and anti-corruption. Länsförsäkringar AB is a signatory.

### Diversity Charter Sweden

A non-profit organisation that seeks to promote diversity in workplaces. Its members are companies and organisations that actively work on diversity and apply an inclusive approach to their own businesses. Länsförsäkringar is a member.

### NMC – The Swedish Association for Sustainable Business

A professional association and cross-industry platform for sharing of knowledge on running a sustainable business, contributing to sustainable development. Länsförsäkringar is a member.

### SNS – The Centre for Business and Policy Studies

An independent think tank that brings together the worlds of academia, business and government for knowledge-sharing and dialogue on key societal issues. Länsförsäkringar is a member.

### Task Force on Climate-related Financial Disclosures (TCFD)

TCFD was founded in 2015 by the Financial Stability Board. It is intended to support companies' efforts to provide qualitative sustainability information to the finance sector's stakeholders and supervisory authorities. The framework consists of four areas: Governance, Strategy, Risk management and relevant data. Länsförsäkringar supports TCFD.

## Auditor's opinion regarding the statutory report

To the general meeting of the shareholders in Länsförsäkringar AB, corporate identity number 556549-7020

### **Engagement and responsibility**

It is the board of directors who is responsible for the sustainability report for the year 2018 as indicated on page 130 and that it is prepared in accordance with the Annual Accounts Act.

### **The scope of the examination**

My examination has been conducted in accordance with FAR:s auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that my examination of the statutory sustainability report 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 opinion.

### **Opinion**

A statutory sustainability report has been prepared.

Stockholm 27 March 2019  
KPMG AB

Mårten Asplund  
Authorized Public Accountant

# Global Reporting Initiative

**The report** is based on the 2016 GRI Standards, except for disclosures on Occupational Health and Safety which follow the updated version from 2018.

GRI Standard	GRI Page reference	GRI Comments	UN Sustainable Development Goals	UN Global Compact
<b>General disclosures</b>				
<b>Organisation profile</b>				1-10
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102-2	Activities, brands, products, and services	Inside cover		
102-3	Location of headquarters		Stockholm	
102-4	Location of operations	Inside cover		
102-5	Ownership and legal form	Inside cover		
102-6	Markets served	Inside cover		
102-7	Scale of the organisation	Inside cover		
102-8	Information on employees and other workers	132-133		
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102-12	External initiatives	134-135		
102-13	Memberships of associations	134-135		
<b>Strategy</b>				1-10
102-14	Statement from senior decision-maker	2-3		
102-15	Key impacts, risks, and opportunities	14, 16, 19, 21, 24-25, 27, 29, 129,		
<b>Ethics and integrity/Business ethics and values</b>				10
102-16	Values, principles, standards, and norms of behaviour	31-32		
<b>Governance</b>				10
102-18	Governance structure	31-32		
<b>Stakeholder engagement</b>				
102-40	List of stakeholder groups	8-11, 131		
102-41	Collective bargaining agreements	26		
102-42	Identifying and selecting stakeholders	8, 129, 131		
102-43	Approach on stakeholder engagement	8-11, 131		
102-44	Key topics and concerns raised	8-11, 20, 131	Including SCI – customer satisfaction and product responsibility	
<b>Reporting practice</b>				
102-45	Entities included in the consolidated financial statements	129		
102-46	Defining report content and topic boundaries	129		
102-47	List of material topics	129		
102-48	Restatements of information	129	And comments in GRI table	
102-49	Changes in reporting	129		
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102-52	Reporting cycle	129		
102-53	Contact point for questions regarding the report	129	Christina Hillesøy, Head of Sustainability	
102-54	Claims of reporting in accordance with the GRI Standards	129		
102-55	GRI content index	137-139		
102-56	External assurance		The GRI report has not been externally audited. See auditors opinion regarding sustainability report on page 136.	

GRI Standard		GRI Page reference	GRI Comments	UN Sustainable Development Goals	UN Global Compact
<b>Management Approach</b>					
103-1	Explanation of the material topic and its Boundary	14-15, 31-32			
103-1-103-3	Management Approach	31-32			
<b>Responsible offering</b>					
<b>Responsible investments</b>				5, 8-9, 11, 13, 16	1-6, 7, 10
103-1 - 103-3	Disclosures on Management Approach	16-18, 31-32			
Engagement and dialogue	Number of reactive company dialogues on sustainability	18			
G4-FS10	Percentage and number of companies held in the institution's portfolio with which the reporting organisation has interacted on environmental or social issues				
Active corporate governance	Number of preventive dialogues on sustainability	18			
Active corporate governance	Number of general meetings at which votes were cast	18			
Active corporate governance	Participation in Nomination Committees	18			
Exclusions	Number of blacklisted companies regarding sustainability, excluding coal companies	18			
<b>Responsible banking</b>				8	7-9
103-1 - 103-3	Disclosures on Management Approach	19-20, 31-32			
Climate risks in lending	Initiative to measure the climate risk in the insurance offering	20			
Availability					
G4-FS 13	Access points in low-populated or economically disadvantaged areas by type	19-20			
G4-FS 14	Initiatives to improve access to financial services for disadvantaged people	19-20			
<b>Responsible insurance</b>				3, 12-13	7-9
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Claims adjustment	Initiative to reduce use of resources and negative climate impact via claims adjustment	21-22, 30			
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201-2	Financial implications and other risks and opportunities due to climate change	Inside cover, 20			
Indirect economic impacts					
203-2	Significant indirect economic impacts	Inside cover			
<b>Sustainability requirements on suppliers</b>				8, 12, 16	1-10
103-1 - 103-3	Disclosures on Management Approach	16-17, 27, 31-32			
Purchasing organisation	Percentage of the 100 largest suppliers that account for 80% of the purchasing volume have signed the Code of Conduct	27			
<b>Business ethics</b>				16	2, 10
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Anti-corruption					
205-1	Operations assessed for risks related to corruption	24			
205-2	Communication and training about anti-corruption policies and procedures	24			
<b>Direct environmental impact</b>				12, 13	7-9
103-1 - 103-3	Disclosures on Management Approach	133			
Emissions					
305-2	Energy indirect GHG emissions (Scope 2)	133			
305-3	Other indirect GHG emissions (Scope 3)	18, 133			

GRI Standard		GRI Page reference	GRI Comments	UN Sustainable Development Goals	UN Global Compact
<b>Responsible employer</b>					
Labour practices and decent work				3,5,8,10	3-6
103-1 - 103-3	Disclosures on Management Approach	25-26, 31-32	Statistics refer to employees in Sweden		
401-1	New employee hires and employee turnover	132	Statistics refer to employees in Sweden		
Occupational health and safety					
103-1 - 103-3	Disclosures on Management Approach	25-26, 132-133			
403-2	Types of injury and rates of injury, occupational diseases, lost days, absenteeism and number of work-related fatalities	26, 133	GRI 2018. Refers to employees in Sweden		
Training and education					
103-1 - 103-3	Disclosures on Management Approach	25-26			
404-2	Programmes upgrading employee skills and transition assistance programmes	25-26			
Diversity and equal opportunity					
103-1 - 103-3	Disclosures on Management Approach	25-26			
405-1	Diversity of governance bodies and employees	132-133	Statistics refer to employees, Board and management in Sweden		
406-1	Incidents of discrimination and corrective actions taken		No cases reported in 2018		
<b>Environmental and social responsibility</b>					
Research	Number of research projects and total amount invested in research (SEK)	29-30		3, 8, 11-13, 16	8-9

## UN Global Compacts 10 Principles

### Human Rights

**Principle 1:** Businesses should support and respect the protection of internationally proclaimed human rights.

**Principle 2:** Make sure that they are not complicit in human rights abuses.

### Labour

**Principle 3:** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.

**Principle 4:** The elimination of all forms of forced and compulsory labour.

**Principle 5:** The effective abolition of child labour.

**Principle 6:** Elimination of discrimination in respect of employment and occupation.

### Environment

**Principle 7:** Businesses should support a precautionary approach to environmental challenges;

**Principle 8:** Undertake initiatives to promote greater environmental responsibility.

**Principle 9:** Encourage the development and diffusion of environmentally friendly technologies.

### Anti-Corruption

**Principle 10:** Businesses should work against corruption in all its forms, including extortion and bribery.



## The UN Sustainable Development Goals (SDGs)





## Board of Directors and auditors



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3



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8



9

### 1 Caesar Åfors

Chairman of the Board since 2018. 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).

### 2 Maria Engholm

Deputy Chairman since 2018. Born 1967. President/CEO of HSB Dalarna. Elected 2015. **Education:** Master of Science in Business and Economics. **Other Board appointments:** Chairman of Dalarnas Försäkringsbolag and Dalarnas Försäkringsbolags Förvaltnings AB. **Previous experience:** Board member of HSB Riksförbund, HSB Projektpartner AB, Länsförsäkringar Bank, President of Triple Steelix, President of Folke i Borlänge AB, Local Federation Director of Siljan Region and Board member of Sparbanken Dalarna.

### 3 Susanne Bäck

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 Fastighetsförmedling, Swedish Insurance Employers' Association. **Previous experience:** President of Nordea Finans, Board member of Länsförsäkringar Bank and Wasa Kredit.

### 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 Jonas Rosman

Born 1963. President of Länsförsäkringar Skaraborg. Elected 2014. **Education:** Business school economist, agricultural education. **Other Board appointments:** Board member of Hällefors Tierp Skogar AB. **Previous experience:** Accounting consultant, Business Manager Federation of Swedish Farmers Consulting, chief economist at Federation of Swedish Farmers Consulting, President of Skaraborg Agricultural Society.

### 7 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.

### 8 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 Nils Ahlgren AB, AB Segulah, Greta Hamilton Family Foundation, Joen Fagerberg Foundation in Stockholms Borgerskap and Drottningholms Slottsteater Foundation.

### 9 Maria Wallin Wällberg

Born 1967. President of Likvor AB. Elected 2018. **Education:** Master of Science in Business and Economics. **Other Board appointments:** Chairman of Länsförsäkringar Västerbotten, Fastighetsbolaget Fabriken AB, Länsförsäkringar Västerbotten Invest AB. **Previous experience:** CEO of Innovationsbron Umeå, Vice President of Innovationsbron AB, CEO of Connect Norr, Board Chairman of IKSU and Esculapen AB and Board member of SweTree Technologies AB.

## 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 Forena, 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, upper-secondary education in economics. **Other Board appointments:** Länsförsäkringar Sak, Agria Djurförsäkring, Chairman of Forena Länsförsäkringar AB, treasurer Forena Länsförsäkring, Forena 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:** Agria Djurförsäkring, 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 Fredrik Bergström

Born 1970. Employed 2018. President and CEO of Länsförsäkringar AB. **Education:** Master of Science in Business and Economics, Uppsala University. **Board appointments:** Chairman of Länsförsäkringar Bank, Länsförsäkringar Fondliv and Länsförsäkringar Sak. Board member of Länsförsäkringar Liv, Insurance Sweden, Swedish Insurance Employers' Association (FAO), European Alliance Partners Company AG and Enebybergs Tennishall AB. **Previous experience:** President of Länsförsäkringar Stockholm, Head of Retail at SBAB, Head of Distribution Private Sweden at If and other positions at If Skadeförsäkring AB and Dial Försäkrings AB.

## 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 Sven Eggefalk

Born 1969. Employed 2018. President of Länsförsäkringar Bank AB. **Education:** BA in Economics from North Park University Chicago. **Board appointments:** Chairman of Länsförsäkringar Hypotek and Wasa Kredit. Board member of Länsförsäkringar Fondförvaltning, Länsförsäkringar Fastighetsförmedling and Swedish Bankers' Association. **Previous experience:** President of Länsförsäkringar Östgöta, President of Wasa Kredit and 15 years in various senior positions at SEB.

## 4 Jimmy Fredrixon

Born 1960. Employed 1981. Acting Head of LB Sak. **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 European Alliance Partners Company AG.

## 5 Tua Holgersson

Born 1964. Employed since 2013. President of Länsförsäkringar Fondliv. **Education:** Studies in communication programme. **Board appointments:** Chairman of Insurance Industry's Pension Fund, 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 Skandia-banken.

## 6 Göran Laurén

Born 1962. Employed 2007. Head of Asset Management. **Education:** Executive MBA, Stockholm University. **Board appointments:** Chairman of LF 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 Länsförsäkringar Liv.

## 8 Ann Sommer

Born 1959. Employed 1988. President of Länsförsäkringar Sak. **Education:** Master of Science in Business and Economics. **Board appointments:** Chairman Länsförsäkringar Gruppliv and Agria Djurförsäkring. Board member of Humlegården Fastigheter AB, 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 Landstingens 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. **Previous experience:** President of Länsförsäkringar Blekinge, various senior positions at Skandia and If.

## 10 CIO

Recruitment process ongoing.

## 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

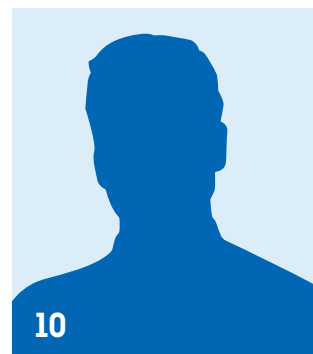
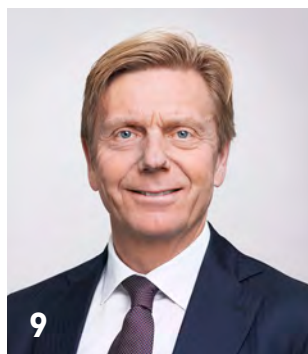
Born 1957. Employed 1988. Head of Strategy Planning. **Education:** Law programme, Stockholm University. **Previous experience:** Executive Vice President Länsförsäkringar Gruppliv, Head of Corporate and Agriculture Development and Head of Market Development at Länsförsäkringar AB.

## 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 or 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 credit 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 credit 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.

## Credit losses net, bank

Confirmed credit losses and reserves for credit losses ("loss allowance") less recoveries of receivables and net expense for the year for credit losses for guarantees and other contingent liabilities.

## Credit losses in relation to loans, bank

Net credit 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 capital.

## 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 capital. 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 credit 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 reinsures 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

## income statement and balance sheet

Income statement		
SEK M	2018	2017
Premium income, net	1,684	1,533
Investment income, net	-527	5,480
Claims payments	-4,939	-5,404
Change in technical provisions	4,992	1,990
Operating expenses	-412	-417
<b>Technical result, life-assurance operations</b>	<b>798</b>	<b>3,182</b>
Non-technical items	-	-
<b>Profit before appropriations and tax</b>	<b>798</b>	<b>3,182</b>
Tax allocation reserve	-14	61
Tax	-175	-122
<b>Net profit for the year</b>	<b>609</b>	<b>3,121</b>
Other comprehensive income	-	-
<b>Comprehensive income for the year</b>	<b>609</b>	<b>3,121</b>

Balance sheet		
SEK M	31 Dec 2018	31 Dec 2017
<b>Assets</b>		
Investment assets	110,662	115,377
Reinsurers' portion of technical provisions	397	472
Receivables	1,399	1,217
Other assets	3,979	5,423
Prepaid expenses and accrued income	72	105
<b>Total assets</b>	<b>116,509</b>	<b>122,594</b>
<b>Equity, provisions and liabilities</b>		
Equity	23,703	24,150
Untaxed reserves	340	327
Technical provisions	84,850	90,165
Provisions for other risks and expenses	30	76
Deposits from reinsurers	397	472
Liabilities	7,006	7,215
Accrued expenses and deferred income	183	189
<b>Total equity, provisions and liabilities</b>	<b>116,509</b>	<b>122,594</b>



# Addresses

## **LF Norrbotten**

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SE-971 28 Luleå  
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Tel: +46 63-19 33 00  
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# Financial calendar 2019

## First quarter:

Interim report January-March 2019, Länsförsäkringar Bank	26 April
Interim report January-March 2019, Länsförsäkringar Hypotek	26 April

## Second quarter:

Interim report January-June 2019, Länsförsäkringar Bank	18 July
Interim report January-June 2019, Länsförsäkringar Hypotek	18 July
Interim report January-June 2019, Länsförsäkringar Alliance	29 August

## Third quarter:

Interim report January-September 2019, Länsförsäkringar Bank	24 October
Interim report January-September 2019, Länsförsäkringar Hypotek	24 October



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