

Länsförsäkringar Bank

Year-end report 2019

The year in brief, Group

- Operating profit amounted to SEK 1,893 M (1,510) and the return on equity amounted to 9.5% (8.3).
- Net interest income rose 3% to SEK 4,617 M (4,497).
- Operating income increased 6% to SEK 4,027 M (3,783).
- Operating expenses amounted to SEK 1,926 M (2,178).
- Credit losses amounted to SEK 207.2 M (94.7), net, corresponding to a credit loss level of 0.06% (0.04).
- Business volumes increased 17% to SEK 656.0 billion (561.3).
- Deposits rose 10% to SEK 119.3 billion (108.1). Lending increased 6% to SEK 307.1 billion (289.4).
- The Common Equity Tier 1 capital ratio for the Consolidated Situation amounted to 15.4% (14.7*) on 31 December 2019.
- The number of customers with Länsförsäkringar as their primary bank increased 9% and the number of cards increased 9%.
- Länsförsäkringar Bank issued its inaugural senior non-preferred bond in September.
- Länsförsäkringar Bank implemented a new core banking system in April.
- According to the 2019 Swedish Quality Index customer satisfaction survey, Länsförsäkringar Bank has the banking market's most satisfied retail and corporate customers.
- Morningstar named Länsförsäkringar Best Fund House Overall Sweden 2019 in March.

Figures in parentheses pertain to the same period in 2018.

* Pertains to 30 September 2019.

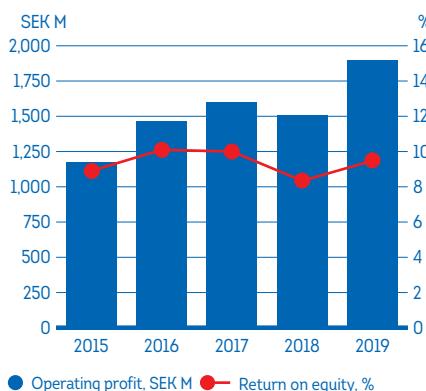
President's comment

In summary, 2019 was another good year for Länsförsäkringar Bank. We are delighted to state that we remain the player with Sweden's most satisfied bank customers according to the Swedish Quality Index. The solid performance of the business is continuing and our position as one of the leading retail banks in Sweden was further strengthened. Growth in business volumes for the year was high, whilst maintaining a healthy balance between savings and lending. Our market shares are continuously increasing, which is confirmation that we are a natural choice for customers in an ever more competitive market, but also a clear reflection of the tremendous work done by regional insurance companies, where our strong local presence is generating favourable results. Coupled with our strategy of being a leading player in the digital arena, we believe that this is one of the main reasons for the constant high level of customer satisfaction. During the year, we successfully implemented a new core banking system and launched our Open Banking platform. Going forward, this gives us greater ability to meet customers in the digital arena and opens more opportunities for developing the digital banking services of the future to continuously create security and added value for our customers.

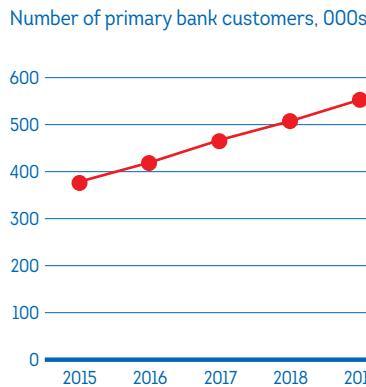
Sven Eggefalk

President of Länsförsäkringar Bank

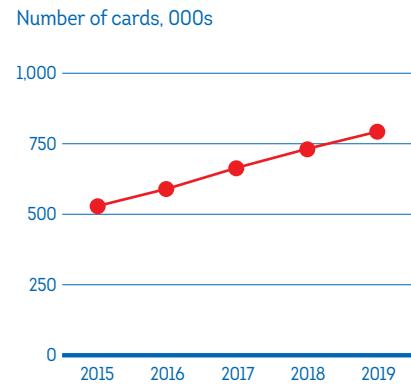
Operating profit and return on equity



Customer trend



Card trend



Länsförsäkringar

lansforsakringar.se/finansielltbank

Key figures

Group	Q 4 2019	Q 3 2019	Q 4 2018	Jan-Dec 2019	Jan-Dec 2018
Return on equity, %	8.84	9.48	4.18	9.48	8.34
Return on total assets, %	0.27	0.46	0.18	0.38	0.34
Investment margin, %	1.20	1.21	1.32	1.21	1.30
Cost/income ratio before credit losses	0.49	0.46	0.77	0.48	0.58
Common Equity Tier 1 capital ratio, Bank Group, %	13.9	13.7	14.2	13.9	14.2
Tier 1 ratio, Bank Group, %	16.0	15.9	15.5	16.0	15.5
Total capital ratio, Bank Group, %	18.5	18.3	18.2	18.5	18.2
Common Equity Tier 1 capital ratio, consolidated situation, %	15.4	14.7	15.7	15.4	15.7
Tier 1 ratio, consolidated situation, %	16.0	16.1	16.5	16.0	16.5
Total capital ratio, consolidated situation, %	16.6	17.9	18.3	16.6	18.3
Share of credit-impaired loan receivables (stage 3), %	0.20	0.20	0.17	0.20	0.17
Reserve ratio for loan receivables stage 1, %	0.03	0.03	0.02	0.03	0.02
Reserve ratio for loan receivables stage 2, %	1.98	1.64	1.60	1.98	1.60
Reserve ratio for loan receivables stage 3, %	34.6	32.0	32.6	34.6	32.6
Reserve ratio for loan receivables stage 3, incl. withheld remuneration to regional insurance companies, %	40.2	37.7	37.0	40.2	37.0
Credit loss level, %	0.10	0.07	0.04	0.06	0.04

Income statement, quarterly

Group, SEK M	Q 4 2019	Q 3 2019	Q 2 2019	Q 1 2019	Q 4 2018
Net interest income	1,169.0	1,176.7	1,144.3	1,127.4	1,168.9
Net commission	-125.7	-188.2	-173.4	-149.1	-191.8
Net gains/losses from financial items	18.1	6.5	-0.7	-8.5	1.0
Other operating income	4.4	5.6	10.3	10.0	33.0
Total operating income	1,065.9	1,000.6	980.5	979.8	1,011.1
Staff costs	-162.7	-146.9	-169.9	-160.7	-140.3
Other expenses	-365.0	-318.1	-306.2	-296.7	-640.0
Total operating expenses	-527.6	-465.0	-476.1	-457.4	-780.3
Profit before credit losses	538.3	535.6	504.4	522.4	230.8
Credit losses, net	-81.5	-56.7	-39.4	-29.6	-30.7
Operating profit	456.8	478.9	465.0	492.8	200.1

After several years of strong economic growth, the global economy grew at a weaker rate in 2019. The US reported stable GDP growth, while Europe and several developing countries noted a clear slowdown. Softening growth was mainly due to the downturn in the manufacturing industry and uncertainty caused by the US-China trade conflict.

The US central bank, the Fed, altered the direction of its monetary policy and cut interest rates three times consecutively during the year despite unemployment continuing to fall. This was a powerful move and a swift reaction to the slowdown within the industry and the uncertainty surrounding the trade conflict. This expansive monetary policy, combined with an improved risk profile and a strong labour market, will provide a stable platform for growth in 2020.

Europe was the region hit hardest by the industrial slowdown and growth is expected to remain low in 2020. The positive performance of the services sector and the strong labour market indicate that the region will avoid a recession. The European Central Bank, ECB, reacted by making another cut to the deposit facility rate and launching a new asset purchase programme, among other

measures. In communicating these new measures, the ECB was clear in saying that the programme would continue until shortly before key interest rates are raised, when inflation and the inflation outlook have stabilised at target levels. This suggests an extended period of low interest rates and monetary stimulus packages.

GDP growth in China slowed, although the economy otherwise generally performed well. The increasingly important private consumption is growing faster than the total economy, supported by a stable labour market and an expansive monetary policy. However, growth is becoming ever more dependent on fiscal and monetary policy stimuli.

In Sweden, the economic slowdown was more marked than anticipated. GDP growth fell in 2019 and this trend is expected to continue in 2020. The Riksbank went against the tide by raising its repo rate in December in spite of rising unemployment and falling inflation expectations. Despite this raise, the repo rate remains at a historically low level of 0.0%. As it lifted the rate, the Riksbank signalled that it may not touch the rate for a long time. Low interest rates and a relatively healthy trend in household disposable inco-

me contributed to a stable upswing in housing prices. According to Valueguard, housing prices increased 4.5% in 2019.

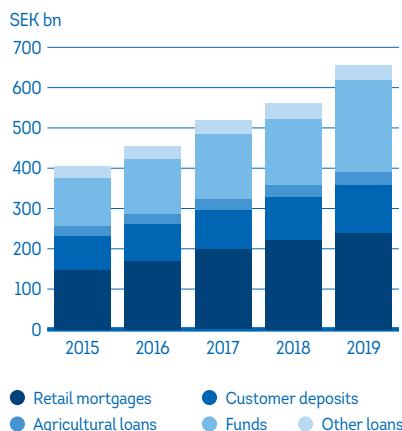
The performance of the financial markets was generally favourable in 2019, although some uncertainty did appear. It was a strong year for risk-exposed assets, global stock markets rose sharply and the Stockholm Stock Exchange ended the year up slightly more than 31%, including dividends. The fixed-income market generated uncertainty with an inverted US yield curve since such an inversion has often appeared as a precursor to past recessions. However, market optimism increased following the Fed and the ECB's monetary policy U-turns and a gradually more positive tone to the trade conflict. This led to falling expectations regarding future higher key interest rates, which was reflected in lower government bond rates. The expansive monetary policy also resulted in a positive trend in credit spreads, including Swedish covered bonds.

2019 compared with 2018, Group

Business volumes

Business volumes rose 17%, or SEK 94.4 billion, to SEK 656.0 billion (561.3). Lending increased 6%, or SEK 17.7 billion, to SEK 307.1 billion (289.4), with continued high credit quality. Lending in Länsförsäkringar Bank fell 6% to SEK 42.8 billion (45.7). Lending in Länsförsäkringar Hypotek increased 9%, or SEK 19.0 billion, to SEK 240.1 billion (221.1). Lending in Wasa Kredit rose 7% to SEK 24.2 billion (22.6). Deposits increased 10%, or SEK 11.2 billion, to SEK 119.3 billion (108.1). Fund volumes increased 40%, or SEK 65.5 billion, to SEK 229.6 billion (164.1).

Business volumes



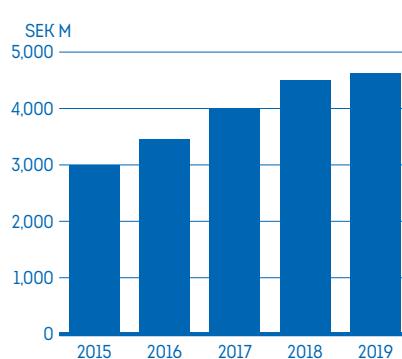
Customers

The number of customers with Länsförsäkringar as their primary bank increased 9% to 553,000 (507,000) 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 9% to 783,000 (722,000).

Earnings and profitability

Operating profit increased 25% to SEK 1,893 M (1,510), primarily due to higher net interest income and strong underlying net commission. The comparative figure was impacted by non-recurring costs in the third and fourth quarters of 2018 mainly related to the replacement of the bank's core banking system. The investment margin amounted to 1.21% (1.30). Profit before credit losses was SEK 2,101 M (1,605). Return on equity amounted to 9.5% (8.3).

Net interest income



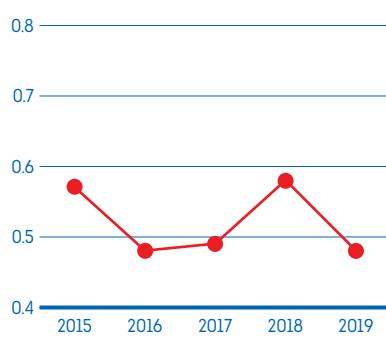
Income

Operating income increased 6% to SEK 4,027 M (3,783), primarily due to higher net interest income. Net interest income rose 3% to SEK 4,617 M (4,497), mainly attributable to higher volumes. Net gains from financial items amounted to SEK 15.4 M (13.5). The strong trend in underlying net commission, excluding remuneration paid to the regional insurance companies, continued, increasing 21% to SEK 976.6 M (807.3). Net commission amounted to SEK -636.4 M (-773.3).

Expenses

Operating expenses amounted to SEK 1,926 M (2,178). The comparative figure included non-recurring items in the third and fourth quarters of 2018 related to the replacement of the bank's core banking system. The cost/income ratio before credit losses amounted to 0.48 (0.58). The cost/income ratio after credit losses was 0.53 (0.60).

Cost/income ratio before loan losses



Credit losses

Credit losses in the Bank Group remained low and were almost exclusively attributable to Wasa Kredit. Credit losses amounted to SEK 207.2 M (94.7), net, corresponding to a credit loss level of 0.06% (0.04). The increase

in credit losses in Wasa Kredit was a combined effect of growing volumes and the impact of IFRS 9. Credit-impaired loan receivables (stage 3) before provisions amounted to SEK 931.9 M, corresponding to a share of credit-impaired loan receivables of 0.20%. The loss allowance for credit-impaired loan receivables was SEK 322.1 M. The reserve ratio for credit-impaired loan receivables amounted to 34.6%. In addition, SEK 52.2 M of the remuneration to the regional insurance companies regarding credit-impaired loan receivables* is withheld. Including the withheld remuneration to the regional insurance companies, the loss allowance for credit-impaired loan receivables totalled SEK 374.4 M. The reserve ratio for credit-impaired loan receivables, including withheld remuneration to the regional insurance companies, amounted to 40.2% and the total recognised loss allowance was SEK 672.0 M, of which SEK 103.4 M pertained to withheld remuneration to regional insurance companies in accordance with the settlement model.

Loss allowance, stage 3

SEK M	31 Dec 2019	31 Dec 2018
Loans to the public	307,099	289,426
Credit-impaired loan receivables (stage 3)	931.9	741.6
Total loss allowance for credit-impaired loan receivables (stage 3), incl. withheld remuneration to regional insurance companies	374.3	274.7
of which loss allowance for credit-impaired loan receivables (stage 3)	322.1	242.1
of which withheld remuneration to regional insurance companies for credit-impaired loan receivables (stage 3)	52.2	32.6

For further information on credit losses and credit-impaired loan receivables, refer to notes 1, 6, 7 and 8.

* In accordance with the settlement model for the regional insurance companies' credit-risk commitments for generated business.

Deposits and savings

Deposits from the public rose 10%, or SEK 11.2 billion, to SEK 119.3 billion (108.1). Deposits from businesses amounted to SEK 12.6 billion (11.6). The number of deposit accounts increased 8%. On 31 December 2019, the market share for household deposits amounted to 5.1% (4.9) according to Statistics Sweden. Fund volumes increased 40%, or SEK 65.5 billion, to SEK 229.6 billion (164.1).

attributable to increased inflows in the fund business and changes in value. The fund business performed well and 90% of the funds managed under Länsförsäkringar's own brand performed better than their benchmark index in 2019.

Loans

All loans are granted in Sweden, in SEK and have a well-diversified geographic distribution. Loans to the public increased 6%, or SEK 17.7 billion, to SEK 307.1 billion (289.4) and maintained a high level of credit quality. Lending in Länsförsäkringar Hypotek increased 9%, or SEK 19.0 billion, to SEK 240.1 billion (221.1). The percentage of retail mortgages in relation to the total loan portfolio was 78%. The weighted average loan-to-value ratio (LTV) of the mortgage portfolio amounted to 61% (61). On 31 December 2019, the market share of retail mortgages had strengthened to 7.0% (6.7) according to Statistics Sweden.

Agricultural lending increased 5% to SEK 29.8 billion (28.3). Agricultural lending primarily comprises first-lien mortgages to family-owned agricultural operations, and the average commitment was low at SEK 2.3 M (2.3). First-lien mortgages for agricultural properties increased to SEK 28.5 billion (26.9), corresponding to 96% (95) of agricultural lending. Lending in Wasa Kredit rose 7% to SEK 24.2 billion (22.6).

Loan portfolio, distribution in %

Lending segment, %	31 Dec 2019	31 Dec 2018
Retail mortgages	78.3	76.6
Agriculture	9.7	9.8
Multi-family housing	2.4	2.6
Leasing and hire purchase	5.9	5.9
Unsecured loans	2.9	3.0
Other	0.8	2.1
TOTAL	100	100

Volume of retail mortgages in Bank Group by loan-to-value ratio*

Capital receivable	Total	
	Volume, SEK M	Total, %
0-50%	192,259	80.0%
51-60%	23,274	9.7%
61-70%	15,492	6.4%
71-75%	4,540	1.9%
75%+	4,672	1.9%
TOTAL	240,236	100.0%

* Refers to loans with single-family homes, tenant-owned apartments or vacation homes as collateral on 31 December 2019.

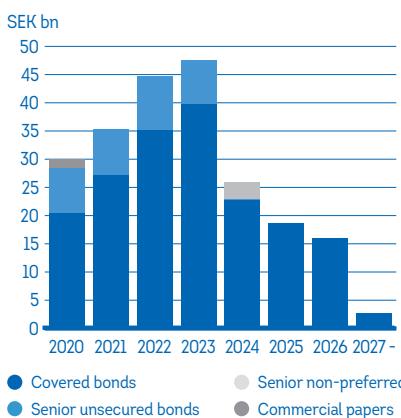
Funding

The Group has a low refinancing risk and the maturity profile is well diversified. Debt securities in issue increased 8%, or SEK 16.3 billion, to a nominal SEK 220.6 billion (204.3), of which covered bonds amounted to SEK 182.3 billion (164.0), senior long-term funding to SEK 36.8 billion (40.0) and short-term funding to SEK 1.5 billion (0.3). The average remaining term for long-term funding was 3.3 years (3.5) on 31 December 2019.

Covered bonds were issued during the year at a volume of a nominal SEK 33.9 billion (40.1). Repurchases of covered bonds amounted to a nominal SEK 8.1 billion (13.9) and matured covered bonds to a nominal SEK 7.5 billion (8.8). Länsförsäkringar Bank issued senior unsecured bonds of a nominal SEK 5.9 billion (11.4) during the year, while maturities amounted to a nominal SEK 7.1 billion (5.7).

Länsförsäkringar Bank issued its inaugural senior non-preferred bond in September through a five-year bond with a nominal amount of SEK 2.5 billion. This issue is the first step in meeting the Swedish National Debt Office's minimum requirement for own funds and eligible liabilities (MREL) by the end of 2021. The total volume of outstanding senior non-preferred bonds was SEK 3.0 billion on 31 December 2019.

Maturity profile



Rating

Company	Agency	Long-term rating	Short-term rating
Länsförsäkringar Bank	Standard & Poor's	A/Stable	A-1(K-1)
Länsförsäkringar Bank	Moody's	A1/Stable	P-1
Länsförsäkringar Hypotek [†]	Standard & Poor's	AAA/Stable	-
Länsförsäkringar Hypotek [†]	Moody's	Aaa	-

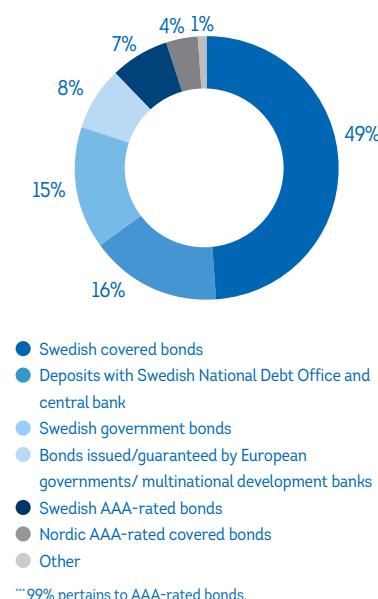
[†]Pertains to the company's covered bonds.

Liquidity

On 31 December 2019, the liquidity reserve totalled SEK 60.5 billion (54.4). The liquidity reserve is invested in securities with very high credit quality and 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 2019 was 295% (305). The Net Stable Funding Ratio (NSFR) for the Consolidated Situation on 31 December 2019 was 131%** (130).

** The calculation is based on the application of the regulatory requirements according to the upcoming update of the Capital Requirements Regulation.

Liquidity reserve ***



Rating

Länsförsäkringar Bank's credit rating is A/Stable from Standard & Poor's and A1/Stable from Moody's. Länsförsäkringar Hypotek's covered bonds have the highest credit rating of Aaa from Moody's and AAA/Stable from Standard & Poor's.

Capital adequacy, consolidated situation¹

In accordance with the CRR (575/2013), the consolidated situation includes the parent mixed financial holding company Länsförsäkringar AB, in addition to the Bank Group. Since the bank is of the opinion that the actual risk and capital situation is best presented in the Bank Group's capital ratios, the actual risk and capital situation are published in parallel with the capital ratios according to the consolidated situation.

Consolidated situation (SEK M)	31 Dec 2019	30 Sep 2019
IRB Approach	38,640	38,881
retail exposures	29,951	30,000
exposures to corporates	8,689	8,881
Standardised Approach	19,566	20,955
Operational risks	13,543	13,543
Additional requirements according to Article 458 CRR	48,619	47,898
Total REA	121,827	122,814
Common Equity Tier 1 capital	18,740	18,051
Tier 1 capital	19,484	19,805
Total capital	20,252	21,948
Common Equity Tier 1 capital ratio	15.4%	14.7%
Tier 1 ratio	16.0%	16.1%
Total capital ratio	16.6%	17.9%
Total capital requirement		
Pillar I	9,746	9,825
Pillar II	1,964	2,109
Combined buffer	6,091	6,141
Capital requirement as a percentage of REA		
Pillar I	8.0%	8.0%
Pillar II	1.6%	1.7%
Combined buffer	5.0%	5.0%

The Common Equity Tier 1 capital ratio for the Consolidated Situation was 15.4% (14.7). Common Equity Tier 1 capital increased SEK 689 M in the quarter. The increase was due to profit generation and Länsförsäkringar AB's divestment of its share of the ancillary services undertaking Utile Dulci 2 HB. Total Risk Exposure Amount (REA) in the consolidated situation on 31 December 2019 amounted to SEK 121,827 M (122,814). REA declined SEK 987 M in the quarter, primarily due to the divestment of Utile Dulci 2 HB. The credit quality of lending remained favourable.

Tier 1 and Tier 2 capital in the Consolidated Situation were impacted by an interpretation on qualifying own funds published by the European Banking Authority (EBA) in November 2019. The EBA responded to a question on how own funds qualify for inclusion in

consolidated own funds. The answer clarified the application of the limitation rules on inclusion of own funds for banks in a consolidated situation. The clarification from the EBA means that as per 31 December 2019 the Consolidated Situation only includes own funds issued externally by Länsförsäkringar Bank in the portion of capital required to cover the capital requirements of Länsförsäkringar Bank, and not, as previously, also including its subsidiaries' capital requirements. Eligible Tier 1 capital on 31 December 2019 amounted to SEK 743.4 M (1,754.5) and eligible Tier 2 capital to SEK 768.1 M (2,143.2). A dialogue is currently being maintained with the Swedish Financial Supervisory Authority to discuss possible options going forward.

Bank Group (SEK M)	31 Dec 2019	30 Sep 2019
IRB Approach	38,640	38,882
retail exposures	29,951	30,000
exposures to corporates	8,689	8,882
Standardised Approach	11,067	10,843
Operational risks	5,140	5,140
Additional requirements according to Article 458 CRR	48,619	47,898
Total REA	104,925	104,300
Common Equity Tier 1 capital	14,633	14,336
Tier 1 capital	16,833	16,536
Total capital	19,423	19,125
Common Equity Tier 1 capital ratio	13.9%	13.7%
Tier 1 ratio	16.0%	15.9%
Total capital ratio	18.5%	18.3%
Total capital requirement		
Pillar I	8,394	8,344
Pillar II	1,738	1,888
Combined buffer	5,246	5,215
Capital requirement as a percentage of REA		
Pillar I	8.0%	8.0%
Pillar II	1.7%	1.8%
Combined buffer	5.0%	5.0%

Internally assessed capital and buffer requirements

The internally assessed capital requirement for the Consolidated Situation on 31 December 2019 amounted to SEK 11,710 M, comprising the minimum capital requirement under Pillar I and the capital requirement for risks managed under Pillar II. The internally assessed capital requirement is calculated based on the methods and models used to calculate the capital requirement under the framework of Pillar I. Internal models are used for Pillar II risks.

In addition to this, there are capital requirements for the countercyclical capital buffer and the capital conservation buffer. The countercyclical capital buffer and capital conservation buffer totalled SEK 6,091 M (SEK 3,046 M each, 2.5% of REA) on 31 December.

The capital used to meet the internal capital requirement including buffer, meaning own funds, amounted to SEK 20,252 M.

The leverage ratio on 31 December 2019 amounted to 4.9% (4.9).

The Common Equity Tier 1 capital ratio for the Bank Group was 13.9% (13.7). Common Equity Tier 1 capital increased SEK 297 M in the quarter. The Tier 1 and Tier 2 capital in the Bank Group were not impacted by the above mentioned MREL rules. For the Bank Group, the internally assessed capital requirement amounted to SEK 10,132 M and own funds to SEK 19,423 M. For more information on capital adequacy, see note 12.

¹ The comparative period pertains to 30 September 2019. Periodic information according to the Swedish Financial Supervisory Authority's regulations regarding prudential requirements and capital buffers, (FFFS 2014:12) and regarding management of liquidity risks in credit institutions and investment firms (FFFS 2010:7) is provided in this section, the sections on funding and liquidity, and in note 12.

Interest-rate risk

On 31 December 2019, an increase in market interest rates of 1 percentage point would have decreased the value of interest-bearing assets and liabilities, including derivatives, by SEK -18.6 M (increased: 50.3).

Risks and uncertainties

The operations are characterised by a low risk profile. The Bank Group is exposed to a number of risks, primarily comprising credit risks, refinancing risks and market risks. The macroeconomic situation in Sweden is critical for credit risk since all loans are granted in Sweden. Market risks primarily comprise interest-rate risks. Credit losses remain low and the refinancing of business activities was highly satisfactory during the year. A more detailed description of risks is available in the 2018 Annual Report. No significant changes in the allocation of risk have taken place compared with the description provided in the Annual Report.

Fourth quarter of 2019 compared with third quarter of 2019

Operating profit amounted to SEK 456.8 M (478.9) and the return on equity amounted to 8.8% (9.5). Operating income amounted to SEK 1,066 M (1,001). Net interest income was SEK 1,169 M (1,177). The investment margin amounted to 1.20% (1.21). Commission income amounted to SEK 388.1 M (378.0) and commission expense to SEK 513.8 M (566.3). Net commission amounted to SEK -125.7 M (-188.2). Net gains from financial items amounted to SEK 18.1 M (6.5). Operating expenses amounted to SEK 527.6 M (465.0). The cost/income ratio before credit losses amounted to 0.49 (0.46). Credit losses amounted to SEK 81.5 M (56.7), net.

Events after the end of the period

No significant events took place after the end of the period.

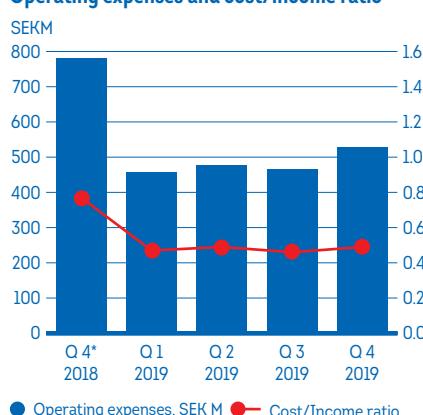
Annual Report

The Annual Report will be available on Länsförsäkringar Bank's website on 12 March 2020.

Operating profit and return on equity



Operating expenses and cost/income ratio



* The fourth quarter of 2018 was impacted by non-recurring items attributable to the replacement of the bank's core banking system.

Parent Company

2019 compared with 2018

Loans to the public amounted to SEK 42.8 billion (45.7). Deposits from the public rose 10%, or SEK 11.3 billion, to SEK 119.8 billion (108.5). Debt securities in issue amounted to SEK 39.1 billion (39.6). Operating profit amounted to SEK 196.9 M (-20.1). Net interest income rose 4% to SEK 1,284 M (1,234). Operating income amounted to SEK 1,448 M (1,470), due to strong net interest income and higher commission income. Commission income increased 10% to SEK 611.0 M (556.5). Net commission amounted to SEK 22.2 M (66.0). Operating expenses amounted to SEK 1,246 M (1,506).

Credit losses amounted to SEK 5.2 M (-15.6), net, corresponding to a credit loss level of 0.00% (-0.00). The Parent Company's risks and uncertainties are the same as those for the Bank Group as described on page 6.

SEK M	31 Dec 2019	31 Dec 2018
Total assets	192,027	178,406
Lending volume	42,800	45,743
Net interest income	1,284	1,234
Credit losses	5	-16
Operating profit	197	-20

Subsidiaries

2019 compared with 2018

Länsförsäkringar Hypotek

Lending in Länsförsäkringar Hypotek increased 9%, or SEK 19.0 billion, to SEK 240.1 billion (221.1). Retail mortgages up to 75% of the market value of the collateral on the granting date are granted by Länsförsäkringar Hypotek and the remainder by the Parent Company. Operating profit increased 13% to SEK 1,229 M (1,084), due to higher net interest income. Net interest income rose 4% to SEK 2,522 M (2,434) attributable to higher volumes. Operating expenses amounted to SEK 120.9 M (109.0). Credit losses amounted to SEK -0.9 M (-1.3), net, corresponding to a credit loss level of -0.00% (-0.00). The number of retail mortgage customers was 278,000.

SEK M	31 Dec 2019	31 Dec 2018
Total assets	262,405	241,368
Lending volume	240,062	221,108
Net interest income	2,522	2,434
Credit losses	-1	-1
Operating profit	1,229	1,084

Wasa Kredit

Wasa Kredit's lending volumes increased 7% to SEK 24.2 billion (22.6). Operating profit amounted to SEK 287.4 M (359.9) due to lower net interest income and higher credit losses. Net interest income was SEK 812.1 M (829.8). Operating expenses amounted to SEK 492.6 M (509.9). Credit losses amounted to SEK 202.1 M (112.4), net. The reserve ratio for credit-impaired loan receivables amounted to 64.4%, while the total reserve ratio was 2.2%.

SEK M	31 Dec 2019	31 Dec 2018
Total assets	25,079	23,376
Lending volume	24,238	22,576
Net interest income	813	830
Credit losses	202	112
Operating profit	287	360

Länsförsäkringar Fondförvaltning

Fund volumes increased 40%, or SEK 65.5 billion, to SEK 229.6 billion (164.1) attributable to increased inflows in the fund business and changes in value in 2019. Operating profit amounted to SEK 181.5 M (85.1). Net commission rose 44% to SEK 374.1 M (259.4). The fund offering includes 38 mutual funds under Länsförsäkringar's own brand with various investment orientations and a fund market with external funds. Managed funds under Länsförsäkringar's own brand amounted to SEK 202.6 billion (143.2).

SEK M	31 Dec 2019	31 Dec 2018
Total assets	857	688
Fund volumes	229,627	164,076
Net flow	15,752	8,441
Net commission	374	259
Operating profit	181	85

Income statement - Group									
SEK M	Note	Q 4 2019	Q 3 2019	Change	Q 4 2018	Change	Jan-Dec 2019	Jan-Dec 2018	Change
Interest income		1,522.0	1,519.1		1,340.6	14%	5,986.3	5,230.3	14%
Interest expense		-353.1	-342.4	3%	-171.6		-1,368.9	-733.2	87%
Net interest income	3	1,169.0	1,176.7	-1%	1,168.9	0%	4,617.4	4,497.1	3%
Dividends received		0.1	0.1		29.8		4.7	29.9	-84%
Commission income		388.1	378.0	3%	328.7	18%	1,457.5	1,252.9	16%
Commission expense		-513.8	-566.3	-9%	-520.5	-1%	-2,093.9	-2,026.1	3%
Net commission	4	-125.7	-188.2	-33%	-191.8	-34%	-636.4	-773.3	-18%
Net gains / losses from financial items	5	18.1	6.5		1.0		15.4	13.5	14%
Other operating income		4.4	5.6	-21%	3.2	38%	25.8	15.7	64%
Total operating income		1,065.9	1,000.6	7%	1,011.1	5%	4,026.8	3,782.9	6%
Staff costs		-162.7	-146.9	11%	-140.3	16%	-640.1	-588.2	9%
Other administration expenses		-313.5	-272.1	15%	-302.3	4%	-1,114.7	-1,164.7	-4%
Total administration expenses		-476.1	-419.0	14%	-442.6	8%	-1,754.8	-1,752.9	0%
Depreciation / amortisation and impairment of property and equipment / intangible assets		-51.5	-46.0	12%	-337.7	-85%	-171.4	-425.3	-60%
Total operating expenses		-527.6	-465.0	13%	-780.3	-32%	-1,926.2	-2,178.3	-12%
Profit before credit losses		538.3	535.6	1%	230.8		2,100.7	1,604.7	31%
Credit losses, net	6	-81.5	-56.7	44%	-30.7		-207.2	-94.7	
Operating profit		456.8	478.9	-5%	200.1		1,893.5	1,510.0	25%
Tax		-194.1	-26.2		-39.2		-453.8	-328.4	38%
Profit for the period		262.7	452.7	-42%	161.0	63%	1,439.7	1,181.6	22%

Statement of comprehensive income - Group									
SEK M		Q 4 2019	Q 3 2019	Change	Q 4 2018	Change	Jan-Dec 2019	Jan-Dec 2018	Change
Profit for the period		262.7	452.7	-42%	161.0	63%	1,439.7	1,181.6	22%
Other comprehensive income									
Items that cannot be transferred to the income statement									
Cash-flow hedges		1.4	-1.4		-1.1		-22.5	-58.1	-61%
Change in fair value of debt instruments measured at FVOCI		-6.7	-52.5	-87%	-32.2	-79%	2.4	-50.1	
Tax attributable to items that have been transferred or can be transferred to profit for the period		1.4	11.8	-88%	7.3	-81%	3.2	23.8	-87%
Total		-3.9	-42.1	-91%	-26.0	-85%	-16.9	-84.4	-80%
Items that cannot be transferred to profit and loss									
Change in fair value of equity instruments measured at FVOCI		3.8	1.3		-6.2		23.7	-11.0	
Tax attributable to items that cannot be reversed to profit and loss		-0.5	0.7		1.1		-4.5	0.0	
Total		3.3	2.0	65%	-5.1		19.2	-11.0	
Total other comprehensive income for the period, net after tax		-0.6	-40.1	-99%	-31.1	-98%	2.3	-95.4	
Comprehensive income for the period		262.1	412.6	-36%	129.9		1,442.0	1,086.2	33%

Balance sheet - Group

SEK M	Note	31 Dec 2019	31 Dec 2018
Assets			
Cash and balances with central banks		9,831.1	22.2
Treasury bills and other eligible bills		9,934.4	10,846.8
Loans to credit institutions	8	407.8	4,485.9
Loans to the public	7	307,099.3	289,426.0
Bonds and other interest-bearing securities		42,673.3	36,790.4
Shares and participations		90.0	66.3
Derivatives	9	8,224.3	6,055.5
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		4.5	125.2
Intangible assets		1,252.0	989.6
Property and equipment		88.8	10.1
Deferred tax assets		88.9	96.1
Other assets		567.2	560.9
Prepaid expenses and accrued income		434.3	382.4
Total assets		380,695.8	349,857.1
Liabilities and equity			
Due to credit institutions		6,565.4	5,992.1
Deposits and borrowing from the public		119,303.5	108,141.7
Debt securities in issue		227,615.7	210,781.1
Derivatives	9	479.2	761.2
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		1,241.2	1,057.8
Deferred tax liabilities		439.1	577.3
Other liabilities		975.5	846.3
Accrued expenses and deferred income		2,968.4	2,972.4
Provisions		33.6	27.7
Subordinated liabilities		2,595.2	2,593.1
Total liabilities		362,216.8	333,750.8
Equity			
Share capital		2,864.6	2,864.6
Other capital contributed		7,442.5	7,442.5
Reserves		-76.2	-78.5
Additional Tier 1 instruments		2,200.0	1,200.0
Retained earnings		4,608.3	3,495.9
Profit for the period		1,439.7	1,181.6
Total equity		18,479.0	16,106.2
Total liabilities and equity		380,695.8	349,857.1
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Cash-flow statement in summary, indirect method – Group

SEK M	Jan-Dec 2019	Jan-Dec 2018
Cash and cash equivalents, 1 January	324.5	144.0
Operating activities		
Operating profit	1,893.5	1,510.0
Adjustment of non-cash items	-169.2	397.4
Change in assets of operating activities		
Change in interest-bearing securities	-5,169.6	-1,647.3
Change in loans to the public	-17,680.8	-27,880.6
Change in other assets	4,116.1	-4,055.9
Change in liabilities of operating activities		
Change in deposits and funding from the public ¹⁾	11,161.7	8,704.3
Change in debt securities in issue	15,159.9	21,084.1
Change in other liabilities	34.4	1,749.6
Cash flow from operating activities	9,346.1	-206.2
Investing activities		
Acquisition of intangible assets	-405.0	-441.2
Acquisition of property and equipment	-3.1	-4.0
Sale of property and equipment	-	-
Change in other financial assets	-	-
Cash flow from investing activities	-408.0	-445.3
Financing activities		
Amortisation of lease liabilities	-24.3	-
Issued Additional Tier 1 capital instruments	1,000.0	-
Change in issued Additional Tier 1 instruments ¹⁾	-69.2	-33.9
Change in subordinated debt	-	-1.8
Shareholders' contributions received	-	800.0
Cash flow from financing activities	906.6	764.3
Net cash flow for the period	9,844.7	180.5
Cash and cash equivalents, 31 December 2019	10,169.2	324.5

¹⁾ Comparative figures were adjusted since SEK 33.9 M was reclassified from cash flow from operating activities to cash flow from financing activities.

Cash and cash equivalents is defined as cash and balances with central banks and loans to credit institutions payable on demand.

Statement of changes in shareholders' equity - Group

SEK M	Reserves							Profit for the period	Total
	Share capital	Other capital contributed	Tier 1 instruments ¹⁾	Fair value reserve	Hedge reserve	Retained earnings			
Opening balance, 1 January 2018	954.9	7,442.5	1,200.0	132.3	-105.8	3,467.5	1,237.0	14,328.4	
Effect due to change in accounting policy²⁾				-9.5		-77.7		-87.2	
Opening balance, 1 January 2018 after adjustment for change in accounting policy	954.9	7,442.5	1,200.0	122.7	-105.8	3,389.8	1,237.0	14,241.2	
Profit for the period							1,181.6	1,181.6	
Other comprehensive income for the period				-50.0	-45.4			-95.4	
Comprehensive income for the period				-50.0	-45.4		1,181.6	1,086.2	
According to resolution by Annual General Meeting						1,237.0	-1,237.0	-	
Issued Additional Tier 1 instruments						-33.9		-33.9	
Unconditional shareholders' contribution received						800.0		800.0	
Bonus issue	1,909.7					-1,909.7		-	
Realised gain from sale of shares						12.7		12.7	
Closing balance, 31 December 2018	2,864.6	7,442.5	1,200.0	72.7	-151.2	3,495.9	1,181.6	16,106.2	
Opening balance, 1 January 2019	2,864.6	7,442.5	1,200.0	72.7	-151.2	3,495.9	1,181.6	16,106.2	
Profit for the period							1,439.7	1,439.7	
Other comprehensive income for the period				21.1	-18.8			2.3	
Comprehensive income for the period				21.1	-18.8		1,439.7	1,442.0	
According to resolution by Annual General Meeting						1,181.6	-1,181.6	-	
Issued Additional Tier 1 instruments			1,000.0			-69.2		930.8	
Closing balance, 31 December 2019	2,864.6	7,442.5	2,200.0	93.8	-170.0	4,608.3	1,439.7	18,479.0	

¹⁾ The issued Tier 1 instrument is deemed to fulfil the conditions of an equity instrument since:

- The instrument, according to the conditions, does not have a set maturity date, meaning that the issuer has an unconditional right to refrain from making repayments.
- The issuer of the instrument has full discretion regarding interest payments, that is to say no obligation to pay interest.

²⁾ Effect due to change in accounting policy from IAS 39 - Financial Instruments: Recognition and measurement to IFRS 9 - Financial Instruments. However, hedge accounting takes place in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

Notes - Group

Amounts in SEK million if not otherwise stated. Comparative figures in parentheses: income-statement items are compared with the immediately preceding quarter, balance-sheet items are compared with the immediately preceding year-end, unless otherwise stated.

Note 1 Accounting policies

This interim report complies with the requirements of IAS 34 Interim Financial Reporting. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations of these standards issued by the International Financial Reporting Interpretations Committee (IFRS IC) as adopted by the EU. Furthermore, the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL) (1995:1559) and the regulations and general guidelines of the Swedish Financial Supervisory Authority (FFFS 2008:25) were applied. The Group also applies the Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Rules for Groups and statements (UFR).

JUDGEMENTS AND ESTIMATES

The following judgements and estimates apply in addition to those stated in the 2018 Annual Report.

A tax audit pertaining the 2014 fiscal year in Wasa Kredit AB was completed during the year. The company evaluated the implications for subsequent years, which resulted in an increase in current tax.

Due to the dissolution of untaxed reserves in Wasa Kredit AB, the deferred tax liabilities in the Bank Group declined. The net impact on the Bank Group's earnings was marginally negative for 2019.

APPLICATION OF ACCOUNTING POLICIES CAUSED BY NEW TRANSACTIONS

In September 2019, Länsförsäkringar Bank AB issued a new type of financial instrument: senior non-preferred debt. This issue is the first step in meeting the Swedish National Debt Office's minimum requirement for own funds and eligible liabilities (MREL) by the end of 2021. The term of the instrument is five years and it is classified and measured in accordance with the Group's accounting policies for financial liabilities. The instrument is recognised under the line item, debt securities in issue.

AMENDED ACCOUNTING POLICIES APPLIED FROM 1 JANUARY 2019

IFRS 16 Leases

IFRS 16 has replaced IAS 17 and primarily entails changes to accounting of operating leases under which the Group is the lessee and that in accordance with IAS 17 were recognised as a lease expense in profit or loss. IFRS 16 entails changes to accounting by lessees since all leases (with certain exemptions) are to be recognised in the balance sheet as follows: the obligation to make future fixed lease payments as a lease liability and the right to use an underlying asset as a lease asset. The accounting of leases by lessors essentially corresponds to previously applicable policies.

Assessment of leases

When a contract is signed, the Group assesses whether it includes a lease. A contract is, or contains, a lease if it conveys the right for the Group to control the use of an identified asset for a period of time in exchange for consideration. The Group has decided to identify the lease components in the Group's lease contracts and does not include non-lease components in its calculation of the lease liability.

Länsförsäkringar AB forward invoices to its subsidiaries for rent for premises at an amount, based on the number of square metres of space used, based on the number of employees. The Bank Group, as a sub-group, has a lease as a lessee but this contract is not recognised in the balance sheet since the lease payments vary over time (meaning it is considered to be a variable lease payment) and such payments may not be included in the calculation of the lease liability.

Application of recognition exemption rules

There are exemptions for short-term leases and leases for which the underlying asset is of low value. The Group has decided not to recognise leases in the balance sheet for which the underlying asset has a low value or has a lease term (including periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option) of 12 months or less or that will end within 12 months from the date of initial application of 1 January 2019.

Reclassification of leases

The Group recognises its leases in the balance sheet as a right-of-use asset and a lease liability. Right-of-use assets are classified as the corresponding underlying asset would have been presented if it had been owned. Leases pertaining to rent for premises are classified as owner-occupied property in the balance-sheet item other assets and leases that pertain to other forms of equipment, IT servers and cars are classified as property and equipment. The Group's lease liabilities are classified as lease liabilities in the balance-sheet item other liabilities.

Effect of transition to IFRS 16

The Group has applied the modified retrospective approach, which entails that comparative information is provided in accordance with IAS 17 and IFRIC 4.

The transition to IFRS 16 entails that the Group has recognised new assets and liabilities for its operating leases as the lessee for primarily rent for premises and various forms of equipment, cars and servers. On initial date of application, the Group recognised the present value of the lease payments outstanding as lease liabilities in the amount of SEK 52.1 M. Right-of-use assets were recognised on transition at an amount corresponding to the lease liabilities (after adjustment for prepaid lease payments recognised on 31 December 2018), which is why the Group does not recognise any adjustment to equity in the opening balance for 2019. The effect of the transition to IFRS 16 on the consolidated balance sheet is presented in its entirety in note 14. The expenses for the Group's leases have changed since the Group recognises depreciation for right-of-use assets and interest expenses for lease liabilities. The Group previously recognised operating lease expenses on a straight-line basis over the lease term and recognised assets (prepaid lease payments) and liabilities (accrued lease payments) only to the extent that a difference existed between the actual lease payments and the expenses recognised.

The effect of the transition to IFRS 16 on own funds is marginal.

IFRIC 23 Uncertainty over Income Tax Treatments

The Group applies IFRIC 23 Uncertainty over Income Tax Treatments from 1 January 2019. IFRIC 23 clarifies how IAS 12 is to be applied if there are uncertainties about how tax legislation is to be applied to a certain transaction or under certain circumstances.

Interest Rate Benchmark Reform (Amendments to IAS 39 and IFRS 7)

The Group has decided to apply in advance the Interest Rate Benchmark Reform (Amendments to IAS 39 and IFRS 7) (IBOR reform), issued in September 2019. In accordance with the transition rules, the amendments were applied retrospectively to hedging relationships that existed at the beginning of the reporting period or identified thereafter and for amounts accumulated in the cash flow hedge reserve.

The amendments provide temporary relief from applying specific hedge accounting requirements for hedging relationships directly affected by the IBOR reform. The relief also means that the IBOR reform will not generally mean that hedge accounting needs to be discontinued. The amendment did not have any quantitative impact on the consolidated financial statements.

In brief, the transition relief entails the following:

- when the Group takes into account the "highly probable" requirement for cash flow hedges, it assumes that IBORs in hedging instruments and hedge items will not change as a result of the IBOR reform.
- the Group will not recycle amounts in the cash flow hedge reserve to profit or loss as a result of the uncertainty that may exist in the cash flows after the IBOR reform is expected to have a direct effect.
- in a prospective assessment of whether the hedge is expected to be highly effective, the Group has assumed that the applicable IBOR will not change as a result of the IBOR reform.
- the Group will not discontinue the hedge accounting during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside the required 80-125% range.
- the Group's hedged risk component in fair value hedges does not need to be separately identifiable on an ongoing basis, and instead the risk component only needs to be identifiable at the inception of the hedging relationship.

AMENDED JUDGEMENTS AND ESTIMATES APPLIED FROM 1 JANUARY 2020

The Swedish Financial Supervisory Authority approved the revised definition of default in the final quarter of 2019. The calculation of the allowance for expected credit losses will be impacted when the new definition of default is implemented. The effect of the transition will be recognised in profit or loss as credit losses, net.

In all other respects, the report has been prepared in accordance with the same accounting policies and calculation methods applied in the 2018 Annual Report.

Note 2	Segment reporting					
Income statement, Jan-Dec 2019, SEK M	Banking operations	Mortgage institution	Finance company	Mutual funds	Eliminations / Adjustments	Total
Net interest income	1,283.8	2,521.5	812.1	-	-	4,617.4
Dividends received	4.7	-	-	-	-	4.7
Commission income	611.0	22.7	209.0	726.9	-112.1	1,457.5
Commission expense	-588.8	-1,199.2	-65.1	-352.8	112.1	-2,093.9
Net gain / loss from financial items	12.0	3.5	-	-	-	15.4
Intra-Group income	125.4	-	0.7	-	-126.1	-
Other income	0.3	-	25.5	-	0.0	25.8
Total operating income	1,448.3	1,348.4	982.1	374.1	-126.1	4,026.8
Intra-Group expenses	9.4	-92.4	-11.4	-31.8	126.1	-
Other administration expenses	-1,130.4	-28.4	-459.7	-160.6	-	-1,754.8
Depreciation / amortisation and impairment	-125.1	-0.2	-21.5	-0.3	-	-171.4
Total operating expenses	-1,246.2	-120.9	-492.6	-192.6	126.1	-1,926.2
Profit before credit losses	202.1	1,227.6	489.5	181.5	0.0	2,100.7
Credit losses, net	-5.2	0.9	-202.1	-	-0.8	-207.2
Operating profit / loss	196.9	1,228.5	287.4	181.5	-0.8	1,893.5
Balance sheet 31 December 2019						
Total assets	192,027.1	262,204.7	25,079.0	857.4	-99,472.3	380,695.8
Liabilities	179,598.6	249,969.6	22,153.8	229.2	-89,734.5	362,216.8
Equity	12,428.5	12,235.0	2,925.2	628.2	-9,737.8	18,479.0
Total liabilities and equity	192,027.1	262,204.7	25,079.0	857.4	-99,472.3	380,695.8
Income statement, Jan-Dec 2018, SEK M						
Net interest income	1,233.7	2,433.6	829.8	-	0.0	4,497.1
Dividends received	29.9	-	-	-	-	29.9
Commission income	556.5	2.5	209.8	572.5	-88.4	1,252.9
Commission expense	-490.5	-1,242.1	-68.8	-313.2	88.4	-2,026.1
Net gain / loss from financial items	15.4	-1.9	-	-	0.0	13.5
Intra-Group income	119.8	-	0.9	-	-120.7	-
Other income	5.1	0.0	10.5	0.0	0.0	15.7
Total operating income	1,470.0	1,192.1	982.2	259.4	-120.7	3,782.9
Intra-Group expenses	8.1	-87.1	-11.6	-30.1	120.7	-
Other administration expenses	-1,138.4	-21.8	-448.9	-143.9	0.0	-1,752.9
Depreciation / amortisation and impairment	-375.4	-0.2	-49.5	-0.3	-	-425.3
Total operating expenses	-1,505.7	-109.0	-509.9	-174.3	120.7	-2,178.3
Profit / loss before loan losses	-35.7	1,083.0	472.2	85.1	-	1,604.7
Credit losses, net	15.6	1.3	-112.4	-	0.8	-94.7
Operating profit / loss	-20.1	1,084.4	359.9	85.1	0.8	1,510.0
Balance sheet 31 December 2018						
Total assets	178,405.9	241,368.0	23,376.4	687.5	-93,980.7	349,857.1
Liabilities	167,062.9	230,034.0	20,417.1	192.3	-83,955.5	333,750.8
Equity	11,342.9	11,334.0	2,959.3	495.2	-10,025.2	16,106.2
Total liabilities and equity	178,405.9	241,368.0	23,376.4	687.5	-93,980.7	349,857.1

Income and assets are attributable in their entirety to Sweden. The segment distribution per legal entity reflects the internal reporting to the chief operating decision maker. The legal structure within Länsförsäkringar Bank Group is in line with the product offering to external customers. The portion of assets and liabilities that is not distributed per segment comprises intra-Group eliminations within the Bank Group.

For more information, see note 4 Net commission income.

Note 3	Net interest income							
SEK M	Q 4 2019	Q 3 2019	Change	Q 4 2018	Change	Jan-Dec 2019	Jan-Dec 2018	Change
Interest income								
Loans to credit institutions	-3.6	-1.1		-3.3	9%	-10.0 ¹	-14.7	-32%
Loans to the public	1,571.4	1,565.3		1,443.5	9%	6,197.0	5,673.2	9%
Interest-bearing securities	28.3	30.3	-7%	32.5	-13%	129.6 ¹	157.2	-18%
Derivatives	-74.1	-75.5	-2%	-132.1	-44%	-330.2	-585.4	-44%
Other interest income	-	0.0		0.0		0.0	0.0	
Total interest income	1,522.0	1,519.1		1,340.6	14%	5,986.3	5,230.3	14%
Interest expense								
Due to credit institutions	5.6	6.8	-18%	10.7	-48%	26.4 ¹	41.1	-36%
Deposits and borrowing from the public	-32.9	-32.2	2%	-29.6	11%	-125.4	-113.2	11%
Debt securities in issue	-520.6	-542.0	-4%	-506.5	3%	-2,187.9 ²	-2,095.8	4%
Subordinated liabilities	-13.7	-13.6	1%	-11.9	15%	-53.3	-50.4	6%
Derivatives	260.6	273.3	-5%	398.3	-35%	1,180.8	1,728.2	-32%
Other interest expense, including government deposit insurance	-52.1	-34.7	50%	-32.7	59%	-209.6	-242.9	-14%
Total interest expense	-353.1	-342.4	3%	-171.6		-1,368.9	-733.2	87%
Total net interest income	1,169.0	1,176.7	-1%	1,168.9		4,617.4	4,497.1	3%
Average interest rate on loans to the public during the period, including net leasing, %	2.1	2.1		2.1		2.1	2.1	
Average interest rate on deposits from the public during the period, %	0.1	0.1		0.1		0.1	0.1	

¹⁾ Of which negative interest on Loans to credit institutions of SEK -16.6 M (-12.1), Interest-bearing securities of SEK -63.2 M (-50.7) and Due to credit institutions of SEK 29.9 M (22.7).

²⁾ Interest expenses on non-preferred senior debt amounts to -7.1 (-) M during 2019.

Interest income calculated according to the effective interest method amounts to SEK 1 522,0 M (1,519.1).

Note 4	Net commission							
SEK M	Q 4 2019	Q 3 2019	Change	Q 4 2018	Change	Jan-Dec 2019	Jan-Dec 2018	Change
Commission income								
Payment mediation	31.8	31.3	2%	26.4	20%	118.6	93.6	27%
Loans	62.8	61.8	2%	59.8	5%	244.8	244.8	
Deposits	1.0	1.0		2.9	-66%	8.0	13.5	-41%
Securities	208.4	195.5	7%	165.0	26%	759.6	603.5	26%
Cards	71.2	75.7	-6%	66.9	6%	273.0	248.3	10%
Remuneration to regional insurance companies	13.4	12.6	6%	7.5	79%	53.9	48.8	10%
Other commission	-0.4	0.1		0.1		-0.5	0.3	
Total commission income	388.1	378.0	3%	328.7	18%	1,457.5	1,252.9	16%
Commission expense								
Payment mediation	-38.4	-31.4	22%	-19.7	95%	-131.9	-129.3	2%
Securities	-26.6	-27.3	-3%	-21.3	25%	-97.4	-77.7	25%
Cards	-35.0	-40.4	-13%	-30.6	14%	-150.5	-135.3	11%
Remuneration to regional insurance companies	-390.7	-438.9	-11%	-425.0	-8%	-1,613.0	-1,580.5	2%
Management costs	-22.1	-21.9	1%	-20.8	6%	-86.4	-90.0	-4%
Other commission	-1.0	-6.5	-85%	-3.2	-69%	-14.7	-13.3	11%
Total commission expense	-513.8	-566.3	-9%	-520.5	-1%	-2,093.9	-2,026.1	3%
Total net commission	-125.7	-188.2	-33%	-191.8	-34%	-636.4	-773.3	-18%

There are no material uncertainties regarding income or cash flow in the table above since they are settled on an ongoing basis. Outstanding remuneration to the regional insurance companies and securities commission are also settled on an ongoing basis.

For more information, see note 2 Segment reporting.

Note 5		Net gains / losses from financial items							
SEK M		Q 4 2019	Q 3 2019	Change	Q 4 2018	Change	Jan-Dec 2019	Jan-Dec 2018	Change
Interest-bearing assets and liabilities and related derivatives		7.9	-1.9		-5.7		-16.0	-16.0	
Other financial assets and liabilities		0.2	0.0		0.2		0.2	0.7	-71%
Interest compensation (refer to items measured at amortised cost)		10.0	8.4	19%	6.5	54%	31.2	28.8	8%
Total net gains / losses from financial items		18.1	6.5		1.0		15.4	13.5	15%

Note 6		Credit losses							
Net credit losses, SEK M		Q 4 2019	Q 3 2019	Change	Q 4 2018	Change	Jan-Dec 2019	Jan-Dec 2018	Change
Change in loss allowance for loan receivables									
Stage 1 (not credit-impaired)		-6.9	-12.5	-45%	3.5		-24.0	6.3	
Stage 2 (not credit-impaired)		-27.3	-10.0		-15.4	77%	-39.2	-22.8	72%
Stage 3 (credit-impaired)		-28.5	-8.8		-7.0		-80.0	-53.2	50%
Total change in loss allowance for loan receivables		-62.7	-31.3		-18.9		-143.3	-69.7	
Expense for confirmed credit losses		-36.6	-45.8	-20%	-32.2	14%	-146.0	-119.3	22%
Payment received for prior confirmed credit losses		21.3	23.5	-9%	19.9	7%	90.5	83.7	8%
Net expense for the period for credit losses for loan receivables		-78.0	-53.7	45%	-31.2		-198.7	-105.4	89%
Change in loss allowance for commitments		-2.6	-1.8	44%	0.6		-5.5	2.0	
Net expense for other credit losses		-0.7	-1.1	-36%	-0.1		-2.6	8.7	
Net expense of the modification result		-0.2	-		0.0		-0.3	0.0	
Net expense for credit losses		-81.5	-56.7	44%	-30.7		-207.2	-94.7	

The settlement model regarding the commitment that the regional insurance companies have for credit losses entails that the regional insurance companies cover 80 percent 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 percent of the provision requirement is withheld on every occasion until the lending mediated by the regional insurance company has been regulated. During the fourth quarter 2019, total credit losses amounted to SEK -85.3 M (-63.3), of which the Bank Group's recognised credit losses amounted to SEK -81.5 M (-56.7) and the remainder of SEK -3.7 M (-6.6) was settled against remuneration to the regional insurance companies.

Note 7		Loans to the public Loan receivables are geographically attributable in their entirety to Sweden.		
SEK M		31 December 2019		31 December 2018
Public sector			160.9	4,182.0
Corporate sector			19,620.1	18,854.9
Retail sector			287,886.6	266,814.0
Other			0.4	0.4
Loan to the public before reserves			307,667.9	289,851.4
Loss allowance			-568.6	-425.4
Loans to the public			307,099.3	289,426.0

Loans to the public Change of loss allowance SEK M	Not credit-impaired		Credit-impaired		Total
	Stage 1	Stage 2	Stage 3		
Opening balance, 1 January 2019	-66.9	-116.4	-242.1	-425.4	
Increase due to new or acquired loans	-66.6	-0.5	-0.7	-67.8	
Change in loss allowance model or method	0.0	0.0	-0.2	-0.1	
Decrease due to repayment	31.9	37.9	42.1	111.9	
Change due to changed credit risk	9.5	-79.3	-269.4	-339.2	
Other adjustments	1.1	2.6	2.6	6.4	
Decrease due to write-off	-	-	145.5	145.5	
Closing balance, 31 December 2019	-90.9	-155.6	-322.1	-568.6	
Allocation of loss allowance requirement					
Loans to the public before loss allowances	Not credit-impaired		Credit-impaired		Total
	Stage 1	Stage 2	Stage 3		
Loans to the public before loss allowances	298,869.3	7,866.7	931.9	307,667.9	
Credit reserve requirement	-112.5	-185.2	-374.4	-672.0	
Withheld remuneration to the regional insurance companies	21.5	29.6	52.2	103.3	
Recognised loss allowance	-90.9	-155.6	-322.1	-568.6	
Loans to the public	298,778.4	7,711.1	609.8	307,099.3	

Loans to the public Change of loss allowance SEK M	Not credit-impaired		Credit-impaired		Total
	Stage 1	Stage 2	Stage 3		
Opening balance, 1 January 2018	-73.2	-93.6	-188.9	-355.7	
Increase due to new or acquired loans ¹⁾	-61.3	-0.6	-1.7	-63.6	
Change in loss allowance model or method	3.1	2.9	-0.2	5.8	
Decrease due to repayment ¹⁾	33.8	30.1	32.2	96.1	
Change due to changed credit risk	29.6	-57.5	-207.5	-235.5	
Other adjustments ¹⁾	1.1	2.3	2.0	5.4	
Decrease due to write-off	-	-	122.0	122.0	
Closing balance, 31 December 2018	-66.9	-116.4	-242.1	-425.4	
Allocation of loss allowance requirement					
Loans to the public before loss allowances	Not credit-impaired		Credit-impaired		Total
	Stage 1	Stage 2	Stage 3		
Loans to the public before loss allowances	281,826.7	7,283.1	741.6	289,851.4	
Credit reserve requirement	-85.1	-139.1	-274.7	-498.9	
Withheld remuneration to the regional insurance companies	18.2	22.7	32.6	73.5	
Recognised loss allowance	-66.9	-116.4	-242.1	-425.4	
Loans to the public	281,759.8	7,166.7	499.5	289,426.0	

¹⁾ Comparative figures have been adjusted since revolving short-term credits are now recognised net in the line item other adjustments

The settlement model regarding the commitment that the regional insurance companies have for credit losses entails that the regional insurance companies cover 80 percent 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 percent of the provision requirement is withheld on every occasion until the lending mediated by the regional insurance company has been regulated.

Note 8 **Loans to credit institutions**

On 31 December 2019, Loans to credit institutions amounted to SEK 407.8 M (4,485.9) and was included in Stage 1. Loss allowance for credit losses amounted to SEK 0.0 M (0.0).

Note 9	Derivatives	31 December 2019		31 December 2018	
		Nominal value	Fair value	Nominal value	Fair value
SEK M					
Derivatives with positive values					
<i>Derivatives in hedge accounting</i>					
Interest-related		212,113.0	1,881.6	166,918.8	1,551.8
Currency-related		50,939.5	6,625.4	42,007.5	4,617.2
<i>Other derivatives</i>					
Currency-related		142.6	2.4	-	-
Total derivatives with positive values		263,195.1	8,509.4	208,926.3	6,169.0
Offset derivatives with positive values		-35,259.0	-285.1	-31,739.0	-113.5
Net amount after offset		227,936.1	8,224.3	177,187.3	6,055.5
Derivatives with negative values					
<i>Derivatives in hedge accounting</i>					
Interest-related		77,081.0	477.5	70,688.0	428.2
Currency-related		5,029.0	245.0	10,442.9	445.2
<i>Other derivatives</i>					
Currency-related		1,298.9	41.8	325.3	1.3
Total derivatives with negative values		83,408.9	764.3	81,456.2	874.7
Offset derivatives with negative values		-35,259.0	-285.1	-31,739.0	-113.5
Net amount after offset		48,149.9	479.2	49,717.2	761.2

Financial hedging agreements were signed to hedge against interest-rate risks and currency risks stemming from the Group's operations. Hedge accounting is applied to funding, lending, deposits, bonds and other securities. Hedging instruments primarily comprise interest and currency interest-rate swaps.

Note 10	Pledged assets, contingent liabilities and commitments	31 December 2019	31 December 2018
SEK M			
For own liabilities, pledged assets		247,157.6	227,195.1
Contingent liabilities		27.8	34.7
Commitments ¹⁾		21,845.6	20,842.0

¹⁾ Commitments to related parties amounted to SEK 61.7 M (57.3) for the regional insurance companies and SEK 7.2 M (8.6) for other related parties.

Contingent liabilities comprise guarantees. Commitments comprise loans/bank overdraft facilities and card loans approved but not disbursed. For further information regarding loss allowance for commitments, see note 6.

Note 11	Fair value valuation techniques	31 December 2019		31 December 2018	
		Book value	Fair value	Book value	Fair value
SEK M					
Financial Assets					
Cash and balances with central banks	9,831.1	9,831.1	22.2	22.2	
Treasury bills and other eligible bills	9,934.4	9,934.4	10,846.8	10,846.8	
Loans to credit institutions	407.8	407.8	4,485.9	4,485.9	
Loans to the public	307,099.3	308,208.6	289,426.0	290,227.6	
Bonds and other interest-bearing securities	42,673.3	42,673.3	36,790.4	36,790.4	
Shares and participations	90.0	90.0	66.3	66.3	
Derivatives	8,224.3	8,224.3	6,055.5	6,055.5	
Other assets	256.6	256.6	256.6	256.6	
Prepaid expenses and accrued income	43.1	43.1	47.2	47.2	
Total	378,559.9	379,669.2	347,996.8	348,798.4	
Financial Liabilities					
Due to credit institutions	6,565.4	6,565.4	5,992.1	5,992.1	
Deposits and borrowing from the public	119,303.5	119,858.5	108,141.7	108,677.4	
Debt securities in issue	227,615.7	233,835.4	210,781.1	214,791.8	
Derivatives	479.2	479.2	761.2	761.2	
Other liabilities	395.6	395.6	183.4	183.4	
Subordinated liabilities	2,595.2	2,653.2	2,593.1	2,631.7	
Accrued expenses and deferred income	1,084.3	1,084.3	1,146.0	1,146.0	
Total	358,038.9	364,871.6	329,598.5	334,183.6	

The carrying amount of cash and balances with central banks, treasury bills and other eligible bills, loans to credit institutions, other assets, prepaid expenses and accrued income, due to credit institutions, other liabilities and accrued expenses and deferred income 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.

Note 11**Fair Value valuation techniques, continued**

Financial assets and liabilities measured at fair value in the balance sheet 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

Financial instruments measured at fair value in the balance sheet

31 December 2019, SEK M	Level 1	Level 2	Level 3	Total
Assets				
Treasury bills and other eligible bills	9,934.4			9,934.4
Bonds and other interest-bearing securities	42,673.3			42,673.3
Shares and participations	10.9	58.3	20.7	90.0
Derivatives		8,224.3		8,224.3
Liabilities				
Derivatives		479.2		479.2
31 December 2018, SEK M				
Assets				
Treasury bills and other eligible bills	10,846.8			10,846.8
Bonds and other interest-bearing securities	36,790.4			36,790.4
Shares and participations	8.2	37.6	20.5	66.3
Derivatives		6,055.5		6,055.5
Liabilities				
Derivatives		761.2		761.2

Shares and participations and other assets in Level 3 are measured at fair value. Since there is no active market for these shares, the fair value cannot be calculated reliably based on such a listing. 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 and C 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. Derivatives in Level 2 essentially refer to swaps for which fair value is calculated by discounting expected future cash flows. No significant transfers took place in 2019 or 2018. No transfers were made from Level 3 in these years.

Change in level 3, SEK M	Shares and participations
Opening balance 1 January 2019	20.5
Recognised in other comprehensive income	0.2
Closing balance, 31 December 2019	20.7
Opening balance 1 January 2018	30.1
Acquisition	0.3
Change in value of shares and participations	-10.0
Recognised in profit for the year	0.2
Closing balance, 31 December 2018	20.5

Note 12	Capital-adequacy	Consolidated situation 31 Dec 2019	Consolidated situation 31 Dec 2018	Bank Group 31 Dec 2019	Bank Group 31 Dec 2018
Presentation of own funds in accordance with Article 5 of the European Commission Implementing Regulation (EU) No 1423/2013. Rows that are empty in the presentation in accordance with the Regulation have been excluded in the table below to provide a better overview. There are no items encompassed by the provisions applied before Regulation (EU) No 575/2013 or any prescribed residual amounts under the Regulation.					
SEK M					
Common Equity Tier 1 capital: instruments and reserves					
Capital instruments and associated share premium reserves	6,513.4	6,513.4	2,864.6	2,864.6	
Of which: share capital	1,042.5	1,042.5	2,864.6	2,864.6	
Non-distributed earnings (Retained earnings)	14,818.0	11,613.1	11,740.8	10,545.9	
Accumulated Other comprehensive income	4,220.9	4,938.9	234.0	314.1	
Interim profits, net, after deductions for foreseeable charge and dividends that have been verified by persons independent of the institution	1,245.2	2,488.3	1,427.9	1,179.5	
Common Equity Tier 1 capital before legislative adjustments	26,797.4	25,553.7	16,267.3	14,904.1	
Common Equity Tier 1 capital: legislative adjustments					
Additional value adjustments	-63.0	-54.4	-60.5	-53.5	
Intangible assets (net after reduction for associated tax liabilities)	-1,968.3	-1,734.2	-1,252.0	-989.6	
Fair value reserves related to gains or losses on cash-flow hedges	170.1	151.2	170.1	151.2	
Negative amounts resulting from the calculation of expected loss amounts	-491.8	-372.9	-491.8	-372.9	
Direct, indirect and synthetic holdings by the institution of Common Equity Tier 1 instruments of financial sector entities where the institution does not have a significant investment in those entities	-5,704.0	-5,794.1	-	-	
Amounts exceeding threshold of 15%	-	-	-	-	
Of which: direct, indirect and synthetic holdings by the institution of Common Equity Tier 1 instruments of financial sector entities where the institution does not have a significant investment in those entities	-	-	-	-	
Of which: deferred tax assets arise from temporary differences	-	-	-	-	
Total legislative adjustments of Common Equity Tier 1 capital	-8,057.1	-7,804.4	-1,634.2	-1,264.8	
Common equity Tier 1 capital	18,740.3	17,749.3	14,633.1	13,639.3	
Additional Tier 1 instruments: instruments					
Capital instruments and associated share premium reserves	-	-	2,200.0	1,200.0	
Of which: classified as equity within the meaning of the applicable accounting framework	-	-	2,200.0	1,200.0	
Qualifying Tier 1 instruments included in consolidated Tier 1 capital issued by subsidiaries and held by a third party	743.4	927.6	-	-	
Additional Tier 1 instruments	743.4	927.6	2,200.0	1,200.0	
Tier 1 capital (Tier 1 capital = Common Equity Tier 1 capital + Additional Tier 1 instruments)	19,483.8	18,676.9	16,833.1	14,839.3	
Tier 2 capital: instruments and provisions					
Capital instruments and associated share premium reserves	-	-	2,589.7	2,589.7	
Qualifying own funds instruments included in consolidated Tier 2 capital issued by subsidiaries and held by a third party	768.1	2,035.5	-	-	
Tier 2 capital	768.1	2,035.5	2,589.7	2,589.7	
Total capital (total capital = Tier 1 capital + Tier 2 capital)	20,251.9	20,712.4	19,422.7	17,429.0	
Total risk-weighted assets	121,827.0	113,283.1	104,924.9	95,927.8	
Capital ratios and buffers					
Common Equity Tier 1 capital (as a percentage of the total risk-weighted exposure amount)	15.4%	15.7%	13.9%	14.2 %	
Tier 1 capital (as a percentage of the total risk-weighted exposure amount)	16.0%	16.5%	16.0%	15.5 %	
Total capital (as a percentage of the total risk-weighted exposure amount)	16.6%	18.3%	18.5%	18.2 %	
Institution-specific buffer requirements	9.5%	9.0%	9.5%	9.0 %	
Of which: capital conservation buffer requirement	2.5%	2.5%	2.5%	2.5 %	
Of which: countercyclical capital buffer requirement	2.5%	2.0%	2.5%	2.0 %	
Of which: systemic risk buffer requirement	-	-	-	-	
Of which: buffer for globally systemically important institution or for another systemically important institution	-	-	-	-	
Common Equity Tier 1 capital available for use as a buffer (as a percentage of the risk-weighted exposure amount)	8.6%	10.3%	9.4%	9.5 %	

SEK M	Consolidated situation 31 Dec 2019		Consolidated situation 31 Dec 2018		Bank Group 31 Dec 2019		Bank Group 31 Dec 2018	
	Risk exposure amount	Capital requirement	Risk exposure amount	Capital requirement	Risk exposure amount	Capital requirement	Risk exposure amount	Capital requirement
Credit risk according to Standardised Approach								
Exposures to institutions	1,916.9	153.4	1,344.9	107.6	1,872.7	149.8	1,303.1	104.2
Exposures to corporates	2,289.2	183.1	2,041.3	163.3	2,290.7	183.3	2,039.2	163.1
Retail exposures	2,111.0	168.9	1,978.8	158.3	2,111.0	168.9	1,978.8	158.3
Defaulted exposures	26.5	2.1	20.0	1.6	26.5	2.1	20.0	1.6
High risk items	0.4	0.0	0.4	0.0	0.4	0.0	0.4	0.0
Covered bonds	3,635.0	290.8	3,060.1	244.8	3,384.2	270.7	2,971.0	237.7
Equity exposures	6,220.8	497.7	5,971.7	477.7	102.1	8.2	78.4	6.3
Other items	3,366.5	269.3	4,736.3	378.9	1,279.5	102.4	1,014.9	81.2
Total capital requirement and risk exposure amount	19,566.2	1,565.3	19,153.6	1,532.3	11,067.0	885.4	9,405.9	752.5
Credit risk according to IRB Approach								
<i>Retail exposures</i>								
Secured by real estate SME	2,616.4	209.3	1,932.1	154.6	2,616.4	209.3	1,932.1	154.6
Secured by real estate non-SME	15,567.8	1,245.4	14,841.4	1,187.3	15,567.8	1,245.4	14,841.4	1,187.3
Other SME	4,573.5	365.9	4,332.5	346.6	4,573.5	365.9	4,332.5	346.6
Other non-SME	7,193.6	575.5	6,879.4	550.4	7,193.6	575.5	6,879.4	550.4
Total retail exposures	29,951.3	2,396.1	27,985.3	2,238.8	29,951.3	2,396.1	27,985.3	2,238.8
Exposures to corporates	8,689.1	695.1	7,496.3	599.7	8,689.3	695.1	7,496.3	599.7
Total capital requirement and risk exposure amount	38,640.4	3,091.2	35,481.6	2,838.5	38,640.7	3,091.3	35,481.6	2,838.5
Operational risks								
Standardised Approach	13,543.1	1,083.4	12,305.6	984.4	5,140.0	411.2	4,697.9	375.8
Total capital requirement for operational risk	13,543.1	1,083.4	12,305.6	984.4	5,140.0	411.2	4,697.9	375.8
Total capital requirement for credit valuation adjustments	1,458.1	116.6	1,323.4	105.9	1,458.1	116.6	1,323.4	105.9
Additional Risk Exposure Amounts according to Article 458 CRR	48,619.2	3,889.5	45,018.9	3,601.5	48,619.2	3,889.5	45,018.9	3,601.5
Total capital requirement and risk exposure amount	121,827.0	9,746.2	113,283.1	9,062.6	104,924.9	8,394.0	95,927.8	7,674.2

Note 13 **Disclosures on related parties**

Significant agreements for the Bank Group are primarily outsourcing agreements with the 23 regional insurance companies and outsourcing agreements with Länsförsäkringar AB regarding development, service, finance and IT. The Group's remuneration to the regional insurance companies in accordance with prevailing outsourcing agreements is presented in note Commission expense. Normal business transactions took place between Group companies as part of the outsourced operations.

Note 14	Financial effect of change in accounting policy from IAS 17 Leases to IFRS 16 Leases
Group, SEK M	
Future operating lease payments at 31 December 2018	56.4
Exceptions from accounting in balance sheet	
- short-term leases	-
- leases for which the underlying asset has a low value	-4.8
Extension options that it is reasonably certain will be exercised	1.2
Total operating lease payments before discounting at 1 January 2019 is to be recognised in the balance sheet	52.8
Discount effect at 1 January 2019	-0.7
Financial lease liabilities at 31 December 2018	-
Lease liabilities recognised in the balance sheet at 1 January 2019	52.1

On transition to IFRS 16, the Bank Group recognised right-of-use assets and lease liabilities of SEK 52.1 M in the balance sheet, which impacts property and equipment by SEK 47.2 M, other assets by SEK 4.9 M and other liabilities by SEK 52.1 M.

To measure lease liabilities, the Bank Group discounted future lease payments by using an incremental borrowing rate on 1 January 2019. The average incremental borrowing rate applied was 0.02%.

Income statement – Parent Company

SEK M	Q4 2019	Q3 2019	Change	Q4 2018	Change	Jan-Dec 2019	Jan-Dec 2018	Change
Interest income	461.8	459.8		402.2	15%	1,799.8	1,542.3	17%
Interest expense	-131.5	-104.9	25%	-51.5		-516.1	-308.6	67%
Net interest income	330.3	354.9	-7%	350.8	-6%	1,283.8	1,233.7	4%
Dividends received	0.1	0.1		29.8		4.7	29.9	-84%
Commission income	156.7	158.3	-1%	143.6	9%	611.0	556.5	10%
Commission expense	-135.8	-191.1	-29%	-122.7	11%	-588.8	-490.5	20%
Net commission	20.9	-32.8		20.9		22.2	66.0	-66%
Net gain / loss from financial items	-8.2	4.4		-7.7	6%	12.0	15.4	-22%
Other operating income	29.7	31.4	-5%	31.4	-5%	125.7	124.9	1%
Total operating income	372.7	358.0	4%	425.2	-12%	1,448.3	1,470.0	-1%
Staff costs	-81.6	-76.2	7%	-65.9	24%	-327.5	-290.3	13%
Other administration expenses	-228.7	-194.1	18%	-215.0	6%	-793.6	-840.0	-6%
Total administration expenses	-310.2	-270.3	15%	-280.9	10%	-1,121.1	-1,130.3	-1%
Depreciation / amortisation and impairment of property and equipment / intangible assets	-38.8	-34.2	13%	-308.0	-87%	-125.1	-375.4	-67%
Total operating expenses	-349.0	-304.5	15%	-588.9	-41%	-1,246.2	-1,505.7	-17%
Profit / loss before credit losses	23.7	53.5	-56%	-163.7		202.1	-35.7	
Credit losses, net	-1.7	-1.6	6%	-0.7		-5.2	15.6	
Operating profit / loss	22.0	51.9	-58%	-164.4		196.9	-20.1	
Appropriations	-51.1	-		-70.0	-27%	-51.1	-70.0	-27%
Tax	4.3	-11.5		34.2	-87%	-46.5	2.4	
Profit / loss for the period	-24.8	40.5		-200.2	-88%	99.3	-87.7	

Statement of comprehensive income – Parent Company

SEK M	Q4 2019	Q3 2019	Change	Q4 2018	Change	Jan-Dec 2019	Jan-Dec 2018	Change
Profit for the period	-24.8	40.5		-200.2	-88%	99.3	-87.7	
Other comprehensive income								
Items that are reclassified or may subsequently be reclassified to the income statement								
Cash-flow hedges	-3.4	2.7		-4.7	-28%	-3.2	-14.7	-78%
Change in fair value of debt instruments measured at FVOCI	-5.7	-40.0	-86%	-25.1	-77%	10.8	-41.9	
Tax attributable to items that are transferred or can be transferred as income for the period	2.0	8.0	-75%	6.6	-70%	-1.7	12.5	
Total	-7.1	-29.3	-76%	-23.2	-69%	5.9	-44.1	
Items that cannot be transferred to profit and loss								
Change in fair value of equity instruments measured at FVOCI	3.8	1.3		-6.2		23.7	-11.0	
Tax attributable to items that cannot be reversed to profit and loss	-0.5	0.7		1.1		-4.5	0.0	
Total	3.3	2.0	65%	-5.1		19.2	-11.0	
Total other comprehensive income for the period, net after tax	-3.8	-27.3	-86%	-28.3	-87%	25.1	-55.1	
Comprehensive income for the period	-28.6	13.2		-228.5	-87%	124.4	-142.8	

Balance sheet - Parent Company

SEK M	Note	31 Dec 2019	31 Dec 2018
Assets			
Cash and balances with central banks		9,831.1	22.2
Treasury bills and other eligible bills		9,934.4	10,846.8
Loans to credit institutions	3	78,862.7	79,013.9
Loans to the public	4	42,800.0	45,742.5
Bonds and other interest-bearing securities		32,369.3	26,873.7
Shares and participations		90.0	66.3
Shares and participations within the Group		9,764.0	9,764.0
Derivatives		6,738.8	4,667.2
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		4.5	21.6
Intangible assets		1,173.3	904.7
Property and equipment		3.1	4.1
Deferred tax assets		48.5	58.8
Other assets		326.6	330.9
Prepaid expenses and accrued income		80.7	89.1
Total assets		192,027.1	178,405.9
Liabilities, provisions and equity			
Due to credit institutions		10,864.9	10,755.9
Deposits and borrowing from the public		119,783.2	108,539.8
Debt securities in issue		39,115.0	39,586.1
Derivatives		6,187.5	4,482.4
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		-	38.1
Other liabilities		363.0	461.5
Accrued expenses and deferred income		595.2	532.2
Provisions		13.3	13.4
Subordinated liabilities		2,595.2	2,593.1
Total liabilities and provisions		179,517.3	167,002.4
Untaxed reserves		373.1	322.0
Equity			
Share capital		2,864.6	2,864.6
Statutory reserve		18.4	18.4
Development Expenditures Fund		1,141.3	833.1
Additional Tier 1 instruments		2,200.0	1,200.0
Fair value reserves		56.0	30.9
Retained earnings		5,757.1	6,222.2
Profit for the period		99.3	-87.7
Total equity		12,136.7	11,081.5
Total liabilities, provisions and equity		192,027.1	178,405.9
Notes			
Accounting policies	1		
Capital-adequacy	2		
Disclosures on related parties	5		
Pledged assets, contingent liabilities and commitments	6		

Cash-flow statement in summary, indirect method – Parent Company

SEK M	Jan-Dec 2019	Jan-Dec 2018
Cash and cash equivalents, 1 January	149.9	131.8
Operating activities		
Operating profit	196.9	-20.1
Adjustment of non-cash items	276.6	342.5
Change in assets of operating activities		
Change in interest-bearing securities	-4,734.6	-1,532.4
Change in loans to the public	2,935.2	-3,460.3
Change in other assets	158.7	-12,121.2
Change in liabilities of operating activities		
Change in deposits and funding from the public ¹⁾	11,243.4	8,697.5
Change in debt securities in issue	-769.7	3,976.6
Change in other liabilities	-43.0	3,779.8
Cash flow from operating activities	9,263.5	-337.6
Investing activities		
Acquisition of intangible assets	-392.6	-405.9
Acquisition of property and equipment	-0.1	-2.4
Cash flow from investing activities	-392.7	-408.3
Financing activities		
Issued Tier 1 capital instruments	1,000.0	-
Change in issued Additional Tier 1 instruments ¹⁾	-69.2	-33.9
Change in subordinated debt	-	-2.0
Shareholders' contributions received	-	800.0
Cash flow from financing activities	930.8	764.1
Net cash flow for the period	9,801.7	18.1
Cash and cash equivalents, 31 December	9,951.6	149.9

¹⁾ Comparative figures were adjusted since SEK 33.9 M was reclassified from cash flow from operating activities to cash flow from financing activities.

Cash and cash equivalents are defined as cash and balances at central banks and loans due to credit institutions payable on demand.

Statement of changes in shareholders' equity – Parent Company

SEK M	Restricted equity				Non-restricted equity				
					Fair value reserve				
	Share capital	Development Fund	Statutory Reserve	Additional Tier 1 instruments ¹⁾	Fair value reserve	Hedge reserve	Retained earnings	Profit for the period	Total
Opening balance, 1 January 2018	954.9	730.9	18.4	1,200.0	103.4	-7.8	7,295.9	150.2	10,445.9
Effect due to change in accounting policy²⁾					-9.6		9.2		-0.4
Opening balance, 1 January 2018 after adjustment for change in accounting policy	954.9	730.9	18.4	1,200.0	93.8	-7.8	7,305.1	150.2	10,445.5
Profit for the period								-87.7	-87.7
Other comprehensive income for the period					-43.6	-11.4			-55.1
Comprehensive income for the period					-43.6	-11.4		-87.7	-142.8
According to resolution by Annual General Meeting							150.2	-150.2	-
Issued Additional Tier 1 instruments							-33.9		-33.9
Capitalised proprietary development expenditures		102.2					-102.2		-
Unconditional shareholders' contribution received							800.0		800.0
Bonus issue	1,909.7						-1,909.7		-
Realised gain from sale of shares							12.7		12.7
Closing balance, 31 December 2018	2,864.6	833.1	18.4	1,200.0	50.1	-19.2	6,222.2	-87.7	11,081.5
Opening balance, 1 January 2019	2,864.6	833.1	18.4	1,200.0	50.1	-19.2	6,222.2	-87.7	11,081.5
Profit for the period								99.3	99.3
Other comprehensive income for the period					27.7	-2.7			25.1
Comprehensive income for the period					27.7	-2.7		99.3	124.4
According to resolution by Annual General Meeting							-87.7	87.7	-
Issued Additional Tier 1 instruments				1,000.0			-69.2		930.8
Capitalised proprietary development expenditures		308.2					-308.2		-
Closing balance, 31 December 2019	2,864.6	1,141.3	18.4	2,200.0	77.8	-21.9	5,757.1	99.3	12,136.7

¹⁾ The issued Tier 1 instrument is deemed to fulfil the conditions of an equity instrument since:
- The instrument, according to the conditions, does not have a set maturity date, meaning that the issuer has an unconditional right to refrain from making repayments.
- The issuer of the instrument has full discretion regarding interest payments, that is to say no obligation to pay interest.

²⁾ Effect due to change in accounting policy from IAS 39 - Financial Instruments: Recognition and measurement to IFRS 9 - Financial Instruments. However, hedge accounting takes place in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

Notes – Parent Company

All figures in SEK M unless otherwise stated. Comparative figures in parent-hes: income-statement items are compared with the immediately preceding quarter, balance-sheet items are compared with the immediately preceding year-end, unless otherwise stated.

Note 1 Accounting policies

Länsförsäkringar Bank AB prepares its accounts in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL) and Swedish Financial Supervisory Authority's regulations and general guidelines (FFFS 2008:25). The company also applies the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities and statements.

Amended accounting policies applied from 1 January 2019

The changes in accounting policies applied by the Parent Company from 1 January 2019 correspond, with the exception of IFRS 16, to the changes for the Group and are described in the Group's note 1 Accounting policies.

IFRS 16 replaced IAS 17 Leases on 1 January 2019. The standard primarily entailed that instead of being classified as operating leases as previously, leases where a company in the Group is the lessee are recognised in the balance sheet. IFRS 16 is applied only at Group level.

In all other respects, the report has been prepared in accordance with the same accounting policies and calculation methods applied in the 2018 Annual Report.

Note 2	Capital-adequacy		
Presentation of own funds in accordance with Article 5 of the European Commission Implementing Regulation (EU) No 1423/2013. There are no items encompassed by the provisions applied before Regulation (EU) No 575/2013 or any prescribed residual amounts under the Regulation.			
SEK M		31 Dec 2019	31 Dec 2018
Common Equity Tier 1 capital: instruments and reserves			
Capital instruments and associated share premium reserves		2,864.6	2,864.6
Of which: share capital		2,864.6	2,864.6
Non-distributed earnings (Retained earnings)		5,757.1	6,222.2
Accumulated Other comprehensive income		1,507.5	1,134.0
Interim profits, net, after deductions for foreseeable charge and dividends that have been verified by persons independent of the institution		87.5	-89.9
Common Equity Tier 1 capital before legislative adjustments		10,216.7	10,130.9
Common Equity Tier 1 capital: legislative adjustments			
Additional value adjustments		-54.4	-45.9
Intangible assets (net after reduction for associated tax liabilities)		-1,173.3	-904.7
Fair value reserves related to gains or losses on cash-flow hedges		21.9	19.2
Negative amounts resulting from the calculation of expected loss amounts		-184.4	-83.0
Total legislative adjustments of Common Equity Tier 1 capital		-1,390.2	-1,014.4
Common Equity Tier 1 capital		8,826.5	9,116.5
Additional Tier 1 instruments: instruments			
Capital instruments and associated share premium reserves		2,200.0	1,200.0
Of which: classified as equity within the meaning of the applicable accounting framework		2,200.0	1,200.0
Additional Tier 1 instruments		2,200.0	1,200.0
Tier 1 capital (Tier 1 capital = Common Equity Tier 1 capital + Additional Tier 1 instruments)		11,026.5	10,316.5
Tier 2 capital: instruments and provisions			
Capital instruments and associated share premium reserves		2,589.7	2,589.7
Adjustment due to credit risk		0.0	0.3
Tier 2 capital		2,589.7	2,589.9
Total capital (total capital = Tier 1 capital + Tier 2 capital)		13,616.1	12,906.5
Total risk-weighted assets		32,178.6	30,144.7
Capital ratios and buffers			
Common Equity Tier 1 capital (as a percentage of the total risk-weighted exposure amount)		27.4%	30.2%
Tier 1 capital (as a percentage of the total risk-weighted exposure amount)		34.3%	34.2%
Total capital (as a percentage of the total risk-weighted exposure amount)		42.3%	42.8%
Institution-specific buffer requirements		9.5%	9.0%
Of which: capital conservation buffer requirement		2.5%	2.5%
Of which: countercyclical capital buffer requirement		2.5%	2.0%
Of which: systemic risk buffer requirement		-	-
Of which: buffer for globally systemically important institution or for another systemically important institution		-	-
Common Equity Tier 1 capital available for use as a buffer (as a percentage of the risk-weighted exposure amount)		22.9%	25.7%

Note 2 Capital-adequacy, continued		31 Dec 2019		31 Dec 2018	
SEK M		Risk exposure amount	Capital requirement	Risk exposure amount	Capital requirement
Credit risk according to Standardised Approach					
Exposures to institutions		1,367.0	109.4	879.9	70.4
Defaulted exposures		0.2	0.0	-	-
High risk items		0.4	0.0	0.4	0.0
Covered bonds		2,353.8	188.3	1,979.4	158.3
Equity exposures		10,506.2	840.5	10,643.5	851.5
Other items		571.2	45.7	595.3	47.6
Total capital requirement and risk exposure amount		14,798.7	1,183.9	14,098.4	1,127.9
Credit risk according to IRB Approach					
<i>Retail exposures</i>					
Secured by real estate SME		2,175.7	174.1	1,590.6	127.3
Secured by real estate non-SME		1,402.3	112.2	1,454.4	116.3
Other SME		546.5	43.7	457.0	36.6
Other non-SME		1,625.1	130.0	1,814.1	145.1
Total retail exposures		5,749.7	460.0	5,316.1	425.3
Exposures to corporates		4,837.3	387.0	4,067.5	325.4
Total capital requirement and risk exposure amount		10,586.9	847.0	9,383.6	750.7
Operational risks					
Standardised Approach		2,077.7	166.2	1,925.7	154.1
Total capital requirement for operational risk		2,077.7	166.2	1,925.7	154.1
Total capital requirement for credit valuation adjustments					
		1,101.7	88.1	943.1	75.5
Additional Risk Exposure Amounts according to Article 458 CRR					
		3,613.5	289.1	3,793.9	303.5
Total capital requirement and risk exposure amount		32,178.6	2,574.3	30,144.7	2,411.6

Note 3 **Loans to the public**

The settlement model regarding the commitment that the regional insurance companies have for credit losses entails that the regional insurance companies cover 80 percent of the loss allowance requirement on the date when an impairment is identified. Off-setting takes place against, and can amount to a maximum of, accrued commission. Remuneration corresponding to 80 percent of the loss allowance requirement is withheld on every occasion until the lending mediated by the regional insurance company has been regulated. On 31 December 2019, the total credit reserve requirement for loan receivables amounted to SEK 100.1 M (64.1) of which Länsförsäkringar Bank's recognised loss allowance for loan receivables accounted for SEK 20.0 M (12.8) and the remainder of SEK 80.0 M (51.3) was settled against the remuneration to the regional insurance companies.

Note 4 **Loans to credit institutions**

On 31 December 2019, Loans to credit institutions amounted to SEK 78 862.7 M (79,013.9) and was included in Stage 1. Loss allowance for credit losses amounted to SEK 20.1 M (20.2).

Note 6 Pledged assets, contingent liabilities and commitments		31 December 2019	31 December 2018
SEK M			
For own liabilities, pledged assets		6,730.1	6,124.4
Contingent liabilities		27.8	34.7
Commitments ¹⁾		29,584.2	30,577.3

¹⁾ Commitments to related parties amounted to SEK 23,993.0 M (25,132.7) for companies within the Bank Group, SEK 51.0 M (51.0) for the regional insurance companies and SEK 5.0 M (5.0) for other related parties.

Contingent liabilities comprise guarantees. Commitments comprise approved but not disbursed loans and approved but unutilised overdraft facilities and card loans.

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

The Board of Directors and President affirm that this interim report provides a true and fair view of the company's and the Group's operations, financial position and earnings and describes the significant risks and uncertainties to which the company and the companies included in the Group are exposed.

Stockholm, 6 February 2020

Sven Eggefalk
President

To the Board of Directors of Länsförsäkringar Bank AB (publ)

Corp. id. 516401-9878

Introduction

We have reviewed the condensed interim financial information (interim report) of Länsförsäkringar Bank AB (publ) as of 31 December 2019 and the twelve-month period then ended. The Board of Directors and the Managing Director are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Annual Accounts Act for Credit Institutions and Securities Companies. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements ISRE 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and other generally accepted auditing practices and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, for the Group in accordance with IAS 34 and the Annual Accounts Act for Credit Institutions and Securities Companies, and for the Parent Company in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm, 6 February 2020

KPMG AB

Dan Beitner

Authorized Public Accountant

Auditor in charge

Definitions

Glossary

Return on total assets

Profit for the year, after tax, in relation to average total assets.

Own funds

Own funds comprises the sum of Tier 1 capital and Tier 2 capital, less items indicated in the capital adequacy rules. Own funds in relation to capital requirements.

Credit-impaired loan receivables

Loan receivables that have fallen due, have defaulted on issue or acquisition and thus are in stage 3 of the rules on expected credit losses under IFRS 9.

Common Equity Tier 1 capital

Common Equity Tier 1 capital comprises equity less intangible assets, goodwill, prudent valuation, investments in financial companies and IRB deficit.

Common Equity Tier 1 capital ratio

Common Equity Tier 1 capital in relation to the total risk exposure amount.

Tier 1 capital

The sum of Common Equity Tier 1 capital and Additional Tier 1 instruments.

Tier 1 ratio

Tier 1 capital in relation to the total risk exposure amount.

Risk Exposure Amount (REA)

The Risk Exposure Amount comprises assets in the balance sheet and off-balance sheet commitments valued in accordance with credit risk, market risk, operational risk and credit valuation adjustment risk in accordance with the capital adequacy rules.

Loan receivables

Comprises loans to the public and loans to credit institutions.

Fixed-interest period

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

Tier 2 capital

Primarily comprises fixed-term subordinated debt.

Total capital ratio

Total own funds in relation to the total risk exposure amount.

Alternative performance measures

The European Securities and Markets Authority's (ESMA) Guidelines on Alternative Performance Measures came into effect on 3 July 2016. In accordance with these guidelines, disclosures on financial performance measures that are not defined by IFRS have been provided. Investment margin and return on equity show the organisation's earnings in relation to various investment measures. The share of credit-impaired loan receivables, credit losses and performance measures concerning loss allowance are presented to provide an understanding of lending, collateral and credit risk. The common factor for all of the alternative performance measures is that they describe the development of the operations and aim to improve comparability between different periods. The measures may differ from similar performance measures presented by other organisations.

Share of credit-impaired loan receivables

Credit-impaired loan receivables (stage 3) after loss allowance in relation to loans to the public and credit institutions before loss allowance.

Credit loss level

Credit losses, net, for loan receivables in relation to loans to the public and credit institutions after loss allowance.

Investment margin

Net interest income in relation to average total assets.

Reserve ratio for loan receivables

Recognised loss allowance for loan receivables in relation to loan receivables before loss allowance.

Return on equity

Operating profit less standard tax in relation to average equity, adjusted for items in equity recognised in other comprehensive income and for Additional Tier 1 Capital loans.

Financial calendar

Interim report January–March Länsförsäkringar Bank	28 April 2020
Interim report January–March Länsförsäkringar Hypotek	28 April 2020

This report contains such information that Länsförsäkringar Bank AB (publ) is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication on 6 February 2020 at 12:00 a.m. CET.

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