

# Annual Report

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## About Länsförsäkringar Bank

# The bank with Sweden's most satisfied customers



Länsförsäkringar Bank is the fifth largest retail bank in Sweden and its strategy is to offer attractive banking services to the customers of the Länsförsäkringar Alliance. Close customer relationships are created at personal meetings at the 128 branches of the regional insurance companies throughout Sweden and via digital services and telephone. The aim is to always have the most satisfied customers, maintain healthy growth in volumes and profitability at low risk, and to increase the share of customers who have both banking and insurance with Länsförsäkringar. According to the 2019 Swedish Quality Index, Länsförsäkringar Bank is the player on the banking market with Sweden's most satisfied retail and corporate customers.



## Länsförsäkringar in brief

### Local companies with customers who are owners and the only principal

Länsförsäkringar comprises 23 local, customer-owned regional insurance companies and the jointly owned Länsförsäkringar AB and its subsidiaries. Customers are provided with a complete solution for banking, insurance, pension and real-estate brokerage services through their regional insurance company. The regional insurance companies are owned by the insurance customers – there are no external shareholders and customers' needs and requirements are always Länsförsäkringar's primary task. Long-term respect for customers' finances and their security is fundamental. The Länsförsäkringar Alliance jointly has slightly more than 3.9 million customers and approximately 7,200 employees.

3.9 million customers

23 local regional insurance companies

Länsförsäkringar AB

Länsförsäkringar Bank AB

Länsförsäkringar  
Hypotek AB  
Mortgages

Länsförsäkringar  
Fondförvaltning AB  
Mutual funds

Wasa Kredit AB  
Leasing, hire purchase  
and unsecured loans

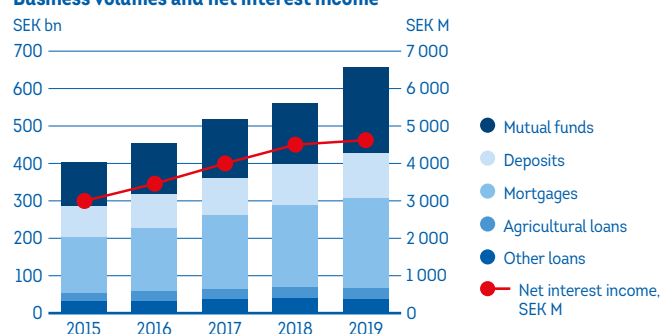
# The 2019 fiscal year

## Significant events *Figures in parentheses pertain to the same period in 2018.*

- 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.

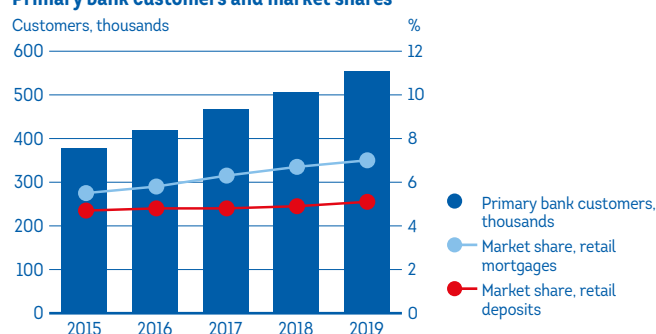
\* Pertains to 30 September 2019.

### Business volumes and net interest income



Total business volumes have increased an average of 12% over the past five years. Net interest income has risen an average of 14%.

### Primary bank customers and market shares



The number of customers has risen an average of 10% over the past five years. The market position was continuously strengthened.

## Key figures

SEK M	2019	2018	2017	2016	2015
Return on equity, %	9.48	8.34	10.0	10.1	8.9
Return on total assets, %	0.38	0.34	0.41	0.42	0.37
Investment margin, %	1.21	1.30	1.32	1.28	1.22
Cost/income ratio before credit losses	0.48	0.58	0.49	0.48	0.57
Common Equity Tier 1 capital ratio, Bank Group, %	13.9	14.2	24.3 <sup>1)</sup>	24.8 <sup>1)</sup>	23.7 <sup>1)</sup>
Tier 1 ratio, Bank Group, %	16.0	15.5	26.8 <sup>1)</sup>	27.5 <sup>1)</sup>	26.6 <sup>1)</sup>
Total capital ratio, Bank Group, %	18.5	18.2	32.1 <sup>1)</sup>	33.4 <sup>1)</sup>	32.0 <sup>1)</sup>
Common Equity Tier 1 capital ratio, consolidated situation, %	15.4	15.7	23.3 <sup>1)</sup>	21.2 <sup>1)</sup>	21.4 <sup>1)</sup>
Tier 1 ratio, consolidated situation, %	16.0	16.5	24.8 <sup>1)</sup>	23.2 <sup>1)</sup>	23.7 <sup>1)</sup>
Total capital ratio, consolidated situation, %	16.6	18.3	28.1 <sup>1)</sup>	27.6 <sup>1)</sup>	28.2 <sup>1)</sup>
Share of credit-impaired loan receivables (stage 3), %	0.20	0.17	-	-	-
Reserve ratio for loan receivables stage 1, %	0.03	0.02	-	-	-
Reserve ratio for loan receivables stage 2, %	0.98	1.60	-	-	-
Reserve ratio for loan receivables stage 3, %	34.6	32.6	-	-	-
Reserve ratio for loan receivables stage 3, incl. withheld remuneration to regional insurance companies, %	40.1	37.0	-	-	-
Credit losses in relation to loans, %	0.06	0.04	0.02	0.02 <sup>2)</sup>	0.00 <sup>2)</sup>

<sup>1)</sup> Risk weight floor for mortgages in Pillar II.

<sup>2)</sup> Includes the dissolution of reserves.

# Well-positioned for future challenges

**Statement by the President** > We can summarise yet another successful year for Länsförsäkringar Bank with a continuing high inflow of new customers and strong growth in business volumes. We have the most satisfied bank customers for the sixth consecutive year. This shows that our long-term strategy of being both local and digital, together with our regional insurance companies, is successful. We feel well-positioned for future opportunities.

## **2019 – Yet another successful year with market-leading customer satisfaction**

As we summarise the year, we can conclude that Länsförsäkringar Bank has the most satisfied retail customers on the banking market. For the sixth consecutive year – and for the 14th time in 16 years – we ranked first in the Swedish Quality Index's customer satisfaction survey. We are also pleased that this year we also have the most satisfied customers in the corporate category, which shows that our initiatives have made a positive impression within this customer segment as well.

The high customer satisfaction is the result of the work performed by the regional insurance companies and ultimately confirms that our strategy – founded on strong local presence – is generating good results. We will continue to pursue our hard work and targeted efforts to meet customers' high expectations and maintain our strong position going forward. Consistently high customer satisfaction is the main reason for our success in the banking market and is important for our ability to retain existing customers and attract new ones. With our local profile combined with competitive digital solutions, we have a solid platform for continuing to grow Länsförsäkringar's banking operations going forward.

The solid performance of the business is continuing and our position as one of the leading retail banks in Sweden was further strengthened during the year. Our market shares are continuously increasing, which is confirmation that we are a natural choice for customers in an ever more competitive market. Growth in business volumes for the year was high, and the performance in savings was particularly pleasing. Our total savings volumes grew more than lending during the year and are now higher overall. We are proud that global fund analyst Morningstar named Länsförsäkringar Best Fund House Overall Sweden. We were especially honoured by the award since it was the first time that it has been won by a Swedish

fund company. The fund business performed very well in 2019 and a full 90% of the funds managed under Länsförsäkringar's own brand performed better than their benchmark index. Furthermore, we take pride in our strong sustainability focus that has been implemented in the investment process in the form of our own sustainability analyses.

## **New core banking system – new platform with new opportunities**

We successfully implemented a new core banking system at the start of the second quarter of 2019, marking a major milestone in the bank's continued digitisation process. The transition to the new system gives us even greater ability to meet customers in the digital area and opens more opportunities for developing the digital banking services of the future, all to continue to create security and added value for our customers. We also launched an Open Banking platform that together with external partnerships will present opportunities for enhancing the customer experience and bringing additional customer value. The development of our digital offering is based on customer needs and our aim is to create security and opportunities. Our objective is to maintain our strong local presence, at the same time as we are a leading player in the digital area with the aim of creating value for our customers.

## **New playing field in light of new regulations**

The development of banking regulations are continuing and we are continuously focusing on adjustments to these rules. The Banking Package Inquiry was published in December, containing proposals on legislative changes required by the new EU regulations and directions on capital adequacy and bank recovery and resolution. Continued regulatory adjustments, combined with investments in anti-money laundering and measures to prevent other economic crime, are driving up costs in the banking sector, Länsförsäkringar Bank included. We remain well-positioned in relation to such regulatory developments.



The high customer satisfaction is the result of the work performed by the regional insurance companies and ultimately confirms that our strategy – founded on strong local presence – is generating good results.

“ Our objective is to maintain our strong local presence, at the same time as we are a leading player in the digital area with the aim of creating value for our customers.



### Positioned for future challenges

Looking ahead, we can see many opportunities for Länsförsäkringar Bank to continue on its journey of growth in the Swedish banking market. However, 2020 will be a year of continued challenges due to the uncertainty regarding the economy and expectations that competition will continue to intensify. Money laundering received extensive attention in 2019, which negatively impacted confidence in the entire industry. Money laundering and economic crime are widespread problems in society with a major bearing on the financial sector. Although our business model means that we have lower exposure to the more high-risk segments, given our distinct retail profile and the fact that our lending is limited to Sweden, we are continuously making investments to further strengthen our ability to counteract money laundering and other economic crime.

Through the 23 customer-owned regional insurance companies, Länsförsäkringar Bank has unique, local presence throughout Sweden that allows us to prioritise personal customer meetings

and establish a closer relationship with our customers, while also enabling us to make more accurate risk assessments in our business. The Länsförsäkringar Alliance's large customer base, strong brand and our unique market position provide an excellent platform for continued expansion, but also offer protection from potential downturns in a recession. We firmly believe that this, combined with competitive digital services, will create the conditions for continued growth and inflows of new customers in 2020.

Stockholm, March 2020

**Sven Eggefall**  
President of Länsförsäkringar Bank



# The local and customer-owned bank

**Strategy and position** ➤ Länsförsäkringar Bank is a customer-owned bank and is the player on the market with the most satisfied bank customers in Sweden. With a strong local presence throughout the country and close customer relationships through local meetings and competitive digital services Länsförsäkringar Bank is one of the leading retail banks in Sweden.

## Strategy and goals

Länsförsäkringar Bank was founded in 1996 and is now the fifth largest retail bank in Sweden with a business volume of SEK 656 billion. The banking operations are conducted only in Sweden and the market position is continuing to steadily strengthen.

The strategy is to offer banking services to the Länsförsäkringar Alliance's customers and leverage Länsförsäkringar's strong brand and local presence. The banking operations have a large potential customer base with the Länsförsäkringar Alliance's 3.9 million customers. The main target groups are the 3.2 million retail customers, of whom 2.4 million are home-insurance customers. Other target groups are agricultural customers and small businesses. The aim is, based on sustained low risk, to maintain healthy growth in volumes and profitability, have the most satisfied customers and more customers who have both banking and insurance with Länsförsäkringar. According to the 2019 Swedish Quality Index customer satisfaction survey, Länsförsäkringar Bank is the player on the banking market

with the most satisfied retail customers, an accolade that Länsförsäkringar Bank has won 14 times in the past 16 years. Länsförsäkringar Bank is also the player with the most satisfied corporate customers and one of the leading players in terms of customer satisfaction for retail mortgage customers, according to the 2019 Swedish Quality Index. The high customer satisfaction is confirmation of Länsförsäkringar's clear customer focus and high quality. With Länsförsäkringar's comprehensive banking and insurance offering, customers receive a total solution that creates security and added value.

## Customer ownership

The Länsförsäkringar Alliance consists of 23 local, customer-owned regional insurance companies and the jointly owned Länsförsäkringar AB, which is the bank's Parent Company. The insurance customers own the regional insurance companies, which means that the principles of customer ownership also apply to the banking operations.

Business volume:  
SEK 656 billion

+17%

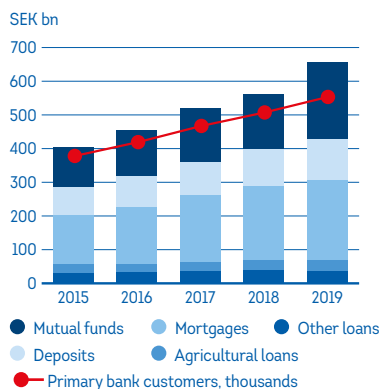
Primary bank customers who are  
also insurance customers

91%

Number of primary bank customers:  
553,000

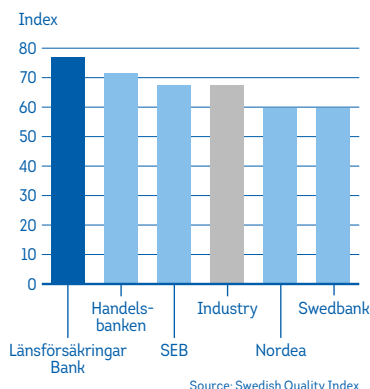
+9%

## Business volume and customer trend



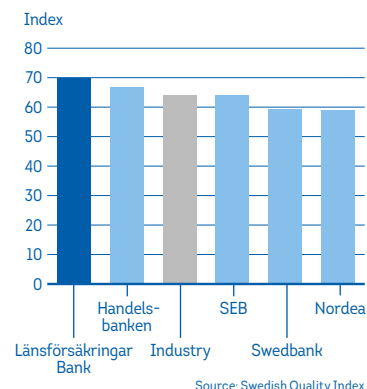
The bank reported healthy growth in both volumes and customers.

## Customer satisfaction, retail customers



Länsförsäkringar Bank is the player on the banking market with the most satisfied retail customers according to the 2019 Swedish Quality Index.

## Customer satisfaction, corporate customer



Länsförsäkringar Bank is the player on the banking market with the most satisfied corporate customer according to the 2019 Swedish Quality Index.



Long-term respect for customers' security is fundamental to Länsförsäkringar, since customers are both the principal and owner.

#### Customer-driven business model

Länsförsäkringar Bank supports the regional insurance companies in their customer meetings and sales. Product development takes place in close cooperation between the regional insurance companies and Länsförsäkringar Bank. This cooperation features continuous efficiency enhancements to implement improvements that lead to improved service to customers, more efficient processes and lower expenses.

#### Customer meetings and local presence

The regional insurance companies are responsible for the local business operations and customer relationships. Business decisions are made locally and the regional insurance companies' commitment and network provide broad and in-depth customer and market knowledge. Banking services are offered at the 128 branches of the regional insurance companies throughout Sweden. Trust, security and long-term relationships are created through personal customer meetings, all of which are high priority at Länsförsäkringar.

#### Forefront of digital services

The bank's goal is to be the leading company in digital banking, and digital services are an important supplement to local customer meetings. The digital services in the mobile app and Internet bank make it convenient and easy for customers to do all their banking.

The process of renewing the Länsförsäkringar Bank's platform for deposits, lending and payments was completed in 2019 and the BaNCS new core banking system was implemented in April. The system replacement marks a key milestone for the banking operations and the new modern system platform further adds to the company's ability to meet customers in the digital sphere and opens more opportunities for developing the digital banking services of the future. Länsförsäkringar Bank also launched an Open Banking platform with the aim of building new, innovative services that make everyday life easier for customers.

#### A strong brand

Länsförsäkringar Bank's successful growth and position in the market is based on customer ownership as well as Länsförsäkringar's strong brand and local presence.

## The Länsförsäkringar logo turns 50

Länsförsäkringar's history dates back more than 200 years. The first company, Länsförsäkringar Kronoberg, was founded in 1801. Other regional insurance companies were founded in the following decades. Länsförsäkringar's square logo turned 50 in 2019 – a logo that is one of the most well-known symbols in Sweden.



## Länsförsäkringar has Sweden's most satisfied retail bank customers, again!

For the sixth consecutive year, Länsförsäkringar topped the Swedish Quality Index's of Sweden's most satisfied retail customers. In 2019, we also came first in the category of Sweden's most satisfied corporate customers.

# Comprehensive offering focusing on customers

**Offering** > Länsförsäkringar Bank's offering is designed to help customers create financial security and balance in their private finances, based on their individual needs. The personal meeting combined with a strong digital offering make up the key components for offering a total solution in both banking and insurance.

## Savings

Länsförsäkringar focuses on providing customers with a secure place for their savings. Customers are offered savings through various types of deposit accounts and also through such products as mutual fund savings, Investment Savings Accounts (ISK) and equities savings. Customer meetings strive to ensure that customers have secure private finances in which savings and mortgage repayments are key elements. By making mortgage repayments, a customers' private finances can become more balanced over time.

## Deposits

Growth in deposits from the public has been stable in recent years and rose 10% to SEK 119 billion in 2019. The market share for household deposits was 5.1% and the number of deposit accounts increased 8%. The Investment Savings Account (ISK) displayed healthy growth during the year and the number of ISKs at year-end was 351,000, up 17%.

## Fund management

Sweden's fund market continued to grow in 2019. Länsförsäkringar Fondförvaltning commands a market share measured in fund assets

of 4.0%. At the start of the year global fund analyst Morningstar named Länsförsäkringar Fondförvaltning Best Fund House Overall Sweden 2019. This was the first time that a Swedish fund company won this award. The fund offering comprises 38 mutual funds under Länsförsäkringar's own brand with various investment orientations and a fund platform with external funds. Two new funds were started during the year, Länsförsäkringar Balanserad Räntefond and Länsförsäkringar Hållbar Företagsobligation. The position in sustainability was also advanced during the year, for example, the decision was made to divest all holdings of tobacco manufacturers and the criteria for investments in fossil companies were tightened. The fund volume increased 40% to SEK 230 billion during the year, of which managed funds under own brands amounted to SEK 203 billion. 90% of Länsförsäkringar's funds managed under own brand performed better than their benchmark index in 2019.

## Loans

The bank's lending continues to grow steadily while maintaining low risk. Lending rose 6% to SEK 307 billion in 2019. The largest product is retail mortgages, which comprises 78% of the loan portfolio. Retail mortgages are mostly granted by Länsförsäkringar Hypotek,

Deposits from the public:  
**SEK 119 billion**

**+10%**

Loans to the public:  
**SEK 307 billion**

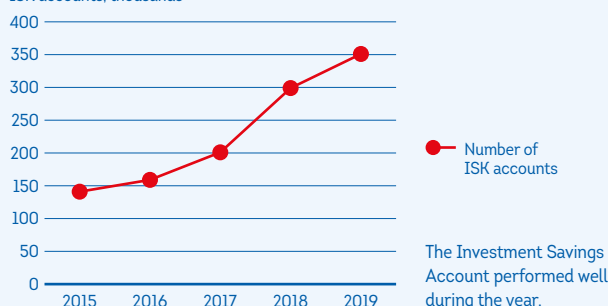
**+6%**

Retail mortgages:  
**SEK 240 billion**

**+9%**

### Investment Savings Account (ISK)

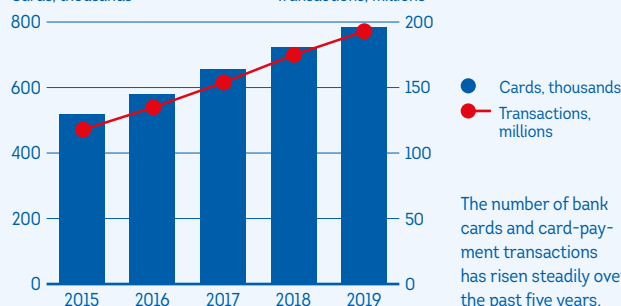
ISK accounts, thousands



### Bank cards and card-payment transactions

Cards, thousands

Transactions, millions





which offers mortgages up to 75% of the market value. Any surplus mortgage portions are offered by Länsförsäkringar Bank. Loans to tenant-owners' associations and to multi-family housing are offered in addition to mortgages. The market share for mortgages amounted to 7.0%. In 2014, Länsförsäkringar Bank was the first Swedish bank to licence all of its mortgage application processors. Such licensing exams, which are based on the proficiency requirements of the EU Mortgage Credit Directive, create greater security for customers.

Länsförsäkringar Bank is one of the largest players in agricultural lending in Sweden and primarily targets family-owned agricultural operations that are insurance customers with Länsförsäkringar. The average agricultural loan commitment is small and the percentage of first-lien mortgages is 96%.

Wasa Kredit offers leasing, hire purchase and unsecured loans and the performance of the company for the year was favourable. Lending increased 7% to SEK 24 billion.

#### Payments and bank cards

Bank cards are continuously developed to offer customers security and a high level of service in their payment services. The number of bank cards increased 9% to 783,000 and the number of card-payment transactions rose 10% to 193 million. The Swish payment service performed well during the year. Länsförsäkringar Bank, which is one of the drivers of the Swish partnership, owns 10% of the company that manages and develops the service.

#### Corporate segment

Deposits in the corporate segment continued to grow and deposits from businesses amounted to SEK 12.6 billion on 31 December 2019. Growth in payment services included in the corporate offering was also healthy during the year. According to the 2019 Swedish Quality Index, Länsförsäkringar Bank is the player on the banking market with Sweden's most satisfied corporate customers.

#### Offering to young people

Länsförsäkringar Bank has one of the market's most attractive offers for young people that includes a card and payment service, a young person's account with a bank card, Internet and telephone banking and digital services. Digital services make everyday life easy and Swish is the first choice for sending and receiving money by mobile phone. More digital services can be added from the age of 16, for example, making payments and linking more pay services to the card.

#### Best Fund House Overall 2019

Global fund analyst Morningstar named Länsförsäkringar Best Fund House Overall Sweden 2019. Länsförsäkringar is the first-ever Swedish fund company to have received this award.



Fund volume:  
**SEK 230 billion**

**+40%**

Number of bank cards:  
**783,000**

**+9%**

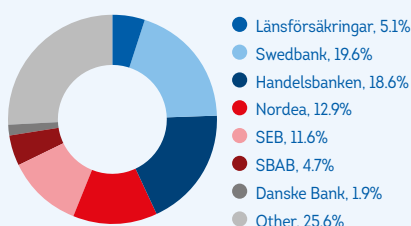
Average return of  
funds in 2019:

**+31%**

#### Market shares

##### Retail deposits

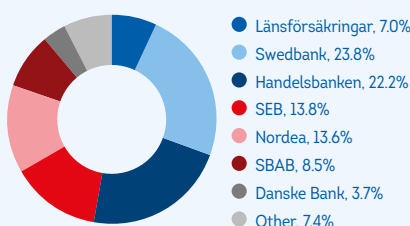
Source: Statistics Sweden



The market position in retail deposits amounted to 5.1%.

##### Retail mortgages

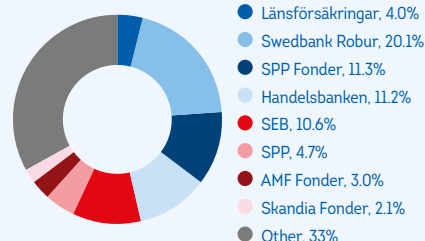
Source: Statistics Sweden



The market position in mortgages amounted to 7.0%.

##### Volume of managed funds under Länsförsäkringar's own brand

Source: Moneygate



Länsförsäkringar holds a 4.0% market share of Swedish fund volumes.

# Sustainability adds value

**Sustainability** > Sustainability activities at Länsförsäkringar Bank follow the Parent Company Länsförsäkringar AB's Group-wide policies and guidelines, with a particular focus on responsible investments in the fund range and responsible lending. Read more in the Group's Sustainability Report that can be found in Länsförsäkringar AB's 2019 Annual Report and via this link: [🔗 lansforsakringar.se/sustainabilityreport2019](https://lansforsakringar.se/sustainabilityreport2019).

## Responsible offering

Länsförsäkringar is an important part of the financial system and, through responsible investments in the fund range and responsible lending, Länsförsäkringar takes a stance that supports the sustainable development of society and respect for customers' security and value creation based on responsible lending and responsible investments. Better access to banking services is also a key element of the sustainable development of society.

### Responsible investments in fund range

Länsförsäkringar AB signed the UN Principles for Responsible Investment (PRI). Active corporate governance and integration of sustainability into investment analyses form part of the work on responsible investments.

### Active corporate governance

Corporate governance includes company dialogues on sustainability topics, active participation in the nomination committees of portfolio companies to influence board compositions and voting at general meetings. A long-term objective is to increase diversity in terms of gender, age and background, on the boards of the portfolio companies. During the annual general meeting season of 2018, the percentage of women board members was 38% in the companies in which Länsförsäkringar Fondförvaltning served on the nomination committee. Länsförsäkringar Fondförvaltning mainly votes at general meetings of the companies in which it has a substantial holding or where it is important to vote for other reasons. In 2019, Länsförsäkringar cast votes at 67 meetings in Sweden and the US and was on 18 nomination committees.

Länsförsäkringar Fondförvaltning collaborates with the Asset Management department at Länsförsäkringar AB in its work on reactive and proactive sustainability dialogues. A consultancy is engaged to review and analyse listed company holdings based on international conventions on environment, human rights, labour, corruption and controversial weapons. Starting from these analyses, Länsförsäkringar strives to engage in dialogue with companies that breach these conventions. The aim is that the analysed company will stop committing breaches and take measures to prevent similar incidents from being repeated.

### Sustainability integrated in Länsförsäkringar's fund offering

Länsförsäkringar Bank's fund offering includes Länsförsäkringar's own funds and externally managed funds. Requirements are set in the procurement of external fund managers on how managers integrate sustainability into their management models. Managers' activ-

ities and progress is monitored annually. Länsförsäkringar Fondförvaltning's Swedish equities and fixed-income funds are managed internally and a sustainability analysis is an integrated part of the investment process. A challenge is that many small companies have not made as much progress in sustainability as large companies and these companies often lack external analyses. Länsförsäkringar performs its own sustainability analyses and collects information from companies using a standardised questionnaire supplemented with its own analysis of reporting, follow-up meetings and external analysis where available. The companies are assigned a sustainability rating from fail to pass with special distinction. The aim is for all fund holdings to have a sustainability rating, with the majority of holdings being in companies with the highest possible rating. Investments can be made in companies with lower ratings provided that they make improvements. The carbon footprint of Länsförsäkringar's equities funds is measured and reported on the website.

### Climate risks

Länsförsäkringar intends to contribute to society's change and the targets of the Paris Agreement to limit global warming to well below 2 degrees Celsius. To actively encourage companies that support the Paris Agreement, Länsförsäkringar Fondförvaltning introduced new exclusion criteria in 2019 to promote the climate transition.

- The limit for mining and energy companies was lowered from 20% to 5% of sales from thermal coal, except for energy companies that have started their climate transition aligned with the Paris Agreement; the previous limit applies to these companies.
- A maximum 5% of sales from oil sand extraction.

### Responsible lending

Long-term respect for customers' security and finances is fundamental to Länsförsäkringar. Healthy lending is a key prerequisite for a stable financial situation for customers, but ultimately leads to a stable and sustainable bank. For this reason, Länsförsäkringar Bank bases its credit assessment on customers' long-term repayment capacity and financial situation. This is of particular importance



since most customers are private individuals. Mortgages comprise the bank's largest lending product while purchasing a home and arranging a mortgage are the single largest transactions for a household. Accordingly, Länsförsäkringar believes it is very important to offer customers service through personal meetings at the regional insurance companies' local branches throughout Sweden. Carefully ensuring customers' long-term repayment capacity also promotes responsible lending.

Länsförsäkringar Bank's loans are granted in Sweden and in SEK. The geographic spread of lending to both retail and corporate customers is well-diversified, with low average lending per customer. The bank has very limited lending to the large-corporates sector in which environmental and social risks are deemed to be greater. Accordingly, the business model for lending has relatively low credit risks. The foundation of lending is the credit policy and the credit instructions that include criteria for acceptable risk and identify high-risk areas in sustainability that require special consideration. Strict requirements are imposed on customers' repayment capacity and the quality of collateral. The loan application process, combined with the local customer and market knowledge of the advisors, provides favourable conditions for a loan portfolio with high credit quality and low sustainability risks. Environmental risks and environmental responsibility for agriculture and companies are regulated by the extensive external rules of a variety of supervisory authorities. Environment-related risks are addressed in the loan application process based on, for example, licensable and non-licensable operations and a comprehensive assessment of the company's operations.

Länsförsäkringar Bank publishes a sustainability overview every year to clarify the bank's loans to companies. The sustainability overview is an industry initiative produced by Länsförsäkringar Bank, other Swedish banks and the Swedish Bankers' Association. A climate risk report was prepared for Länsförsäkringar AB that also includes Länsförsäkringar Bank's operations. The report (*available in Swedish only*) follows the guidelines for the Task Force for Climate-related Financial Disclosures (TCFD) and is published on:

➔ [lansforsakringar.se/klimatrapport2019](https://lansforsakringar.se/klimatrapport2019).

#### **Financing for reduced environmental impact**

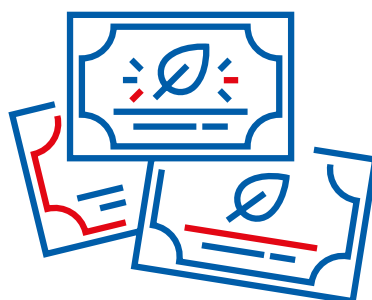
The wholly owned finance company Wasa Kredit offers lease and hire purchase financing to companies and loans and credit card loans to private individuals. In 2019, Wasa Kredit launched a new financing model tailored to products that reduce environmental impact. Wasa Kredit continues to be an attractive financing partner for companies that work with energy conversion.

#### **The bank's own investments**

Länsförsäkringar Bank only has shareholdings in subsidiaries and several minor business-related holdings. The liquidity reserve is invested in Swedish government bonds and Swedish covered bonds with the highest credit rating. A small percentage of holdings is also invested in Nordic government bonds and bonds issued or guaranteed by the German government. This conservative investment orientation leads to low sustainability risks. The level of investments in green bonds increased during the year to slightly more than SEK 2.7 billion (0.9) at year-end 2019.

#### **Sustainable corporate bond fund**

The Länsförsäkringar Hållbar Företagsobligation was launched in 2019. At least 90% of the fund's holdings are green bonds or bonds issued by companies with high sustainability ratings.



#### **Exclusion of tobacco**

Exclusion criteria regarding tobacco manufacturers were introduced to Länsförsäkringar's funds during the year.

# A responsible employer

Commitment, trust, openness and professionalism are the foundation of Länsförsäkringar Bank's corporate culture. Skilled employees who drive and develop the operations are vital to achieving our business objectives.

Attracting new and retaining existing employees is of the utmost importance. A focus on diversity, inclusion, skills development, health and a good work environment are key factors in ensuring this.

## Risks and opportunities

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

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

## Diversity, inclusion and equality

Länsförsäkringar's definitions of diversity and inclusion reflect the law prohibiting discrimination and everything that makes people different and unique. The importance of an inclusive culture is critical for benefiting from diversity and welcoming different perspectives and approaches. Different ways of thinking are a key factor for success when it comes to learning and innovation that add value to the business and strengthen competitiveness and profitability. Diversity initiatives play an important role in broadening the recruitment pool. A salary survey is performed every year to ensure that no gender discrimination exists for equal positions. Employees have the option

of receiving supplementary salary as a complement to the state parents' allowance.

The aim of the recruitment process is to ensure a more even gender distribution in working groups and managerial positions. The Qnet network develops and coaches women managers as part of structured equality measures.

## Number of women among senior executives, %

	31 Dec 2019	31 Dec 2018
Board members	37	41
Other senior executives	44	44

The company has a partnership with Novare Potential to help new arrivals enter the Swedish labour market and Diversity Charter to promote diversity in the business sector.

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

## Skills development and learning

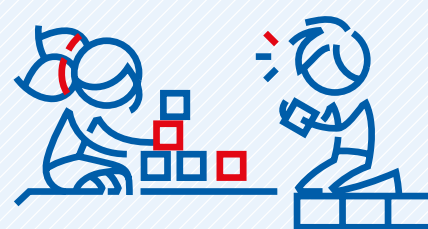
Länsförsäkringar Bank endeavours to nurture the conditions for a learning culture focusing on development. Self-management, adaptability, self-organisation and professionalism are regarded as key components. An e-coaching tool in self-management, motivation, unpredictability, health, efficiency and skills development is used to enhance employees' knowledge of change management.

## Limited direct environmental impact

The direct environmental impact of the operations is relatively limited and primarily comprises business travel, heating and electricity in office premises, and paper print-outs. There are guidelines for business travel, and digital meetings and rail travel, where possible, are recommended instead of air travel so as to reduce carbon emissions. Länsförsäkringar AB climate compensates via South Pole to a tree-planting project aimed at restoring the local ecosystem in northern India where soil erosion, a growing number of landslides and drought have affected about 500 million people. The project follows the international Gold Standard.

Länsförsäkringar's offices were BREEAM certified during the year, achieving a rating of Very Good. The installation of LED lighting and energy controls to reduce electricity consumption continued. Work commenced on rebuilding the ventilation system for more efficient energy use.

The volume of paper-based communication to customers can be reduced by increasing digital services, thus reducing environmental impact while making information more accessible. The percentage of digitally distributed customer documents was 76% (72) in 2019.



## Partnership with ECPAT

Länsförsäkringar Bank is a member of the Swedish Financial Coalition against Commercial Sexual Exploitation of Children, which works together with ECPAT and the police. Children's rights organisation ECPAT is part of a global network of 97 countries that seek to prevent and inform about the sexual exploitation of children. The aims of the Financial Coalition are to prevent the Swedish payment system from being utilised for the purchase of documented child sexual abuse and ultimately stopping child sexual abuse.



Managers continuously discuss performance, skills, work environment and health with their employees. To strengthen leadership, training in this subject is offered as part of the in-house training operations.

### Health and work environment

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

Managers are responsible for addressing employee work environment and health issues according to the systematic work-environment process, as well as equality, diversity and discrimination. Employers, managers, employees and health and safety representatives work together on work-environment issues. The organisational and social work environment is regularly monitored to prevent stress and unhealthy work loads in accordance with the Swedish Work Environment Authority's provisions (AFS 2015:4).

Health care insurance is offered to all employees that includes medical consultations, counselling, preventive health services and rehabilitation. Occupational health care services provide support for rehabilitation, work-related ill health, as well as ergonomic advice and regular medical check-ups. Sickness absence is continuously monitored. The total sickness absence at Länsförsäkringar Bank in 2019 amounted to 2.8% (2.7).

### Whistle-blowing function

To counteract crime or suspicions thereof in the business or related to the business, employees can contact their immediate manager or their manager's manager if they suspect any improprieties or wish to make a whistle-blowing report. The informant has the right to anonymity and will not suffer any repercussions due to the report. The whistle-blowing procedure is an alternative to other reporting channels. The Code of Conduct and intranet contain information about the whistle-blowing procedure.



### An attractive employer

Länsförsäkringar's internal attractiveness as an employer and employee loyalty are measured according to an Employer Net Promoter Score (eNPS). The eNPS for 2019 was 31, up from 26 in 2018.

# 86%

are proud to work at  
Länsförsäkringar.

# 87%

say that they enjoy  
going to work.



### Best Health Index in finance industry

Länsförsäkringar had the highest score of all financial companies in Nyckeltalinstitutet's Health Index, with a total of 125 points (135) out of 159. The average score was 120 points (122). Compared with other players in the finance industry, the survey shows that Länsförsäkringar is advanced in terms of support structures for work environment and health activities and its efforts in preventive health care.

### Sustainability requirements on suppliers

Länsförsäkringar has a Code of Conduct for Suppliers, based on the UN Global Compact's principles, and defines requirements regarding human rights, labour conditions, environment and business ethics. Suppliers and their sub-suppliers are expected to comply with these principles.





# Weaker economic climate

**Economic environment and market** > 2019 was characterised by weaker growth both in Sweden and globally. The Swedish economy slowed more than expected and GDP growth fell. However, housing prices were stable, while the stock markets performed very strongly during the year. In December, the Riksbank raised the repo rate for the second time in eight years.

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 Market commentary 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

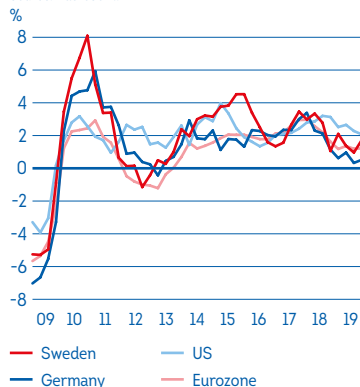
stable labour market and an expansive monetary policy. However, growth is becoming ever more dependent on fiscal and monetary policy stimuli.

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 income 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.

## GDP growth

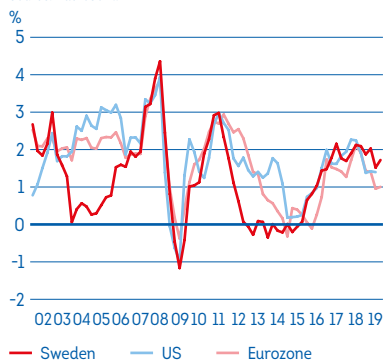
Source: Macrobond



GDP growth in Sweden was weaker during the year, similar to the case in the rest of Europe.

## Inflation

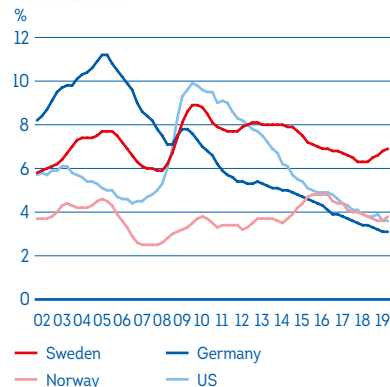
Source: Macrobond



The economic slowdown led to lower inflation during the year.

## Unemployment

Source: Macrobond

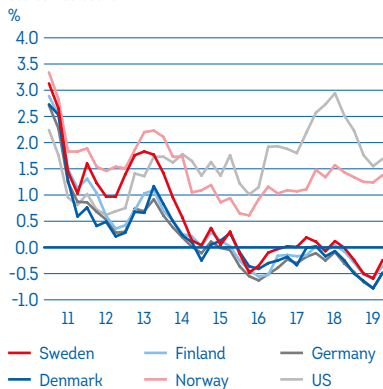


The Swedish labour market performed weakly and unemployment rose in 2019.



### Government bond rates (five-year)

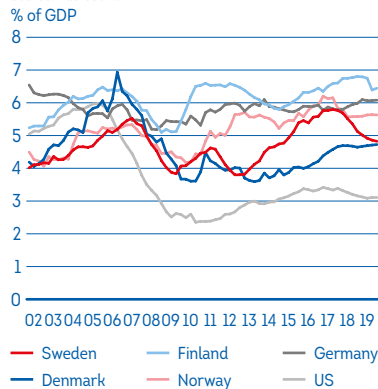
Source: Macrobond



Government bond rates remained historically low but rose at the end of the year in pace with the risk appetite in the financial markets increasing.

### Housing construction

Source: Macrobond

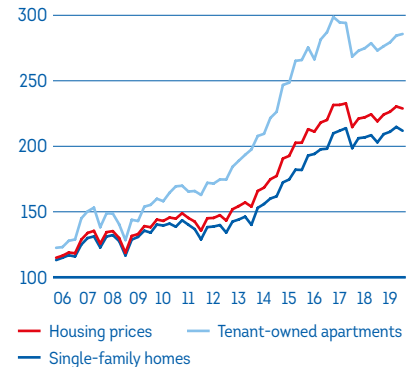


Housing construction further declined during the year. The total shortage of housing is still deemed to be high due to high population growth in Sweden and many years of a low rate of housing construction.

### Housing-price trend

Source: Macrobond

Index 2005-01 = 100



The Swedish housing market continued to stabilise and housing prices rose again during the year.

# Diversified lending with high credit quality

**Loans and credit quality** ➤ Länsförsäkringar Bank's lending primarily comprises mortgages to private individuals. The approach to risk is conservative and the credit quality of the loan portfolio is high. Most credit decisions are made locally following standardised credit regulations. Lending is well diversified geographically and conducted solely in Sweden and in SEK.

## Credit process

Länsförsäkringar Bank's loans are granted in Sweden and in SEK. Lending to both retail and corporate customers is well distributed geographically, with low average loan commitments per customer. Lending is primarily directed towards retail mortgages for private individuals, small-scale family-owned agricultural operations with a low risk level and finance-company products. Loans are based on standardised credit regulations and most credit decisions are made locally. In the business model between Länsförsäkringar Bank and the regional insurance companies, there is a strong incentive to maintain high credit quality. The high credit quality of the loan portfolio is the result of the low risk appetite, credit regulations combined with credit scoring and local customer and market knowledge. The credit regulations impose strict requirements on customers' repayment capacity and the quality of collateral. In connection with the credit process, the repayment capacity of borrowers is tested using "left to live on" calculations. These calculations apply a higher interest rate than the actual rate. Both the loan portfolio and value of the collateral are continuously monitored and quality assured. Distribution and sales of finance-company products and credit decisions on these products mainly take place through Wasa Kredit's own channels.

## Mortgages for private individuals

It is essential for Länsförsäkringar Bank to continue to maintain high credit quality. Mortgage repayments are a key tool in ensuring that households have stable and secure finances. The stricter repayment requirements for customers with debt ratios of more than 450% were implemented in March 2018. These stricter requirements supplement the original repayment requirement from 2016. Länsförsäkringar also encourages customers that do not fall under the repay-

ment requirements to make repayments on their mortgage. Loans to the public rose 6% to SEK 307 billion in 2019. Retail mortgages for private individuals' housing comprise 78% of the loan portfolio. First-lien mortgages, meaning loans with a loan-to-value ratio (LTV) of up to 75%, account for 96% of retail mortgages. A total of 72% of the collateral for retail mortgages comprises single-family homes. The average loan commitment is low at SEK 1.3 M per borrower. 53% of borrowers have a commitment of less than SEK 2 M. The geographic spread of lending is diverse, thus resulting in low concentration risk.

The weighted average loan-to-value ratio for mortgage lending amounted to 61%. Market-value analyses of the collateral in retail mortgages are performed continuously and a market-value update is performed at least once per year for all single-family homes and tenant-owned apartments.

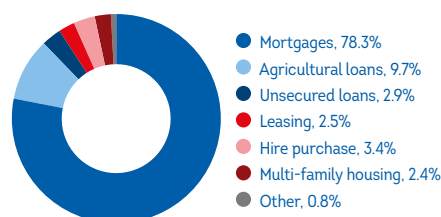
## First-lien mortgages for agricultural operations

A total of 96% of agricultural loans, representing 10% of the loan portfolio, comprises first-lien mortgages. The remaining lending comprises second-lien mortgages and operating credits. Family-owned agricultural operations account for 98% of agricultural loans. The average commitment is low at SEK 2.3 M per borrower. Agricultural lending grew at a lower rate than other loans during the year.

## Leasing, hire purchase and unsecured loans

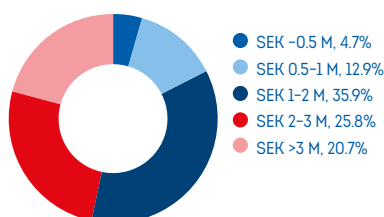
Wasa Kredit is the Bank Group's finance company that offers leasing and hire purchase financing through both partners in such areas as vehicles, computer/office and machinery, and directly to corporate customers. Wasa Kredit also offers loans and credit card loans to private individuals. The leasing and hire purchase products jointly represent 6% of the Group's loan portfolio. In addition, unsecured loans make up a further 3% of the loan portfolio.

**Loans by product**



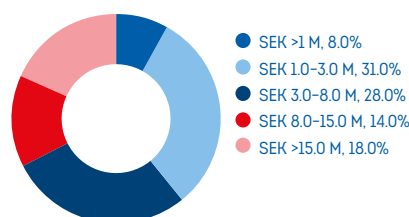
The loan portfolio primarily comprises retail mortgages.

**Retail mortgages by commitment amount**



The average mortgage commitment amounted to SEK 1.3 M and 53% of mortgages have a commitment up to SEK 2 M.

**Agricultural loans by commitment amount**



The average agricultural commitment is SEK 2.0 M per counterparty and 83% of agricultural lending has a commitment per counterparty of up to SEK 3 M.



### Credit quality and credit losses

The high credit quality of the loan portfolio is a result of lending being based on a low risk tolerance. A condition for full payment of the regional insurance companies' distribution remuneration by the Bank Group (excluding Wasa Kredit AB) is that the loans generated by each company for the Bank Group are of high quality. If this is not the case, up to 80% of any credit losses is off-set against the accrued remuneration to the regional insurance companies. This settlement account is kept separate and is taken into consideration when the provisions are established.

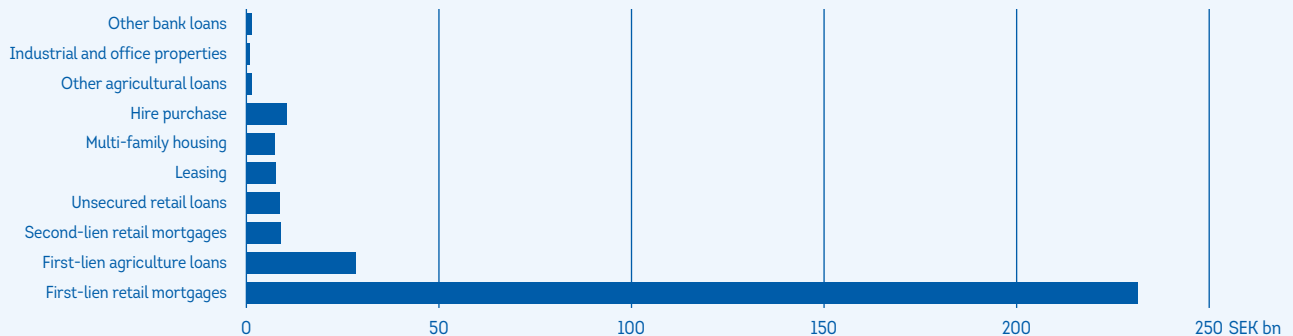
Credit losses in the Bank Group remained low and were almost exclusively attributable to Wasa Kredit. Credit losses amounted to SEK 207 M, corresponding to a credit loss level of 0.06%.

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-

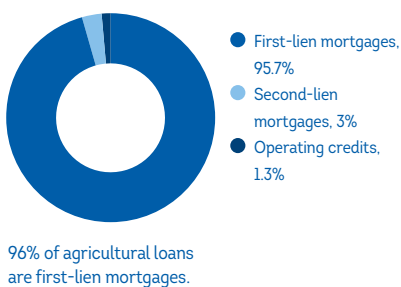
impaired loan receivables was SEK 332.1 M. The reserve ratio for credit-impaired loan receivables amounted to 34.6%. In addition, SEK 52.2 M of the remuneration to the regional insurance companies regarding credit-impaired loan receivables is withheld in accordance with the model above. Including the 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 model mentioned above.

For more information concerning credit risks and credit quality, see note 3 Risks and capital adequacy. For more information on lending, information on the effect of IFRS 9 as well as credit losses and credit-impaired loan receivables, refer to note 12 Credit losses.

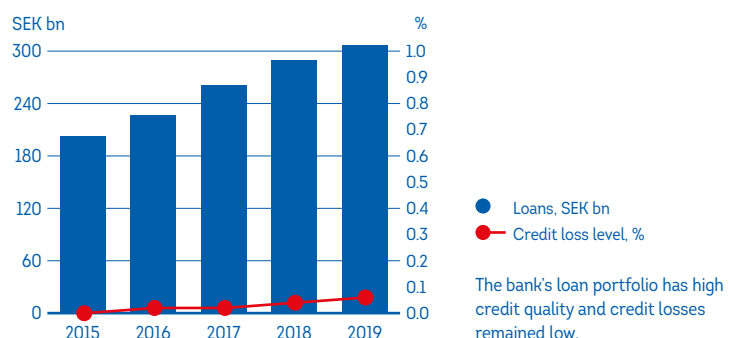
#### Loans by product



#### Agricultural loans by product



#### Loans and credit losses



# Strong liquidity

**Funding and liquidity** > Länsförsäkringar Bank's main financing sources are deposits and funding through covered bonds in Länsförsäkringar Hypotek. These covered bonds have the highest possible credit rating, Aaa from Moody's and AAA/Stable from Standard & Poor's.

## Funding operations

The aim of the funding operations is to ensure that the Group has a sufficiently strong liquidity reserve to manage turbulent periods in capital markets, when funding opportunities are limited or prevailing circumstances render funding impossible. The Group's liquidity risk is controlled on the basis of a survival horizon, meaning how long all known cash flows can be met without access to financing in the capital market.

## Financing sources

The composition of financing is a result of the bank being a retail bank with large mortgage lending operations. Accordingly, the main financing sources are deposits in Länsförsäkringar Bank and funding based on the covered bonds issued by Länsförsäkringar Hypotek. These covered bonds have the highest credit ratings, Aaa from Moody's and AAA/Stable from Standard & Poor's. Long-term senior funding and short-term funding takes place in Länsförsäkringar Bank. The Group endeavours to maintain a sound balance of covered and senior unsecured funding and all capital market funding is conducted under a number of funding programmes. The single most important source of financing is the Swedish covered bond market, where Länsförsäkringar Hypotek has a number of outstanding liquid benchmark bonds. At year-end, Länsförsäkringar Hypotek had seven outstanding benchmark loans with maturities until 2026. The Swedish covered bond market is one of Europe's largest and most liquid, which secures good access to long-term financing.

## Diversification

Since all lending is in SEK, the Group has no structural need for financing in foreign currency. However, the bank has chosen to con-

duct a certain portion of its capital market funding in international markets in an effort to diversify and broaden the investor base. Funding has continuously taken place through issuance of Euro benchmark covered bonds. Länsförsäkringar Bank has issued two senior unsecured Euro benchmark bonds since September 2017, which is another step in increasing funding diversification and strengthening the brand in both the Swedish and European capital markets. This move establishes Länsförsäkringar Bank as a regular issuer also on the market for senior debt in EUR. In addition, diversification takes place through issuances of bonds, primarily in the currencies of CHF, NOK, GBP and USD. The international markets were primarily used for long maturities.

## Refinancing and liquidity risk management

The Bank Group works pro-actively with its outstanding liabilities by repurchasing bonds with short remaining terms against issuance of long-term liabilities as a means of managing and minimising the liquidity and refinancing risk. The market risks that arise in the lending and funding operations are managed through derivative instruments.

## Deposits

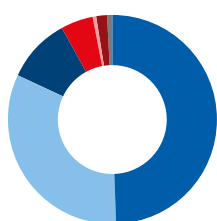
The share of deposits in the Group's total financing amounted to 32% on 31 December 2019. Deposits increased 10% during the year, strengthened as a result of the bank's healthy customer growth.

## Funding activities 2019

A relatively large portion of the funding took place during the first six months of 2019 when there was high demand in the market.

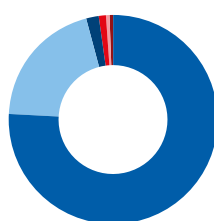
In January, Länsförsäkringar Hypotek issued a seven-year Euro

### Financing sources



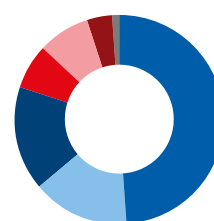
The largest source of financing in the Group is covered bonds.

### Funding by currency



Wholesale funding primarily takes place in the Swedish market and in SEK.

### Liquidity reserve\*



The liquidity reserve is invested in securities with high credit quality.

\*99% pertains to AAA-rated bonds



benchmark covered bond for a nominal EUR 500 M. 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 the outstanding senior non-preferred bond was SEK 3.0 billion on 31 December 2019. In addition, Länsförsäkringar Hypotek issued a Swedish benchmark bond (LFH519) during the year, which matures in September 2026. The average remaining term for the long-term financing is 2.3 years for senior unsecured bonds and 3.5 years for covered bonds.

### Liquidity

Effective long-term planning and low risk tolerance are the hallmarks of the bank's liquidity and funding management. A satisfactory liquidity reserve is in place to ensure that sufficient liquidity is always available. The management and investment of the liquidity reserve are conservative.

The liquidity reserve amounted to SEK 60 billion at 31 December 2019. 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. A total of 49% of the liquidity reserve comprises Swedish covered bonds, 16% deposits with the Swedish National Debt Office and Riksbank, 15% Swedish government bonds, 8% bonds issued or guaranteed by European governments and multinational development banks, 7% other Swedish bonds with an AAA/Aaa credit rating, 4% Nordic AAA/Aaa-rated covered bonds and 1% other liquid assets. Slightly more than SEK 2,700 M of the liquidity reserve comprises green bonds. 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 amounted to 295%. The Net Stable Funding Ratio (NSFR) for the consolidated situation amounted to 131%<sup>1)</sup> on 31 December 2019.

### Rating

Länsförsäkringar Bank's long-term credit rating is A1/Stable from Moody's and A/Stable from Standard & Poor's. The short-term credit ratings are A-1 from Standard & Poor's and P-1 from Moody's.

Länsförsäkringar Hypotek's covered bonds maintained the highest credit rating of Aaa from Moody's, and AAA/Stable from Standard & Poor's. Länsförsäkringar Hypotek is thus one of three issuers in the Swedish market for covered bonds with the highest rating from both Standard & Poor's and Moody's.

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 <sup>*)</sup>	Standard & Poor's	AAA/Stable	-
Länsförsäkringar Hypotek <sup>*)</sup>	Moody's	Aaa	-

<sup>\*)</sup> Pertains to the company's covered bonds.

### MREL

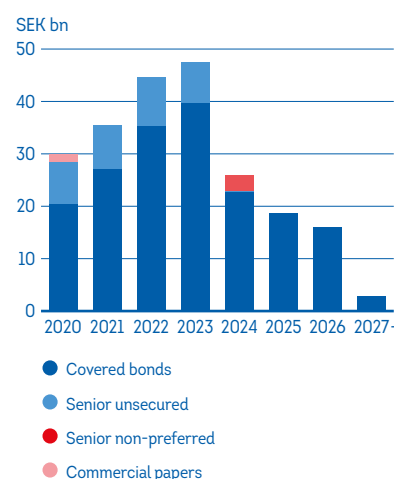
In December 2019, the Swedish National Debt Office established its annual decisions on resolution plans and minimum requirement for own funds and eligible liabilities (MREL) for the institutions that the Debt Office deems to be systemically important, which includes Länsförsäkringar Bank. The National Debt Office decided on the minimum requirements at the consolidated level and at the individual level for Länsförsäkringar Bank, Länsförsäkringar Hypotek and Wasa Kredit.

<sup>1)</sup> The calculation is based on the application of the regulatory requirements according to the future update of the Capital Requirements Regulation.

### Funding programmes – Bank Group

Programme	Limit, Nominal	Issued 2019, SEK bn	Issued 2018, SEK bn	Outstanding, 31 Dec 2019, SEK bn	Outstanding, 31 Dec 2018, SEK bn	Remaining average maturity, years, 31 Dec 2019
Benchmark (Hypotek)	Unlimited	21.6	30.9	129.2	122.0	3.4
MTCN (Hypotek)	SEK 30 billion	7.2	2.4	13.5	6.3	4.5
EMTCN (Hypotek)	EUR 5 billion	5.1	6.8	39.5	35.7	3.5
Total covered bonds		33.9	40.1	182.3	164.0	3.5
MTN (Bank)	SEK 30 billion	5.9	5.5	24.5	26.5	1.9
EMTN (Bank)	EUR 2 billion	-	5.9	12.3	13.5	3.0
Total senior unsecured bonds		5.9	11.4	36.8	40.0	2.3
DCP (Bank)	SEK 15 billion	0.5	0.1	0.05	0.0	0.8
ECP (Bank)	EUR 1.5 billion	4.2	0.4	1.4	0.3	0.2
Total commercial paper		4.7	0.5	1.5	0.3	0.2
Total Group		44.5	52.0	220.6	204.3	3.3

### Maturity profile



## Regulatory developments Länsförsäkringar Bank

The development of new financial regulations is expected to continue at a rapid pace and will have a major impact on banks moving forward.

### Capital adequacy rules

In 2019, the EU decided on the "Banking Package." The measures in the Banking Package are to aid the implementation of risk-reduction global standards at EU level and are also part of completing the Banking Union, and are expected to come into effect in 2020/2021. In December 2019, the Banking Package Inquiry published its proposals on the legislative changes required to adapt Swedish law to the new EU rules.

The work on completing the Basel III regulations continued in 2019. The European Commission published a proposal in 2019 on how to implement these final reforms. The views in response to this proposal will be important to the European Commission in preparing a concrete legal proposal that is expected in 2020. The proposal rules entail major changes for banks and include changes to the Standardised Approach for both credit and operational risk as well as the introduction of a capital floor of 72.5%. The capital floor entails that the risk-weighted assets for a bank that applied internal models may not, in total, be lower than 72.5% of the risk-weighted amount calculated according to the Standardised Approach. The new rules are expected to take effect in 2022.

The European Banking Authority (EBA) also deferred the implementation of certain new requirements for internal models in the review of the IRB regulatory framework. The new standards will be introduced not later than 2021.

### New EU rules on covered bonds

In November 2019, the EU decided on new regulations regarding covered bonds. The aim of the regulations is to create standardised rules on covered bonds within the EU. These rules include a new directive and certain changes to the Capital Requirements Regulation. The directive includes introducing a special requirement on a cover pool liquidity buffer. A higher

match funding requirement is also proposed, meaning the degree to which the value of the cover pool is to exceed the nominal value of the covered bonds. Proposals on the implementation of the rules in Swedish law are expected to be prepared in 2020. The new legislation must be in place by mid-2021 and be fully applicable 12 months later.

### MREL

In December 2019, the Swedish National Debt Office established its annual decisions on resolution plans and minimum requirement for own funds and eligible liabilities (MREL) for the institutions that the Debt Office deems to be systemically important, which includes Länsförsäkringar Bank. The National Debt Office decided on the minimum requirements at the consolidated level and at the individual level for Länsförsäkringar Bank, Länsförsäkringar Hypotek and Wasa Kredit. The Banking Package Inquiry's proposals, including changes to the Crisis Management Directive, may result in changes to minimum requirements for own funds and eligible liabilities.

### Increased capital requirements on banks loans for commercial real estate

At the start of 2020, the Swedish Financial Supervisory Authority decided to introduce increased capital requirements in Pillar II on lending for commercial real estate. The decision was based on the proposal made by the Financial Supervisory Authority at the end of 2019 and means that a risk weight has been set for lending for commercial real estate and commercial residential properties at 35% and 25%, respectively. This additional capital requirement will start to be applied in connection with the Financial Supervisory Authority's assessment of capital requirements as part of its annual supervisory review and evaluation process in 2020.

Länsförsäkringar Bank is following regulatory developments and is highly prepared and well capitalised for impending changes, even if it is unclear at this stage what the effects of a capital requirement will be.

## Anti-money laundering

Money laundering, terror financing and other economic crime are all global problems that bring significant challenges for society. The priority of these issues has increased over the last decade since the crimes have continuously grown in both extent and complexity. The concepts are also broad and include a number of different types. Money laundering aims to integrate illegal money into the legal economy by "laundering" the money from criminal activity through the financial system. Terror financing includes both making direct donations to terrorism, and also collecting, providing and receiving money and assets for the purpose of financing terrorism. Banks and other financial companies are not protected from this type of crime but are exploited to achieve their criminal objectives.

Under the Swedish Money Laundering Act, financial companies are to assess, limit and monitor their risks of being utilised to launder money and finance terrorism. They are also to actively identify and report suspicious activities. The rules are comprised of three central pillars: risk assessment, customer due diligence, and moni-

toring and reporting. The fifth EU Money Laundering Directive, adopted in 2018, will essentially come into effect in January 2020 through implementation in Swedish law and in the regulations of the Swedish Financial Supervisory Authority. The amendments include greater protection for whistle-blowers and improving the basis for cooperation and exchanging information between various supervisory authorities. Furthermore, the new law also includes managing and trading in virtual currencies.

Länsförsäkringar Bank's business model is less exposed to the more high-risk segments given the bank's clear retail focus and the fact that lending is limited to Sweden. However, investments continue to be made to develop processes and expertise related to money laundering and customer due diligence, by both improving work procedures further and strengthening the organisation with additional resources and personnel. This work was intensified in 2019 and has been further expanded to advance the bank's positions even more in this area in 2020.

# Board of Directors' Report

The Board of Directors and President of Länsförsäkringar Bank AB (publ) hereby submit the Annual Report for 2019.

## GROUP

### Ownership and Group structure

Länsförsäkringar Bank AB (publ) is part of the Länsförsäkringar AB Group, with Länsförsäkringar AB (publ) as the Parent Company, which is owned by 23 independent and customer-owned regional insurance companies and 16 local insurance companies. All customer contact takes place at the regional insurance companies. Länsförsäkringar AB (publ) is responsible for conducting joint business activities, strategic development activities and providing service. The aim is to establish the conditions for the regional insurance companies to continue to grow and be successful in their respective markets.

Länsförsäkringar Bank AB (publ) (Corp. Reg. No. 516401-9878) is 100% owned by Länsförsäkringar AB (publ) (Corp. Reg. No. 556549-7020). The Bank Group comprises the Parent Company Länsförsäkringar Bank AB (publ) and the wholly owned subsidiaries Länsförsäkringar Hypotek AB (publ) (Corp. Reg. No. 556244-1781), Länsförsäkringar Fondförvaltning AB (publ) (Corp. Reg. No. 556364-2783) and Wasa Kredit AB (Corp. Reg. No. 556311-9204). All companies have their registered offices in Stockholm and the abbreviated forms of these company names are used in the remainder of the Board of Directors' Report.

### Focus of operations

The operations offer banking services to private individuals, agricultural customers and small businesses. The lending products of leasing, hire purchase and unsecured loans are offered to private individuals and companies through the wholly owned subsidiary Wasa Kredit.

Sales and customer services are carried out through the 128 branches of the 23 regional insurance companies and via digital services and telephone. The regional insurance companies are reimbursed for sales, administration and customer care through a reimbursement system. Another part of the full-service offering is the 176 branches of Länsförsäkringar Fastighetsförmedling throughout Sweden.

### Market commentary

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.

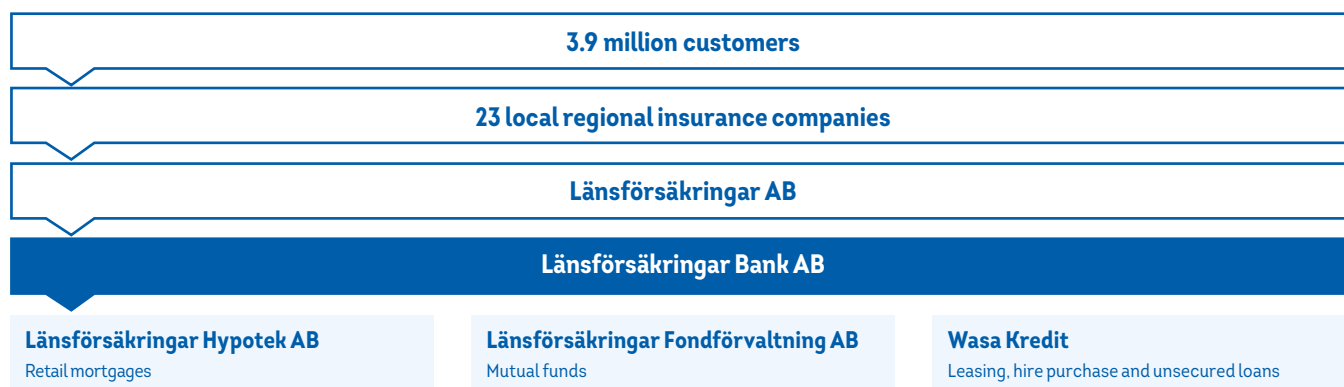
The US central bank, the Fed, altered the direction of its monetary policy and cut interest rates three times consecutively during the year despite unemployment continuing to fall. This was a powerful move and a swift reaction to the slowdown within the industry and the uncertainty surrounding the trade 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 Market commentary 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

## Länsförsäkringar Bank – part of the Länsförsäkringar Alliance



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 income 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.

### Business volumes

Business volumes rose 17%, or SEK 94.7 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).

### Customers

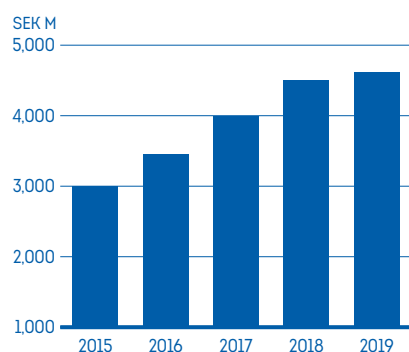
The number of customers with Länsförsäkringar as their primary bank increased 9% to 553,000 (507,000) and the average number of products per customer was five. Some 91% of those customers who have the bank as their primary bank are also existing Länsförsäkringar insurance customers. The number of bank 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

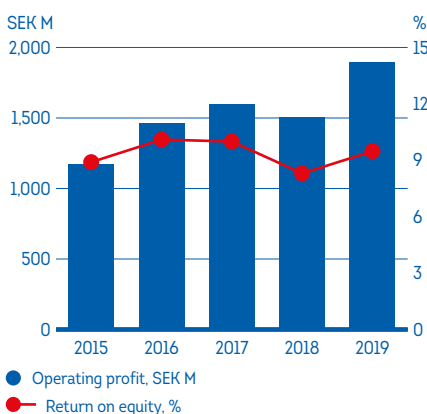


### Income

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).

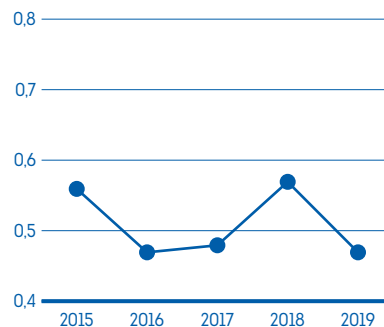
### Operating profit and return on equity



### 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 credit 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 of the remuneration to the regional insurance companies for credit-impaired loan receivables is withheld in accordance with the settlement model for credit losses related to the regional insurance companies' commitments for generated business.

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 model above.

For further information on credit losses and credit-impaired loan receivables, refer to note 12.

### 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 was 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

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
<b>Total</b>	<b>100</b>	<b>100</b>

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

Loan-to-value ratio	Capital receivable	
	Volume	Percentage
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%
<b>Total</b>	<b>240,236</b>	<b>100.0%</b>

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

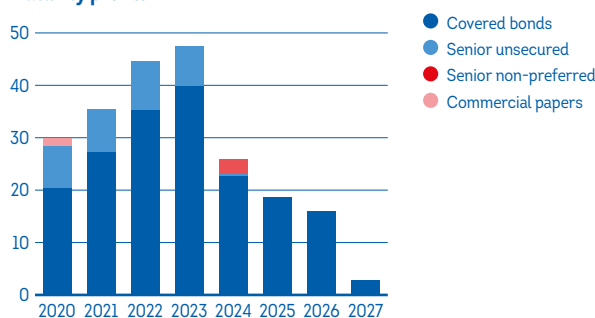
### Funding

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 the outstanding senior non-preferred bond was SEK 3.0 billion on 31 December 2019.

### Maturity profile



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



## 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 situation

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

The total Risk Exposure Amount (REA) was SEK 121,827 M (113,283) in the consolidated situation. Continued growth in lending, primarily to households in the form of mortgages, led to an increase in REA. During the year, Common Equity Tier 1 capital in the Consolidated Situation strengthened by SEK 1 billion, mainly due to profit generated in the Bank Group.

The Common Equity Tier 1 capital ratio in the Consolidated Situation amounted to 15.4% (15.7) and the total capital ratio to 16.6% (18.3). The total capital ratio declined because the Tier 1 and Tier 2 capital in the Consolidated Situation were impacted by clarification on qualifying own funds published by the European Banking Authority (EBA) in November 2019. 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. A dialogue is currently being maintained with the Swedish Financial Supervisory Authority to discuss possible options going forward.

The leverage ratio on 31 December 2019 amounted to 4.9% (5.1). For more information on capital adequacy, see note 3.

## Employees

In 2019, the Bank Group had an average of 576 employees, of whom women numbered 303 and men 273. In addition to the employees of the Bank Group, the 23 regional insurance companies have bank advisors.

Länsförsäkringar Bank's high ambition is to be a responsible and attractive employer, both internally and externally. Commitment, trust, openness and professionalism are the foundation of our corporate culture. Skilled employees who drive and develop the operations are vital to achieving our business objectives. Attracting new and retaining existing employees is of the greatest importance. A focus on diversity, inclusion, skills development, health and a good work environment are key factors in ensuring this. The company's HR work is based on the Group's core values, leader and employee profiles, personnel policy, Code of Conduct and the equality and diversity plan.

## Sustainability

Länsförsäkringar Bank's sustainability activities are based on the vision of "Together we create security and opportunities." Länsförsäkringar Bank can reduce its sustainability risks and also contribute to the positive development of society and create business value by taking economic, social and environmental aspects into consideration in business development and business decisions.

Länsförsäkringar Bank does not prepare a statutory Sustainability Report in accordance with Chapter 6, Section 10 of the Swedish Annual Accounts Act. Länsförsäkringar AB prepares a Sustainability Report for the Group in which Länsförsäkringar Bank is included. The Group's Sustainability Report can be found in Länsförsäkringar AB's 2019 Annual Report on the pages listed in the Index ÅRL Sustainability Report on page 139 and via this link:

[lansforsakringar.se/sustainabilityreport2019](https://lansforsakringar.se/sustainabilityreport2019).

## Risks and uncertainties

The operations are characterised by a low risk profile. The Group and the Parent Company are exposed to a number of risks, primarily comprising credit risks, market risks and liquidity risks. The macro-economic situation in Sweden is critical for credit risk, since all loans are granted in Sweden. Credit risk comprises the risk of borrowers being unable to meet their financial commitments and that any collateral provided does not cover the receivable. Credit risk also includes counterparty risk and concentration risk. Credit losses remained very low and the refinancing of business activities was highly satisfactory during the year.

Market risks, the risk of a decrease in the company's earnings and equity due to changes in market factors, predominately comprise interest-rate risks and are managed by matching terms and by making use of derivative instruments. The bank has highly diversified funding and a liquidity reserve comprising securities with high liquidity and creditworthiness, which means that the reserve can be rapidly converted into cash and cash equivalents. In addition to these, there are unutilised funding programmes that, in combination, provide opportunities for managing the risk inherent in the difference between the contractual cash flows of assets and liabilities.

Liquidity risk is the risk that the Group is unable to refinance existing assets or is unable to meet increased liquidity demands within a defined period of time. This also includes the risk of being forced to raise loans at unfavourable interest rates or being forced to divest assets at a loss to fulfil its payment commitments. To reduce this risk, the bank has secured a highly diversified range of financiers, financing sources and financing periods, and a sound balance of terms in its financing in relation to maturities in its lending. The financial instruments used to achieve this diversification include interest-rate swaps, bonds and repurchase agreements.

During the year, the Board particularly examined the bank's work on anti-money laundering and measures to combat terror financing. Areas of improvement were identified following an evaluation of the bank's existing procedures, system support and processes. Resources were expanded in this area and work on advancing positions in this area will continue in 2020.

For further information about the risks in the operations, risk and capital management and the principles for risk governance, see note 3 Risks and capital adequacy.

## Expectations regarding future development

The banking operations intend to follow the strategic direction of profitable growth with high credit quality, by further refining existing products and on the basis of maintaining a favourable level of capitalisation. Growth in lending will take place by paying close attention to changes in the business environment, the financial situation and the prevailing circumstances in the capital market. Strong liquidity will be maintained. The continued market strategy is to conduct sales and customer marketing activities targeting the regional insurance companies' customers.

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

## Events after year-end

On 6 February 2020, Bengt-Erik Lindgren left the Board of Länsförsäkringar Bank.

## PARENT COMPANY

All of the Group's deposits are conducted by the Parent Company. Most of the Group's lending and funding operations are conducted through the subsidiary Länsförsäkringar Hypotek. 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).

## Earnings

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 (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).

## Proposed appropriation of the Parent Company's unappropriated earnings

### SEK

Other reserves	55,952,246
Retained earnings	5,757,091,885
Net profit for the year	99,311,246
Profit to be appropriated	5,912,355,377

The Board proposes that SEK 5,912,355,377 be carried forward.

## SUBSIDIARIES

### Länsförsäkringar Hypotek AB

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.

Länsförsäkringar Hypotek AB, 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%.

Wasa Kredit, 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).

Länsförsäkringar Fondförvaltning AB, 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

## Five-year summary

SEK M	2019	2018 <sup>3)</sup>	2017 <sup>2)</sup>	2016 <sup>1)</sup>	2015
<b>INCOME STATEMENT</b>					
Net interest income	4,617.4	4,497.1	3,996.3	3,463.5	2,994.3
Net commission	-636.4	-773.3	-750.3	-661.9	-440.9
Net gains/losses from financial items	15.4	13.5	-49.4	68.4	96.6
Other operating income	30.5	45.6	60.9	33.9	97.3
<b>Total operating income</b>	<b>4,026.8</b>	<b>3,782.9</b>	<b>3,257.5</b>	<b>2,903.8</b>	<b>2,747.3</b>
Staff costs	-640.1	-588.2	-549.0	-469.8	-462.0
Other administration expenses	-1,114.7	-1,164.7	-960.4	-852.7	-980.2
Depreciation/amortisation and impairment of property and equipment and intangible assets	-171.4	-425.3	-91.5	-76.3	-124.1
<b>Total operating expenses</b>	<b>-1,926.2</b>	<b>-2,178.3</b>	<b>-1,600.9</b>	<b>-1,398.8</b>	<b>-1,566.3</b>
<b>Profit before credit losses</b>	<b>2,100.7</b>	<b>1,604.7</b>	<b>1,656.6</b>	<b>1,505.0</b>	<b>1,181.0</b>
Credit losses, net	-207.2	-94.7	-57.7	-37.6	-6.1
<b>Operating profit</b>	<b>1,893.5</b>	<b>1,510.0</b>	<b>1,598.9</b>	<b>1,467.3</b>	<b>1,174.9</b>
Tax	-453.8	-328.4	-361.9	-330.8	-263.8
<b>Net profit for the year</b>	<b>1,439.7</b>	<b>1,181.6</b>	<b>1,237.0</b>	<b>1,136.6</b>	<b>911.1</b>
<b>BALANCE SHEET</b>					
Cash and balances with central banks	9,831.1	22.2	17.0	21.6	21.5
Treasury bills and other eligible bills	9,934.4	10,846.8	10,531.5	7,867.2	8,824.0
Loans to credit institutions	407.8	4,485.9	265.0	280.2	502.7
Loans to the public	307,099.3	289,426.0	261,444.2	226,705.0	201,964.4
Bonds and other interest-bearing securities	42,673.3	36,790.4	35,717.8	32,809.7	31,991.3
Shares and participations	90.0	66.3	38.3	25.4	15.5
Derivatives	8,224.3	6,055.5	5,125.5	6,216.7	4,414.4
Fair value changes of interest-rate-risk hedged items in portfolio hedge	4.5	125.2	248.0	635.9	815.3
Intangible assets	1,252.0	989.6	969.3	488.3	306.2
Other assets	744.9	667.1	587.3	515.6	528.1
Prepaid expenses and accrued income	434.3	382.4	422.5	385.5	1,696.1
<b>Total assets</b>	<b>380,695.8</b>	<b>349,857.1</b>	<b>315,366.3</b>	<b>275,951.1</b>	<b>251,079.5</b>
Due to credit institutions	6,565.4	5,992.1	3,995.9	3,872.8	2,954.2
Deposits and funding from the public	119,303.5	108,141.7	99,403.6	91,207.1	83,924.8
Debt securities in issue	227,615.7	210,781.1	188,406.7	155,999.5	139,882.1
Derivatives	479.2	761.2	1,166.4	1,894.6	2,394.2
Fair value changes of interest-rate-risk hedged items in portfolio hedge	1,241.2	1,057.8	1,200.2	3,191.4	2,899.4
Deferred tax liabilities	439.1	577.3	508.0	421.6	296.0
Other liabilities	1,009.2	874.0	801.5	607.5	705.8
Accrued expenses and deferred income	2,968.4	2,972.4	2,959.1	2,978.8	3,666.4
Subordinated liabilities	2,595.2	2,593.1	2,596.5	2,595.4	2,299.7
Equity	18,479.0	16,106.2	14,328.4	13,182.3	12,056.9
<b>Total liabilities and equity</b>	<b>380,695.8</b>	<b>349,857.1</b>	<b>315,366.3</b>	<b>275,951.1</b>	<b>251,079.5</b>
<b>KEY FIGURES</b>					
Return on equity, %	9.48	8.34	10.0	10.1	8.9
Return on total assets, %	0.38	0.34	0.41	0.42	0.37
Investment margin, %	1.21	1.30	1.32	1.28	1.22
Cost/income ratio before credit losses	0.48	0.58	0.49	0.48	0.57
Common Equity Tier 1 capital ratio, Bank Group, %	13.9	14.2	24.3 <sup>4)</sup>	24.8 <sup>4)</sup>	23.7 <sup>4)</sup>
Tier 1 ratio, Bank Group, %	16.0	15.5	26.8 <sup>4)</sup>	27.5 <sup>4)</sup>	26.6 <sup>4)</sup>
Total capital ratio, Bank Group, %	18.5	18.2	32.1 <sup>4)</sup>	33.4 <sup>4)</sup>	32.0 <sup>4)</sup>
Common Equity Tier 1 capital ratio, consolidated situation, %	15.4	15.7	23.3 <sup>4)</sup>	21.2 <sup>4)</sup>	21.4 <sup>4)</sup>
Tier 1 ratio, consolidated situation, %	16.0	16.5	24.8 <sup>4)</sup>	23.2 <sup>4)</sup>	23.7 <sup>4)</sup>
Total capital ratio, consolidated situation, %	16.6	18.3	28.1 <sup>4)</sup>	27.6 <sup>4)</sup>	28.2 <sup>4)</sup>
Share of credit-impaired loan receivables (stage 3), %	0.20	0.17	-	-	-
Reserve ratio for loan receivables stage 1, %	0.03	0.02	-	-	-
Reserve ratio for loan receivables stage 2, %	0.98	1.60	-	-	-
Reserve ratio for loan receivables stage 3, %	34.6	32.6	-	-	-
Reserve ratio for loan receivables stage 3, incl. withheld remuneration to regional insurance companies, %	40.1	37.0	-	-	-
Credit losses in relation to loans, %	0.06	0.04	0.02	0.02 <sup>5)</sup>	0.00 <sup>5)</sup>

<sup>1)</sup> The company has decided from 1 January 2017 to recognise financial instruments measured at fair value including accrued interest. The change affected comparative figures in the balance sheet as per 31 December 2016. Comparative figures for 2015 have not been restated. <sup>2)</sup> The comparative years 2015–2017 were not restated in connection with the transition to IFRS 9 Financial Instruments. <sup>3)</sup> The comparative years 2015–2018 were not restated in connection with the transition to IFRS 16 Leases. <sup>4)</sup> Risk weight floor for mortgages in Pillar II. <sup>5)</sup> Includes the dissolution of reserves.

# Corporate Governance Report

## Introduction

Länsförsäkringar Bank AB (Länsförsäkringar Bank) is a wholly owned subsidiary of Länsförsäkringar AB, which in turn is owned by 23 customer-owned regional insurance companies and 15 local insurance companies. Länsförsäkringar AB and its subsidiaries and owners jointly comprise the Länsförsäkringar Alliance.

Länsförsäkringar Bank is a public limited liability company, and the company's bonds are listed on Nasdaq Stockholm, the Luxembourg Stock Exchange and the Irish Stock Exchange. Länsförsäkringar Bank complies with the applicable parts of the Swedish Corporate Governance Code (the Code). Deviations are primarily due to Länsförsäkringar Bank not being a stock-market company. Deviations from the provisions of the Code and explanations for such deviations are presented below in the Deviations from the Code section on page 29.

## Corporate governance

Länsförsäkringar Bank, and its subsidiaries Länsförsäkringar Fondförvaltning AB (publ), Länsförsäkringar Hypotek AB (publ) and Wasa Kredit AB (Wasa Kredit), comprises the Bank business unit of the Länsförsäkringar AB Group.

The Länsförsäkringar AB Group has a corporate governance system based on the Länsförsäkringar Alliance's strategies, Länsförsäkringar AB's assignment from its owners, Länsförsäkringar AB's long-term direction and on principles for managing the Länsförsäkringar AB Group decided upon by the Board of Länsförsäkringar AB. The risk-based performance management represents the basis of the corporate governance system.

Based on the aforementioned starting points, the corporate governance system consists of the organisation, the internal regulations and internal-control system, while the Bank business unit guarantees the governance and internal control within the business unit within the framework of the corporate governance system.

The Board establishes the operational organisation for the Länsförsäkringar Bank Group, which should be appropriate and transparent, with a clear distribution of responsibilities and duties between the various company bodies and between the so-called lines of defence, and a clear decision and reporting procedure. An internal-control system is integrated into the operational organisation, including a regulatory compliance system and a risk management system. Economies of scale are guaranteed within the framework of the organisation via Group-wide functions and outsourced operations, continuity management, efficient systems for reporting and transferring information, information security, management of conflicts of interest and ensuring that Board members and employees are suited to their tasks.

The internal regulations, which comprise governance documents such as policies, guidelines and instructions, represent an important tool for managing the operations. The organisation and distribution of responsibility are determined by the internal regulations, as are the procedures for governance and internal control. The internal regulations are reviewed and decided upon regularly.

Internal control is part of the governance and management of the Bank business unit. Internal control aims to ensure that the organisation is efficient and fit for its purpose, that operations are conducted in accordance with decided strategies in order to

achieve established targets, that financial statements and reporting are reliable, that information systems are managed and operated efficiently and that there is a strong ability to identify, measure, monitor and manage risks and full regulatory compliance. Risk and capital control and capital planning are a part of the internal control. The internal-control process encompasses all parts of the organisation, including outsourced activities, and is an integral part of the organisational structure and decision-making processes. Internal control in the Bank business unit is based on a system comprising three lines of defence, which comprise operations in the first line, functions for compliance and risk control in the second line and an internal audit function in the third line.

The purpose of the risk-management system, which is a part of internal control, is to ensure that the legal entities in the Bank business unit are continuously able to identify, measure, monitor, manage and report risks. Internal control also includes the compliance system that ensures compliance with laws, regulations and other rules, and guarantees that new and amended regulations are monitored and implemented effectively, that the Boards and employees are trained and that risks linked to compliance with external and internal rules can continuously be identified, measured, controlled, managed and reported.

An outline of the governance and reporting structure is provided in the diagram on page 26.

## Shareholders and General Meeting

Shareholders exercise their voting rights at the Annual General Meeting, which is the highest decision-making body. A general meeting is normally held once per year, the Annual General Meeting. Länsförsäkringar AB owns 100% of the share capital and voting rights.

Decisions are made at the Annual General Meeting regarding the Annual Report, the election of members of the Board and auditors, fees and other remuneration to Board members and auditors, and other important matters to be addressed in accordance with laws or the Articles of Association. The proposal for remuneration of Board members is specified for the Chairman and other Board members.

## Nomination Committee

### Nomination process

The Annual General Meeting of Länsförsäkringar AB appoints a Nomination Committee. The Nomination Committee is charged with the task of presenting proposals regarding the Board of Directors and auditors of Länsförsäkringar AB, and, in consultation with the CEO of Länsförsäkringar AB, proposals regarding, for example, the Board of Directors and auditors of Länsförsäkringar Bank, and fees and other remuneration to these members and auditors.

The Nomination Committee follows an instruction adopted by the Annual General Meeting of Länsförsäkringar AB and new Board members are recruited in accordance with the instructions and established procedures and processes. The Board is to have a sufficient number of Board members based on the size and degree of complexity of the company, and the nature and scope of the operations. With this as the starting point, the Nomination Committee assesses as to whether the Board has a suitable composition, with

respect to the operations, stage of development and other conditions of the company, that ensures that the overall competencies necessary for the company are in place, characterised by diversity in terms of, for example, age, gender and ethnic origin. See also the section Fit and proper assessment of the Board of Directors and President below.

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

The Nomination Committee has comprised Otto Ramel as Chairman (Länsförsäkringar Skåne), Anna-Greta Lundh (Länsförsäkringar Södermanland), Mats Åstrand (Länsförsäkringar Gävleborg) and Göran Trobro (Länsförsäkringar Göinge Kristianstad) since the 2019 Annual General Meeting of Länsförsäkringar AB. Henrietta Hansson (Länsförsäkringar Jönköping) stepped down from the Nomination Committee during the year.

Prior to the 2019 Annual General Meeting, the Nomination Committee has:

- studied the Board's evaluation of its work,
- studied the Board Chairman's view of the operations, the Board's work and skills requirements, and

- reviewed and discussed requirements for skills with respect to the needs of the operations and regulatory requirements

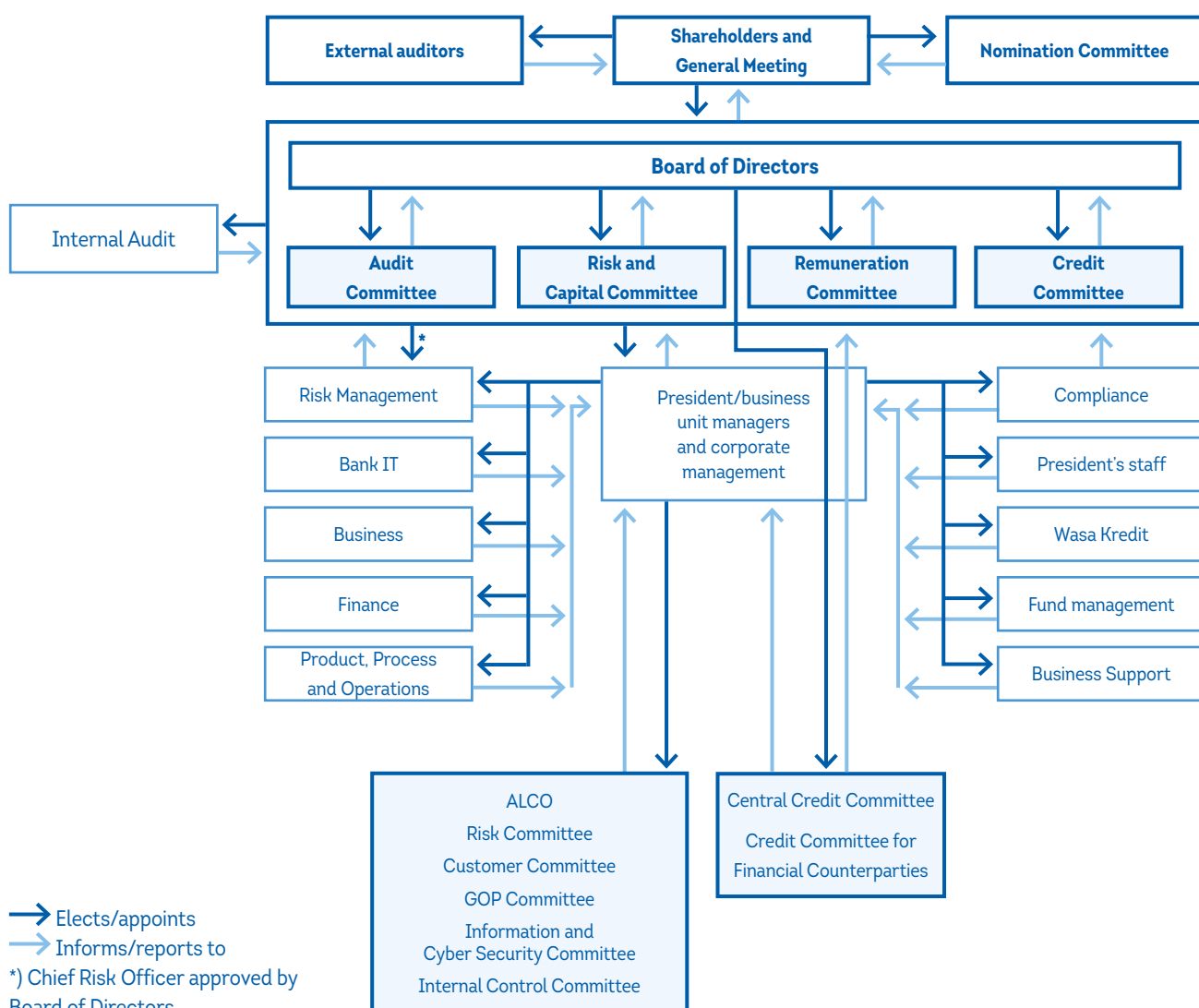
Prior to 2020 Annual General Meeting, the Nomination Committee will:

- evaluate the independence of candidates,
- nominate Board members, the Board Chairman and auditors,
- carry out fit and proper assessments of Board members, and
- propose fees and other remuneration of Board members and auditors.

#### **External auditors**

The Annual General Meeting appoints the external auditors. Nominations are made to the Nomination Committee. In accordance with the Articles of Association, Länsförsäkringar Bank is to have between one and three auditors and between zero and three deputy auditors. Auditors are appointed for a period in office of a maximum of four years. KPMG AB was elected the auditor at the 2019 Annual General Meeting, with Dan Beitner as auditor in charge. The auditor was appointed for the period up to the 2022 Annual General Meeting.

### **Länsförsäkringar Bank's governance structure**





The auditor examines Länsförsäkringar Bank Annual Report, including the corporate governance report, as well as the administration of the Board and the President. The auditor reviews Länsförsäkringar Bank's interim reports. The auditor presented the audit results and observations to the Board once in 2019. The auditor also participates in the meetings of the Board's Audit Committee.

## Board of Directors

### Composition of Board

The Board of Directors of Länsförsäkringar Bank is elected by the General Meeting and, in accordance with the Articles of Association, is to comprise between six and nine regular Board members elected by the General Meeting, with no more than six deputies. Board members are elected for a mandate period of two years. In addition, members appointed by trade-union organisations are also members of the Board. The President is not a member of the Board. Länsförsäkringar Bank has no time limit for the length of time a member may sit on the Board and no upper age limit for Board members. The Chairman of the Board is appointed by the Annual General Meeting. The President, Executive Vice President and Board Secretary participate in Board meetings except for matters in which there may be a conflict of interest or when it would otherwise be inappropriate for them to attend. Employees reporting on particular issues attend meetings when they make their presentations.

The Board comprised ten regular members and one deputy in 2019. Eight of the members were elected by the General Meeting. Two regular members and one deputy were appointed by the trade-union organisations. A presentation of the Board members can be found on pages 110-111.

### Board responsibilities and allocation of duties

The Board is responsible for the organisation and administration of the company and for handling and making all decisions concerning issues of material significance and of an overall nature relating to the company's operations. The Board appoints, evaluates and dismisses the President, adopts an appropriate executive organisation and the goals and strategies of the operations, and ensures that efficient systems are in place for internal governance and control, as well as risk management. Under the capital adequacy rules, Länsförsäkringar Bank is responsible, from a supervisory and reporting perspective, for the consolidated situation, which besides the Länsförsäkringar Bank Group also includes the Parent Company Länsförsäkringar AB.

## Board meetings and attendance

The table below shows the number of meetings held in each body since 2019 and the attendance of each Board member.

	Board of Directors	Audit Committee	Remuneration Committee	Risk and Capital Committee	Credit Committee
<b>Number of meetings</b>	<b>10</b>	<b>8</b>	<b>2</b>	<b>7</b>	<b>15</b>
Fredrik Bergström	10	8	2	7	13
Per-Ove Bäckström	10				15
Anders Grånäs	9			5	
Ingrid Jansson	9	7			
Beatrice Kämpe Nikolausson	10		2		
Bengt-Erik Lindgren	10	8	2		14
Peter Lindgren	8	6		7	
Anna-Greta Lundh	10			7	14
Mirek Swartz	10				
Ellinoora Hoppe	2				
Camilla Lahger, deputy	8				

Every year, the Board adopts a formal work plan. The formal work plan includes regulations on the duties and responsibilities of the Board, its Chairman and its members, the delegation of duties within the Board, the lowest number of Board meetings, procedures for reporting on the operations and financial reports, as well as procedures for Board meetings in terms of notices of meetings and presentations of materials, as well as disqualification and conflicts of interest. The Board is to continuously remain informed about the performance of the company to be able to continuously assess the company's financial situation and position. Through its formal work plan and a reporting manual, the Board has established that financial reporting is to take place regularly at Board meetings. The Board also regularly manages and evaluates the company's and the Group's risk development and risk management. During the year, the Board regularly monitors the earnings, business volumes, financial position and risk trends in relation to, for example, the business plan and forecasts. The Board receives regular reports from Compliance, Risk Management and Internal Audit and continuously monitors current matters with authorities.

### Chairman

According to the formal work plan, the Chairman is to lead the Board's work and ensure that the Board fulfils its duties. The Chairman is also to ensure that the Board meets as required, that Board members are provided with the opportunity to participate in meetings and receive satisfactory information and documentation for decision-making, and apply an appropriate working methodology. On the basis of ongoing contact with the President and in addition to Board meetings, the Chairman is also to keep himself informed of significant events and developments in Länsförsäkringar Bank, and support the President in his work.

### Work of the Board

In its formal work plan, the Board has established annually recurring items of business and a standard for its agenda and information and decision-making material. In a company directive, the Board established the company's and the Group's operational structure, clarified the allocation of responsibilities between the various units and executives in the company and Group, and stated how the operations are to be governed and controlled.

In addition to the Board's formal work plan and the company directive, at least once a year the Board establishes its directive for

the President as well as a large number of governance documents for the operations.

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

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

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

In 2019, the Board followed its established plan and gained greater knowledge of areas including cyber and IT risks, handling conflicts of interest and new regulations on risk and capital adequacy and outsourcing. The Board also devoted particular attention to such matters as IT, capital and liquidity issues, risks in the operations and major ongoing projects at the bank.

The number of Board meetings and members' attendance are presented in the table on page 27.

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

Every year, the Board Chairman initiates an evaluation of the Board's work. The 2019 evaluation was based on an electronic survey completed by the Board members. The results were compiled, reported to and discussed by the Board. The results were submitted to the Nomination Committee.

#### **Audit Committee**

The Audit Committee's responsibilities include preparing the Board's work in the following areas:

- Monitoring the company's financial reporting
- Regarding the financial reporting, monitoring the effectiveness of the company's internal control, internal audit and risk management
- Remaining informed of the audit of the Annual Report and consolidated financial statements
- Examining and monitoring auditors' impartiality and independence and, in this respect, particularly noting whether the auditors provide the company with any other services than auditing services.
- Monitoring the efficiency of the company's and Group's corporate governance system and internal control of the operational risks.

At the statutory Board meeting following the 2019 Annual General Meeting, Ingrid Jansson was appointed Chairman and Fredrik Bergström, Bengt-Erik Lindgren and Peter Lindgren were appointed members of the Audit Committee.

The number of Audit Committee meetings and members' attendance are presented in the table on page 27.

#### **Remuneration Committee**

The Remuneration Committee is to prepare issues on remuneration of the President and other members of corporate management and

employees with overall responsibility for any of the company's control functions, as well as prepare decisions for measures to monitor application of the remuneration policy.

At the statutory Board meeting following the 2019 Annual General Meeting, Fredrik Bergström was appointed Chairman, and Bengt-Erik Lindgren and Beatrice Kämpe Nikolausson were appointed members of the Remuneration Committee.

The number of Remuneration Committee meetings and members' attendance are presented in the table on page 27.

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

The Risk and Capital Committee is to support the Board in risk and capital adequacy issues and serve as a forum for analysing and holding in-depth discussions on the Länsförsäkringar Bank Group's and the consolidated situation's risk-taking and capital requirements ahead of Board decisions.

At the statutory Board meeting following the 2019 Annual General Meeting, Fredrik Bergström was appointed Chairman, and Anders Grånäs, Peter Lindgren and Anna-Greta Lundh were appointed members of the Risk and Capital Committee. The number of Risk and Capital Committee meetings and members' attendance are presented in the table on page 27.

#### **Credit Committee**

The Credit Committee is to prepare credit issues for amounts within the framework of the Committee's mandate according to an instruction adopted by the Board.

At the statutory Board meeting following the 2019 Annual General Meeting, Fredrik Bergström was appointed Chairman, and Bengt-Erik Lindgren, Per-Ove Bäckström and Anna-Greta Lundh were appointed members of the Credit Committee.

The number of Credit Committee meetings and Board members' attendance are presented in the table on page 27.

#### **President and corporate management**

Sven Eggefall has been the President since April 2018. Sven Eggefall was born in 1969 and has worked in the banking and finance sector since 1996. The organisational structure of the Bank Group is divided into departments. In addition, there are the three control functions of Risk Management, Compliance and Internal Audit. To ensure that the operations of each subsidiary comply with the overall objectives for the Länsförsäkringar Bank Group, the President is the head of the Bank business unit of the Länsförsäkringar AB Group and also the Chairman of the Board of Länsförsäkringar Bank's subsidiaries, except for Länsförsäkringar Fondförvaltning AB.

Corporate management comprises the President and the heads of the departments and the Head of Risk Management. Corporate management serves as a forum for consultation and exchange of information between the business unit's senior executives. Management discusses and decides on matters pertaining to the business unit.

In addition, a number of committees have been established to prepare and make decisions on certain issues. The committees are governed by separate instructions.

#### **Control functions**

##### **Internal Audit**

Internal Audit is an independent review function that supports the Board in the evaluation of the corporate governance system, including the organisation's risk management, governance and

controls. Based on its reviews, Internal Audit is to evaluate and assure that the operations' overall internal governance and control systems are conducted in an efficient manner and that the overall reporting to the Board provides a true and fair view of the operations, that the operations are conducted in accordance with applicable internal and external regulations, and in compliance with the Board's decisions. The Board has adopted a separate instruction for the Internal Audit function. Internal Audit reports to the Board of the companies included in the business unit and to Länsförsäkringar Bank's Audit Committee.

### **Compliance**

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

### **Risk Management**

The task of Risk Management is to provide support to the Board, the President and management, to fulfil its responsibility of ensuring that proper risk management and risk control have been carried out for all operations and to ensure that risks are managed in line with the risk framework established by the Board. Risk Management is to carry out its activities independently from the business activities. The Head of Risk Management is also the Chief Risk Officer for Länsförsäkringar Bank, who is responsible for ensuring that the Group's risks are managed in accordance with the established risk framework. Risks and action taken are to be continuously reported to the President and Board of the companies included in the business unit. Risks are also continuously reported to the Risk and Capital Committee and operational risks are also reported to Länsförsäkringar Bank's Audit Committee.

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

A suitability ("fit and proper") assessment is conducted in conjunction with the appointment of Board members, the President and the Executive Vice President. An assessment is also conducted annually, and when necessary, to ensure that the individuals in the above-mentioned positions are, at any given time, suitable for their assignments. The suitability assessment is conducted following established guidelines and takes into consideration the person's knowledge, skills and experience (fit), good repute, honesty and integrity (proper), any conflicts of interest, independence and the ability to commit sufficient time for the assignment.

Board members are assessed on the basis of material collected by the Board Chairman and received from the person to whom the fit and proper assessment pertains. Based on the company's operations, stage of development and other circumstances, the assessment also considers relevant training and experience, as well as professional experience in senior positions. In addition to the performance and skills of individual Board members, the Board's performance as a whole is assessed, based on, for example, the Board's

evaluation of its work and whether the Board possesses the skills required for leading and managing the company.

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

The assessment is that all Board members, the President and Executive Vice President fully satisfy the fit and proper criteria. Information about their education, previous experience and other Board appointments is presented on pages 110-112.

### **Deviations from the Code**

The major deviations from the provisions of the Code and explanations for such deviations are presented below.

#### ***Nomination Committee, notice, publication of information prior to, and holding an Annual General Meeting.***

Deviation from the provisions of the Code occurs with respect to the fact that Länsförsäkringar Bank is not a stock-market company and has only one shareholder. For more information, refer also to the sections Shareholders and General Meeting and Nomination Committee on pages 25-26.

#### ***Composition of Board***

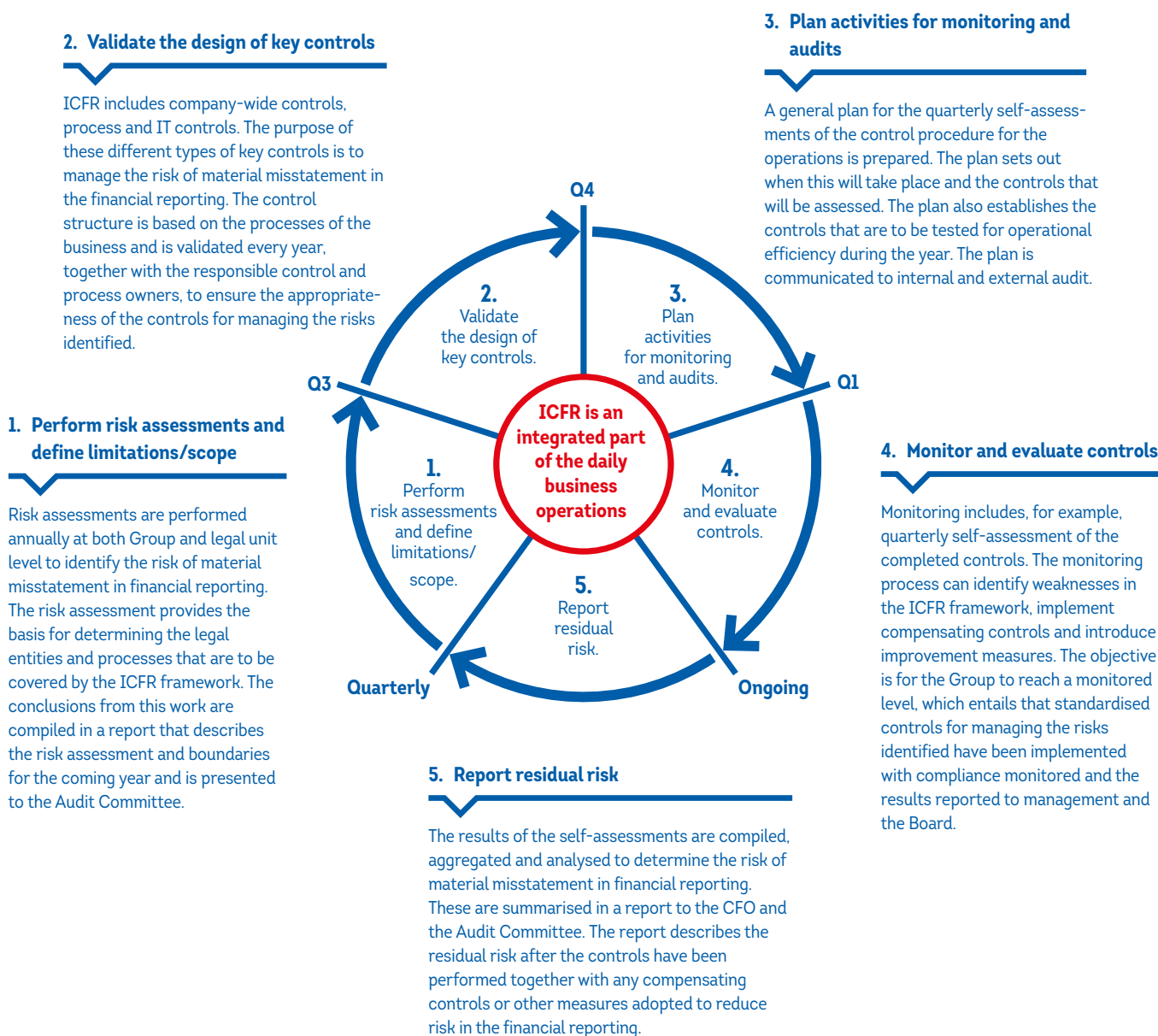
Deviation from the provisions of the Code occurs regarding independence of Board members and Committee members. According to the instruction for the Nomination Committee, the Board of Directors is to be appropriately composed with respect to Länsförsäkringar Bank's operations, stage of development and other circumstances, that ensures the overall competencies necessary are in place, characterised by diversity so as to promote independent opinion and critical questioning. It has been decided that these requirements can be fulfilled within the framework of the Länsförsäkringar Alliance.

#### ***Period of office for Board members***

Deviation from the provision of the Code occurs in respect of a maximum period of office of one year. The period of office for Board members is, as a general rule, two years. A longer period of office contributes to ensuring continuity and establishing competence within the Board.

# Internal control over financial reporting

The Board's responsibility is to ensure that efficient systems are in place to monitor and control the company's operations and financial position. Internal control over financial reporting (ICFR) is a framework for providing reasonable assurance of the reliability of the financial reporting to management and Board. The ICFR is performed in an annual cycle as shown in the diagram below.



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



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## Consolidated income statement

SEK M	Note	2019	2018
Interest income	5	5,986.3	5,230.3
Interest expense	5	-1,368.9	-733.2
<b>Net interest income</b>		<b>4,617.4</b>	<b>4,497.1</b>
Dividends received		4.7	29.9
Commission income	6	1,457.5	1,252.9
Commission expense	6	-2,093.9	-2,026.1
<b>Net commission</b>		<b>-636.4</b>	<b>-773.3</b>
Net gains / losses from financial items	7	15.4	13.5
Other operating income		25.8	15.7
<b>Total operating income</b>		<b>4,026.8</b>	<b>3,782.9</b>
Staff costs	8	-640.1	-588.2
Other administration expenses	9, 10	-1,114.7	-1,164.7
<b>Total administration expenses</b>		<b>-1,754.8</b>	<b>-1,752.9</b>
Depreciation/amortisation and impairment of property and equipment/intangible assets	12	-171.4	-425.3
<b>Total operating expenses</b>		<b>-1,926.2</b>	<b>-2,178.3</b>
<b>Profit before credit losses</b>		<b>2,100.7</b>	<b>1,604.7</b>
Credit losses, net	11	-207.2	-94.7
<b>Operating profit</b>		<b>1,893.5</b>	<b>1,510.0</b>
Tax	13	-453.8	-328.4
<b>Net profit for the year</b>		<b>1,439.7</b>	<b>1,181.6</b>

## Statement of comprehensive income - Group

SEK M	2019	2018
<b>Net profit for the year</b>	<b>1,439.7</b>	<b>1,181.6</b>
<b>Other comprehensive income</b>		
Items that have been transferred or can be transferred to profit or loss		
Cash-flow hedges		
of which change in value for the period	5,341.0	3,488.5
of which reclassification to profit or loss	-5,363.5	-3,546.6
Change in fair value of debt instruments measured at FVOCI		
of which change in value for the period	6.5	-44.4
of which reclassification of realised securities to profit or loss	-4.1	-5.7
Tax attributable to items that have been transferred or can be transferred to profit or loss	3.2	23.8
<b>Total</b>	<b>-16.9</b>	<b>-84.4</b>
Items that cannot be transferred to profit or loss		
Change in fair value of equity instruments measured at FVOCI	23.7	-11.0
Tax attributable to items that cannot be reversed to profit or loss	-4.5	0.0
<b>Total</b>	<b>19.2</b>	<b>-11.0</b>
<b>Total other comprehensive income for the period, net after tax</b>	<b>2.3</b>	<b>-95.4</b>
<b>Comprehensive income for the year</b>	<b>1,442.0</b>	<b>1,086.2</b>

## Consolidated balance sheet

SEK M	Note	31 Dec 2019	31 Dec 2018
<b>ASSETS</b>			
Cash and balances with central banks		9,831.1	22.2
Treasury bills and other eligible bills	14	9,934.4	10,846.8
Loans to credit institutions	15	407.8	4,485.9
Loans to the public	16–17	307,099.3	289,426.0
Bonds and other interest-bearing securities	18	42,673.3	36,790.4
Shares and participations		90.0	66.3
Derivatives	19	8,224.3	6,055.5
Fair value changes of interest-rate-risk hedged items in portfolio hedge	20	4.5	125.2
Intangible assets	21	1,252.0	989.6
Property and equipment	22	88.8	10.1
Deferred tax assets	23	88.9	96.1
Other assets	24	567.2	560.9
Prepaid expenses and accrued income	25	434.3	382.4
<b>TOTAL ASSETS</b>		<b>380,695.8</b>	<b>349,857.1</b>
<b>LIABILITIES AND EQUITY</b>			
Due to credit institutions	26	6,565.4	5,992.1
Deposits and funding from the public	27	119,303.5	108,141.7
Debt securities in issue	28	227,615.7	210,781.1
Derivatives	19	479.2	761.2
Fair value changes of interest-rate-risk hedged items in portfolio hedge	20	1,241.2	1,057.8
Deferred tax liabilities	23	439.1	577.3
Other liabilities	29	975.5	846.3
Accrued expenses and deferred income	30	2,968.4	2,972.4
Provisions	31	33.6	27.7
Subordinated liabilities	32	2,595.2	2,593.1
<b>Total liabilities</b>		<b>362,216.8</b>	<b>333,750.8</b>
<b>Equity</b>	33		
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		6,048.0	4,677.5
<b>Total equity</b>		<b>18,479.0</b>	<b>16,106.2</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>380,695.8</b>	<b>349,857.1</b>
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## Consolidated cash-flow statement (indirect method)

SEK M	2019	2018
Cash and cash equivalents, 1 January	324.5	144.0
<b>Operating activities</b>		
Operating profit	1,893.5	1,510.0
Adjustment of non-cash items	-33.4 <sup>2)</sup>	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	-17,816.6 <sup>2)</sup>	-27,860.6
Change in other assets	4,116.1	-4,055.9
Change in liabilities of operating activities		
Change in deposits and funding from the public	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
<b>Cash flow from operating activities</b>	<b>9,346.1</b>	<b>206.2</b>
<b>Investing activities</b>		
Acquisitions of property and equipment	-3.1	-4.0
Acquisitions of intangible assets	-405.0	-441.2
Sales of property and equipment	-	-
<b>Cash flow from investing activities</b>	<b>-408.0</b>	<b>-445.3</b>
<b>Financing activities</b>		
Amortisation of lease liabilities	-24.3	-
Issued Additional Tier 1 capital instruments	1,000.0	-
Change in issued Additional Tier 1 instruments <sup>1)</sup>	-69.2	-33.9
Change in subordinated debt	-	-1.8
Shareholders' contributions received	-	800.0
<b>Cash flow from financing activities</b>	<b>906.6</b>	<b>764.3</b>
<b>NET CASH FLOW FOR THE YEAR</b>	<b>9,844.7</b>	<b>180.5</b>
<b>Cash and cash equivalents, 31 December</b>	<b>10,169.2</b>	<b>324.5</b>
<b>Non-cash items</b>		
Depreciation of property and equipment/amortisation of intangible assets	171.4	116.1
Impairment of property and equipment and intangible assets	-	309.3
Unrealised portion of net gains/losses from financial items	-293.5	64.9
Credit losses, excluding recoveries	143.3	-67.3
Change in accrued expense/income	-56.0	53.5
Other	1.4	-79.0
<b>Total non-cash items</b>	<b>-33.4</b>	<b>397.4</b>
Cash and cash equivalents comprise:		
Cash and balances with central banks	9,831.1	22.2
Loans to credit institutions	338.1	302.3
<b>Total cash and cash equivalents</b>	<b>10,169.2</b>	<b>324.5</b>
Interest received	6,101.7	5,343.2
Interest paid	-1,442.7	-862.8

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

<sup>2)</sup> The amount has been adjusted compared to Year-end report 2019.

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



## Consolidated statement of changes in shareholders' equity - Group

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

<sup>1)</sup> 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.

<sup>2)</sup> 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.

<sup>3)</sup> In 2018 Länsförsäkringar Bank AB (publ) received an unconditional shareholders' contribution from Länsförsäkringar AB (publ).

# Notes to the consolidated financial statements

All figures in SEK M unless otherwise stated.

## Note 1 Company information

The consolidated financial statements for Länsförsäkringar Bank AB (publ) (Corp. Reg. No. 516401-9878) were presented on 31 December 2019. Länsförsäkringar Bank AB is a bank registered in Sweden, with its registered office in Stockholm. The address of the head office is Tegeluddsvägen 11-13, Stockholm, Sweden. The company is a wholly owned subsidiary of Länsförsäkringar AB (publ) (Corp. Reg. No. 556549-7020) with its registered office in Stockholm. The Parent Company in the largest and smallest Group in which Länsförsäkringar Bank AB (publ) is the subsidiary and in which the consolidated financial statements are prepared is Länsförsäkringar AB (publ), Stockholm. The consolidated financial statements for Länsförsäkringar Bank AB (publ) were approved by the Board and President for publication on 12 March 2020. Final approval of the consolidated financial statements will take place at the Parent Company's Annual General Meeting on 4 May 2020.

## Note 2 Accounting policies

### COMPLIANCE WITH STANDARDS AND LEGISLATION

The consolidated financial statements have been prepared according to 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 (IFRIC) as adopted by the EU. In addition, the Swedish Financial Reporting Board's (the Reporting Board) recommendation RFR 1 Supplementary Accounting Rules for Groups and the Reporting Board's statements, certain supplementary regulations in the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL) and the regulations and general guidelines of the Swedish Financial Supervisory Authority regarding annual accounts for credit institutions and securities companies (FFFS 2008:25) were applied. The Parent Company applies the same accounting policies as the Group except for the cases described under the Parent Company's note 2 regarding accounting policies. The deviations arising between the Parent Company's and the Group's accounting policies are due to the limitations on the possibility of applying IFRS in the Parent Company, as a result of the Annual Accounts Act and the Pension Obligations Vesting Act and, in certain cases, tax legislation.

### CONDITIONS RELATING TO THE PREPARATION OF THE PARENT COMPANY'S AND CONSOLIDATED FINANCIAL STATEMENTS

Länsförsäkringar Bank's functional currency is Swedish kronor (SEK), which is also the presentation currency of the Parent Company and the Group. The functional currency is the currency in the primary financial environments in which the Group companies conduct their operations, which means that the financial statements are presented in SEK. All amounts, unless otherwise stated, are rounded to the nearest million (SEK M). The reporting is based on historical cost. Financial assets and liabilities are recognised at amortised cost, except for certain financial assets and liabilities that are measured at fair value, see the note on Fair value valuation techniques, or when fair value hedge accounting is applied. The accounting policies for the Group stated below have been applied to all periods presented in the consolidated financial statements, unless otherwise stated.

### JUDGEMENTS AND ESTIMATES

The preparation of accounts in accordance with IFRS requires that management make judgements and estimates, and make assumptions that affect the application of the accounting policies and the carrying amounts of the income, expenses, assets, liabilities and contingent liabilities and provisions presented in the accounts. These judgements and estimates are based on historic experiences and the best information available on the balance-sheet date. The actual outcome may deviate from these judgements and estimates. The estimates and judgements are reviewed regularly. Changes in estimates are recognised in the period in which the change is made if the change only affects that period, or in the period in which the change is made and future periods if the change affects both current and future periods.

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

Corporate management discussed with the Audit Committee the performance, selection and disclosures relating to the Group's significant accounting policies and estimates, and the application of these policies and estimates. The critical judgements made in the application and selection of the Group's accounting policies are primarily attributable to:

- Assessment of business models and cash flows for financial instruments. These are described in the section on *financial assets and liabilities*.
- The primary hedging instrument used when the Bank Group applies cash flow hedging are cross-currency interest rate swaps that are always measured at fair value. The currency component of these swaps is handled as a cash flow hedge of the currency risk and the interest component as a fair value hedge of the interest-rate risk. The hypothetical derivative method is used to measure the effectiveness of these cash flow hedges, which entails that the change in a perfect hypothetical swap is deemed to correspond to the present value of the accumulated change in the expected cash flows for the hedged transaction (the currency component). Critical judgements are required to determine the characteristics of the perfect hypothetical swap.
- Method for calculating expected allowance for expected credit losses. This is described below in the section *Expected credit losses*.

### Significant sources of estimation uncertainty

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

One of the main areas in which important assessments are to be made is the identification of a significant increase in credit risk. Such an assessment of is performed at the end of every reporting period and determines the number of loans transferred from stage 1 to stage 2. An increase in loans in stage 2 entails an increase in the estimated reserves for credit losses ("loss allowances"), while a reduction in loans in stage 2 would have the opposite effect.

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

### 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

The Group applies the accounting policies below from 1 January 2019.

## IFRS 16 Leases

IFRS 16 Leases has replaced IAS 17 Leases 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 statement of financial position as follows: the obligation to make future fixed lease payments as a lease liability and the right to use an underlying asset as a right-of-use 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 leases and does not include non-lease components in its calculation of the lease liability.

### Application of exemption rules

There are exemptions for short-term leases and leases for which the underlying asset has a low value. The Group has decided not to recognise leases in the statement of financial position 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.

### Classification of leases

The Group recognises its leases in the statement of financial position as a right-of-use asset and a lease liability. Right-of-use assets are classified as the corresponding underlying asset that would have been presented if it had been owned. Leases pertaining to rent for premises are classified as owner-occupied property 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 recognised in the statement of financial position as 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 the 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 statement of financial position is presented in its entirety in note 40. 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.

## 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. 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.

Note 3 Risks and capital adequacy provides disclosures on uncertainties as a result of the IBOR reform.

## NEW IFRS AND INTERPRETATIONS THAT HAVE NOT YET BEEN APPLIED

New or revised IFRS and interpretations adopted by the IASB and not yet in force are not expected to have any material effect on the financial statements.

## DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES

### Consolidated financial statements

The consolidated financial statements include the Parent Company and all companies in which Länsförsäkringar Bank AB directly or indirectly holds a controlling influence. A controlling influence exists when the Parent Company has power over the investee, is exposed to or has rights to variable returns from its involvement and has the ability to use its power over the investee to affect the amount of the investor's returns. Shares that potentially carry voting rights and any de facto control are taken into account in assessing the existence of a controlling influence. Shareholders' contributions are recognised in the consolidated balance sheet as Other capital contributed.

### Group contributions

Group contributions that have been paid and received are recognised directly in equity after deductions for their current tax effects since the Group contributions are accounted for according to the policies of dividends and shareholders' contributions.

### Untaxed reserves

Untaxed reserves in the consolidated balance sheet have been divided into deferred tax liabilities and equity. Changes in deferred tax liabilities due to changes in untaxed reserves are recognised as deferred tax in the consolidated income statement.

### Equity instruments

Instruments in which the Group does not have a contractual obligation to make payment are recognised as equity instruments. Payment to holders of these instruments is recognised in equity. Accordingly, issued shares and Tier 1 instruments are recognised as equity instruments in the balance sheet.

### Operating segments

The Group's division of operating segments corresponds to the structure of the internal reports that the Group's chief operating decision maker uses to monitor the operations and allocate resources between operating segments.

The Group's chief operating decision maker is Group management. Accordingly, for the Länsförsäkringar Bank Group, the reports on the earnings of the various segments of the operations that are received by Group management form the basis of segment reporting. The legal Group structure reflects the internal reporting to Group management, meaning that every legal entity constitutes one segment. The Bank Group comprises the Parent Company Länsförsäkringar Bank AB, and the wholly owned subsidiaries Länsförsäkringar Hypotek AB, Wasa Kredit AB and Länsförsäkringar Fondförvaltning AB. The Banking Operations segment is Länsförsäkringar Bank AB's business activities, comprising deposits, some funding, payment mediation and lending that is not first-lien mortgages on residential properties. The Mortgage Institution segment is the Länsförsäkringar Hypotek AB's business activities, comprising retail mortgage lending of up to 75% of the market value at the granting date and funding by issuing covered bonds. The Finance Company segment is Wasa Kredit AB, which conducts the Bank Group's leasing operations. The Group also offers hire purchase financing and unsecured loans. The Mutual Funds segment is Länsförsäkringar Fondförvaltning AB, which manages mutual funds with different investment orientations. Segment reporting is only provided for the Group. The Group has no single customer that solely accounts for 10% or more of the Group's income.

### Transactions in foreign currency

Transactions in foreign currency are translated to the functional currency at the exchange rate on the date of the transaction. Monetary assets and liabilities in foreign currency are translated to the functional currency at the exchange rate that applies on the balance-sheet date. Non-monetary assets and liabilities are translated to the rate in effect on the date of the transaction. Exchange-rate differences arising due to the translation of balance-sheet items in foreign currency are recognised in profit or loss under the line item Net gains/losses from financial items as exchange-rate gains or exchange-rate losses.

### Revenue from Contracts with Customers

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

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

The Group's division of income from contracts with customers in note 6 Net commission corresponds to the structure of the internal reports that Group management uses to monitor the operations.

### Payment mediation and cards

The Bank Group's obligations for payment mediation partly comprise making it possible for customers to make secure and convenient payments and partly involve participating in the payments systems (for example, Visa and bankgiro) required for carrying out the payments. Income for payment mediation is settled in advance in the form of annual fees and continuously with the transactions being performed. The fees received in advance are recognised on settlement as a contract liability and income is subsequently recognised straight-line over the period during which the obligation is satisfied. Continuous income is recognised after the transactions have been completed and is settled either immediately or following a slight delay.

### Lending commission

Lending commission primarily refers to additional services (land registration certificates and mortgage deeds) that customers can choose when arranging their loans. Income is recognised when the customer receives the service. Arrangement fees are recognised as interest income according to the effective interest method.

Lending commission also includes notification and reminder fees for which the Group's obligation is to notify/remind the customer. These fees are recognised as income when the notification or reminder is sent to the customer. Penalty interest is recognised as interest income.

### Securities commission

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

The Group receives a management fee from the funds that the subsidiary Länsförsäkringar Fondförvaltning AB has undertaken to manage. This management fee is based on the current assets in the funds. Income for this fee is recognised monthly since the obligations is deemed to be satisfied and settled in the following month.

The bank receives a fixed brokerage fee from the customer for each securities transaction. When the transaction has been completed, the obligation is deemed to be satisfied and the fee is recognised as income.

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

Länsförsäkringar Fondförvaltning receives remuneration when the company's funds invest in other funds. This remuneration is based on the current managed assets and the obligation is satisfied when the investment in made in the fund. Income is recognised every month and the current quarter's income is settled in the first month of the subsequent quarter. Since fund savers can sell their holdings at any time, no estimate is made of future remuneration amounts.

### Remuneration from the regional insurance companies

Remuneration from the regional insurance companies is described in note 38 Disclosures on related parties, pricing and agreements.

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

### Interest income, interest expense and dividends

Interest income and interest expense for financial instruments calculated in accordance with the effective interest method are recognised under net interest income. The effective interest rate includes fees that are deemed to be an integrated part of the effective interest rate for a financial instrument (usually fees that are received as compensation for risk). The effective interest rate corresponds to the rate used to discount contractual future cash flows to the carrying amount of the financial asset or liability. Interest on derivatives that hedge interest-rate and foreign-currency risk is recognised as interest income if the derivative hedges an asset and as interest expense if the derivative hedges a liability. Interest compensation for early redemption of fixed-rate lending and deposits is recognised under Net gains/losses from financial items. Dividends from shares and participations are recognised in the item Dividends received once the right to receive payment has been established.

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

Negative interest on asset items is recognised as a decrease in interest income. Negative interest on liability items is recognised as a decrease in interest expense. See also note 5 Net interest income

### Net gains/losses from financial items

The item Net gains/losses from financial items contains the realised and unrealised changes in value that occurred as a result of financial transactions. Capital gains/losses on the divestment of financial assets and liabilities, including assets measured at amortised cost (interest compensation received when customers pay loans prematurely), are recognised in this item as well as the result of premiums or discounts on repurchases of own funding. This item also includes realised and unrealised changes in the value of derivative instruments that are financial hedging instruments, but for which hedge accounting is not applied, and unrealised changes in the fair value of derivatives to which fair value hedge accounting is applied, and unrealised changes



in the fair value of hedged items with regard to hedged risk in the fair value hedge. The ineffective portion of hedging instruments and exchange-rate changes is also recognised as Net gains/losses from financial items. Net gains/losses on transactions measured at fair value through profit or loss does not include interest or dividends. Realised gains or losses are calculated as the difference between the purchase consideration received and the cost of the asset.

### **Remuneration of employees**

The Group primarily has defined-contribution pension plans. The Group is generally covered by the FTP plan, which does not depend on any payments from employees.

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

The company pays fixed contributions to a separate legal entity and does not have a legal or informal obligation to pay additional contributions. The company's payments of defined-contribution plans are recognised as expenses during the period in which the employee performed the services to which the contributions refer.

The pension agreement for the insurance industry, the FTP plan, is a multi-employer pension plan. The plan is a defined-benefit plan for employees born in 1971 or earlier and a defined-contribution plan for employees born in 1972 or after. The defined-benefit portion is insured through the Insurance Industry's Pension Fund (FPK). This pension plan entails that a company, as a rule, recognises its proportional share of the defined-benefit pension commitment and of the plan assets and expenses associated with the pension commitment. Disclosures are also to be presented in the accounts according to the requirements for defined-benefit pension plans. The FPK is currently unable to provide necessary information, which is why the pension plan above is recognised as a defined-contribution plan.

Nor is any information available on future surpluses and deficits in the plan, and whether these surpluses and deficits would then affect the contributions for the plan in future years.

### **Remuneration for termination of employment**

A cost for remuneration in connection with termination of employment of personnel is recognised at the earliest point in time at which the company can no longer withdraw the offer to the employees or when the company recognises expenses for restructuring. Remuneration expected to be paid after 12 months is recognised at its present value.

### **Impairment**

The carrying amounts of the Group's assets are tested on every balance-sheet date to determine whether there are any indications of impairment. IAS 36 is applied to impairment testing for assets that are not tested according to any other standard. These include financial assets tested in accordance with IFRS 9 Financial Instruments: Recognition and Measurement, and deferred tax assets tested in accordance with IAS 12 Income Taxes. The carrying amounts of the exempted assets above are tested according to the respective standard. The Group continuously assesses assets that are not tested for impairment according to other standards if there are any indications that the assets have declined in value. If there is an indication of an impairment requirement, the recoverable amount of the asset is calculated in accordance with IAS 36. The recoverable amount is the higher of fair value less selling expenses and value in use. In the calculation of the value in use, the future cash flow is discounted with a discount factor that takes into consideration risk-free interest and the risk associated with the specific asset. Impairment is recognised when an estimated recoverable amount falls below the carrying amount of the asset.

Impairment of assets under IAS 36's area of application is reversed if there is an indication that the impairment requirement no longer exists and a change has occurred in the assumptions that formed the basis of the calculation of the recoverable amount. A reversal is made only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been recognised, less depreciation/amortisation where applicable, if no impairment had been applied.

### **Credit losses, net**

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

### **Taxes**

Income tax comprises current tax and deferred tax. Income tax is recognised in profit or loss, except when the underlying transaction is recognised in other comprehensive income, whereby the related tax effect is recognised in other comprehensive income, or when the underlying transaction is recognised directly against equity with the related tax effect recognised in equity.

Current tax is tax that is to be paid or received in the current year, with application of the tax rates that are decided or decided in practice on the balance-sheet date. This also includes adjustments of current tax attributable to prior periods.

Deferred tax is calculated in accordance with the balance-sheet method, based on temporary differences between carrying amounts and tax bases of assets and liabilities. The following temporary differences are not taken into consideration:

First reporting of assets and liabilities that are not acquisitions of operations and, at the time of the transaction, do not affect recognised or taxable earnings

The valuation of deferred tax is based on how the carrying amounts of assets and liabilities are expected to be realised or settled. Deferred tax is calculated with application of the tax rates and tax rules established or decided in practice on the balance-sheet date.

Deferred tax assets on deductible temporary differences and tax loss carryforwards are only recognised to the extent that it is likely that it will be possible to utilise these. The value of the deferred tax assets is reduced when it is no longer considered likely that they can be utilised.

### **Financial assets and liabilities**

Financial assets recognised in the balance sheet include loan receivables, interest-bearing securities, derivatives with positive market value, accounts receivable, and shares and participations. Financial liabilities include debt securities in issue, derivatives with negative market value, deposits, other liabilities (accounts payable) and subordinated liabilities. The policies of the Group concerning financial risk are described in the section Risk and uncertainties in the Board of Directors' Report.

### **Recognition and derecognition in the balance sheet**

A financial asset or financial liability is recognised in the balance sheet when the company becomes party to the contract in accordance with the instrument's contractual conditions. A financial asset is derecognised from the balance sheet when the rights in the contract are realised, expire or – when the assets are transferred – the company no longer has any significant risks or benefits from the assets and loses control of them. Derecognition also takes place if a financial asset's or liability's contractual terms have been significantly modified (refer also to the separate section on modified loans below).

In genuine repurchase transactions (a sale of interest-bearing securities with an agreement for repurchase at a predetermined price), the asset continues to be recognised in the balance sheet and payment received is recognised as a liability in the balance sheet under the item Due to credit institutions. Sold securities are recognised as pledged assets. For a reversed repurchase transaction (a purchase of interest-bearing securities with an agreement for resale at a predetermined price), the securities are not recognised in the balance sheet. The payment received is recognised instead in the item Loans to credit institutions.

A financial liability is derecognised from the balance sheet when the obligation in the contract is met or extinguished in another manner.

Business transactions in the monetary, bond and equities markets that taken place on demand are recognised in the balance sheet on the trade date, which is the time when the significant risks and rights are transferred between the parties. Deposits and lending transactions are recognised on the settlement date. Loan receivables are recognised in the balance sheet when the loan amount is paid to the borrower. Loan commitments are not recognised in the balance sheet and are instead recognised as commitments; see note 34 Pledged assets, contingent liabilities and commitments.

### Offsetting financial assets and liabilities

A financial asset and a financial liability are offset and recognised as a net amount in the balance sheet only when a legal right exists to offset the amounts and the intention is present to settle the item in a net amount or simultaneously realise the asset and settle the liability.

### Classification and measurement

All financial assets and liabilities are measured at fair value through profit or loss on the initial valuation date. Subsequent measurement and recognition of changes in value take place depending on the measurement category to which the financial instrument belongs.

The Group's financial assets comprise:

- Debt instruments
- Derivative instruments
- Equity instruments

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

- 1) amortised cost
- 2) fair value through other comprehensive income
- 3) fair value through profit or loss

### Debt instruments

The Group's financial assets that are debt instruments comprise loan receivables, interest-bearing securities and other financial assets. The business model used to manage a debt instrument and its contractual cash flow characteristics determines the classification of a debt instrument.

A requirement for a financial asset to be measured at amortised cost or fair value through other comprehensive income is that the contractual cash flows solely comprise outstanding payment of the principal and interest on the principal. Debt instruments that do not meet the requirement are measured at fair value through profit or loss regardless of the business model to which the asset is attributable. All debt instruments held in the Group meet these cash flow characteristics. The Group regularly checks that cash flows for the debt instruments measured at amortised cost and fair value through other comprehensive income meet the requirements.

### Amortised cost

The Group manages loans and receivables in a business model whose objective is to realise the assets' cash flows by receiving contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. These assets are therefore measured at amortised cost.

Amortised costs refers to the discounted present value of all future payments attributable to the instrument with the discount rate comprising the effective interest rate of the asset on the acquisition date.

### Fair value through other comprehensive income

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

### Fair value through profit or loss

The Group does not have any debt instruments measured at fair value through profit or loss.

Gains/losses from the sale of debt instruments are recognised in profit or loss.

### Derivative instruments

Derivative instruments are measured at fair value through profit or loss unless they are subject to the rules on hedge accounting. Derivatives with positive values are recognised as assets in the consolidated balance sheet and derivatives with negative values are recognised as liabilities. All of the Group's derivatives are used as hedging instruments, and accordingly the Group does not have any derivatives classified as held for trading.

### Equity instruments

An equity instrument is every form of agreement that entails a residual right to a company's assets after deductions for all its liabilities. The equity instruments that exist in the Bank Group comprise shares. Since all holdings are of a strategic nature, the Group makes use of the possibility to recognise these holdings at fair value through other comprehensive income.

Gains/losses on the sale of equity instruments measured at fair value through other comprehensive income are recognised as a transfer in equity from the fair value reserve to retained earnings and thus do not impact profit or loss.

### Financial liabilities

The Group's financial liabilities are presented in note 35 Financial assets and liabilities by category. The Group measures all financial liabilities that are not derivatives at amortised cost.

### Reclassification of financial instruments

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

### Methods for determining fair value

The method for determining the fair value of financial instruments follows a hierarchy in which market data is used as far as possible and company-specific information is used as little as possible. The hierarchy for determining fair value is categorised into the following levels, using the following:

- Level 1: quoted prices in an active market
- Level 2: calculated value based on observable market data
- Level 3: own assumptions and judgements.

### Financial instruments traded in an active market

For financial instruments traded in an active market, fair value is determined based on the asset's quoted market prices (Level 1). Current bid prices are used for financial assets, and current selling rates without mark-ups for transaction costs and brokerage commission are used for financial liabilities. Any future transaction costs arising in conjunction with divestments are not taken into account.

### Financial instruments not traded in an active market

For financial instruments not traded in an active market, the fair value is calculated using various valuation techniques. When valuation techniques are applied, observable inputs are used as far as possible (Level 2). The valuation technique used most is discounted cash flows. If unobservable inputs significantly impact the valuation, the instruments are measured at Level 3. For more information, see note 36 Fair value valuation techniques.

### Hedge accounting

The Group's derivatives, which comprise interest-rate and cross-currency swaps, have been acquired in their entirety to hedge the risks of interest and exchange-rate exposure arising during the course of operations. The origin and management of these risks are described in the section Interest-rate risk and currency risk in note 3 Risks and capital adequacy. The Group has decided to continue to apply the rules in IAS 39 for all hedging relationships.

All derivatives are measured at fair value in the statement of financial position. Changes in value are recognised depending on whether the derivative

is designated as a hedging instrument and, if this is the case, the type of hedging relationship that the derivative is included in. The Group applies both cash flow hedges and fair value hedges. Hedge accounting is applied only when there is a clear relationship with the hedged item. In addition, it is required that the hedge effectively protects the hedged item, that hedge documentation is prepared and that the effectiveness can be measured reliably. Hedge accounting can only be applied if the hedging relationship can be expected to be highly effective. In the event that the conditions for hedge accounting are no longer met, the derivative is measured at fair value with the change in value through profit or loss, and the hedged item is no longer subject to remeasurement for cases in which hedging at fair value were previously applied. The effectiveness of hedging relationships are evaluated monthly. Each identified hedging relationship is expected to be effective over the entire lifetime of the relationship. Effectiveness is tested by applying a forward-looking (prospective) assessment and a retrospective evaluation. Ineffectiveness is recognised in profit or loss.

#### **Fair value hedges**

The aim of fair value hedges is to protect the Group from undesirable earnings effects caused by exposure to changes in the interest-rate risk associated with recognised assets or liabilities. When applying fair value hedges, the hedged item is measured at fair value regarding its hedged risk. The changes in value that arise are recognised in profit or loss and offset the changes in value arising on the derivative (the hedging instrument).

The Group applies the fair value hedge method to specific portfolios of either funding, deposits or loans bearing fixed interest rates. The Group also applies the fair value hedge method to individual assets in the liquidity portfolio that are classified in the measurement category of fair value through other comprehensive income. The change in the value of the derivative is recognised in profit or loss together with the change in the value of the hedged item regarding the hedged risk under Net gains/losses from financial items. Interest coupons, both unrealised and realised, are recognised as interest income if the hedged item is an asset or portfolio of assets, or as interest expense if the hedged item is a liability or portfolio of liabilities.

#### **Cash flow hedges**

The aim of cash flow hedges is to protect the Group from variations in future cash flows attributable to recognised assets and liabilities due to changed market factors. Interest and cross-currency interest rate swaps that are hedging instruments in cash flow hedges are measured at fair value. The change in value is recognised in other comprehensive income and in the cash flow hedge reserve in equity to the extent that the change in the value of the swap is effective and corresponds to future cash flows attributable to the hedged item. Ineffectiveness is recognised in profit or loss in the item Net gains/losses from financial items. Gains or losses recognised in the cash flow hedge reserve under equity through other comprehensive income are reclassified and recognised in profit or loss in the same period as the hedged item affects profit or loss.

#### **Expected credit losses**

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

#### **Model and definitions**

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

- Stage 1 comprises assets for which the credit risk has not increased significantly since initial recognition.
- Stage 2 comprises assets for which the credit risk has increased significantly since initial recognition, but the asset is not credit-impaired.

The Group's method for assessing whether there has been a significant increase in credit risk for loans to the public, and issued financial guarantees and loan commitments, is to compare probability of default (PD) on the reporting date in question with PD from the initial reporting date. In addition, a credit risk is deemed to have increased significantly for assets that are more than 30 days past due.

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

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

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

Estimating and recognising the loss allowance for stage 1 corresponds to the 12-month expected credit losses. For stages 2 and 3, estimating and recognising the loss allowance corresponds to the full lifetime expected credit losses. The estimates of expected credit losses for loans to the public, and issued financial guarantees and loan commitments, are based on existing internal ratings-based models and take into account forward-looking information. The loss allowance is achieved by estimating the expected credit loss for the assets' contractual cash flows. The present value of the expected credit loss is calculated for every date in each cash flow by multiplying the remaining exposure with the probability of default (PD) and the loss given default (LGD). For stage 1, the loss allowance is estimated as the present value of the 12-month ECL, while the credit loss for stages 2 and 3 is estimated as the present value of the full lifetime expected credit losses. All estimates of the loss allowance including estimates of exposure, PD and LGD take into account forward-looking information and are based on a weighting of at least three different possible macroeconomic scenarios. A number of statistical macro models have been developed to determine how each macroeconomic scenario will affect the expected future exposure, PD and LGD.

The estimates of expected credit losses for loans to credit institutions, and debt instruments measured at fair value through other comprehensive income, start from PD based on the external rating and LGD based on the regulatory amounts under the capital adequacy rules, Regulation (EU) No 575/2013 (CRR). This is because these items are not encompassed by existing, internal ratings-based models.

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

#### **Recognition of expected credit losses**

Only the Bank Group's share of expected and confirmed credit losses are recognised. The regional insurance companies' share of expected and confirmed credit losses is settled against a buffer of accrued remuneration to the regional insurance companies. A condition for the regional insurance companies to receive full payment of the distribution remuneration is that the loans generated by each company for the Bank Group (excluding Wasa Kredit AB) are of high quality. If this is not the case, up to 80% of any credit losses are off-set against the accrued remuneration to the regional insurance companies. This settlement account is kept separate and is taken into consideration when the provisions are established.

<sup>1)</sup> 90 days is applied for Wasa Kredit.

The reserve for financial assets measured at amortised cost is recognised as a reduction of the recognised gross carrying amount of the asset. For financial guarantees and loan commitments, the reserve is recognised as a provision.

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

Loss allowance and derecognition of confirmed credit losses are presented in the income statement as credit losses, net.

### Modified loans

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

### Confirmed losses

Confirmed credit losses are those losses whose amount is finally established through acceptance of a composition proposal, through other claim remissions or through bankruptcy and after all of the collateral has been realised and where the assessment is that the possibility of receiving additional payments is very small. The receivable is then derecognised from the balance sheet and recognised as a confirmed loss in profit or loss on this date.

## Leases

### Reporting as lessee

The Group recognises all leases (with certain exemptions) in the statement of financial position as follows: the obligation to make future fixed lease payments as a lease liability, and the right to use an underlying asset as a right-of-use asset. 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 only identify the lease components in the Group's lease contracts and does not include non-lease components in its calculation of the lease liability.

### Measurement of lease liabilities

The lease liability is measured at amortised cost using the effective interest method, which is why lease payments are divided between repayment of the lease liability and interest expense. Lease liabilities are recognised as the present value of the remaining lease payments in the statement of financial position and include the following lease payments:

- fixed payments (including in-substance fixed payments);
- variable lease payments that depend on an index or rate, initially measured using the index or rates on the commencement date
- amounts expected to be payable by the lessee under residual value guarantees; and

Lease payments that will be paid for extension options that it is reasonably certain will be exercised are also included in the measurement of the liability.

The lease liability is remeasured when there is a change in future lease payments from a change in an index or a rate, amounts expected to be payable under a residual guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination of the underlying asset. The Group is exposed to any future increases in the variable lease payments that depend on an index or a rate that are not included in the lease liability until they come into effect. When adjustments of lease payments that depend on an index or a rate come into effect, the lease liability is remeasured and adjusted against the right-of-use asset.

To calculate the lease liability, lease payments are discounted by the interest rate implicit in the lease. If this rate cannot be readily determined, which is

normally the case for the Group's leases, the lessee's incremental borrowing rate is to be used, which is the rate that an individual lessee would have to pay to borrow over a similar term, with a similar security, the funds necessary to obtain the right-of-use asset in a similar economic environment.

### Measurement of lease assets

The lease asset is measured at cost and recognised at an amount corresponding to what the lease liability was originally measured at after adjustments for prepaid lease payments and initial direct costs, and costs for restoring the asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are depreciated on a straight-line basis in subsequent periods over the shorter of the useful life and the term from the commencement date. If it is reasonably certain that the Group will exercise a purchase option, the right-of-use asset is depreciated over the useful life of the underlying asset.

### Application of exemption rules

The Group has decided not to recognise leases in the statement of financial position 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. The Group recognises lease payments for leases subject to exemption rules as a lease expense straight-line over the term.

### Reclassification of leases

The Group recognises its leases in the statement of financial position as a right-of-use asset and a lease liability. Right-of-use assets are classified as the corresponding underlying asset that would have been presented if it had been owned.

### Reporting as lessor

Leases are classified in the consolidated financial statements as either finance or operating leases. A finance lease exists if the financial risks and rewards of ownership have substantially been transferred to the lessee. If this is not the case, then this is a matter of operating leases. The Bank Group's assets that are leased under finance leases are not recognised as property and equipment since the risks associated with ownership are transferred to the lessee. Instead, the leases are recognised as loans to the lessee regarding future leasing fees. Initially, an amount corresponding to the present value of all minimum lease payments to be paid by the lessee is recognised and any guaranteed residual value accrues to the lessor. Payments received from these agreements are recognised in part as repayment of lease receivables, and in part as interest income. The carrying amount of lease assets is tested for impairment in accordance with IAS 36 Impairment of Assets at the end of each fiscal year. The fair value of the asset less selling expenses is calculated and assessed if there is an indication of impairment. If it is not possible to calculate this value or if the fair value is less than the carrying amount, an assessment of the asset's value in use is also performed. If both these values are less than the carrying amount an impairment is done to the highest of fair value and the value in use.

### Comparative figures according to IAS 17 Leases

The Group's accounting policies according to IAS 17 for the lessor's accounting essentially correspond to the current accounting policies. Lease payments for leases where the Group is lessee and that have previously been deemed to be operating leases are recognised as a lease expense straight-line over the term.

### Intangible assets

Intangible assets primarily comprise proprietary and acquired intangible assets with determinable useful lives that are expected to be of significant value to the operation in future years. These assets are recognised at cost less accumulated amortisation and impairment. Amortisation commences when the asset is ready to be put into operation. The Group's proprietary intangible assets are only recognised if all of the following conditions are met:

- There is an identifiable asset.
- It is probable that the developed asset will generate future economic benefits.



- The cost of the asset can be measured reliably.
- The asset is technically and commercially usable, and there are sufficient resources to complete development and thereafter use or sell the intangible asset.

The carrying amount of proprietary intangible assets includes all directly attributable expenses, such as directly attributable expenses for salaries and materials. The periods of amortisation are determined based on a useful life that varies between three and 15 years and amortisation takes place straight-line. The periods of amortisation are not category-specific and are determined individually for each asset. Useful lives are retested at the end of every fiscal year. Impairment is tested in accordance with IAS 36 Impairment of Assets. Additional expenses for capitalised intangible assets are recognised as an asset in the balance sheet only when these expenses increase the future economic benefits of the specific asset to which they pertain. All other additional expenses are recognised as an expense when incurred. Certain product investments are considered long-term and have a period of amortisation of 15 years. Impairment testing and the period of amortisation are reviewed annually.

## Property and equipment

### Equipment

Property and equipment are recognised as assets in the balance sheet when, based on information available, it is likely that the future economic benefits associated with the holding will flow to the company and that the cost of the asset can be measured reliably. Equipment is recognised at cost less accumulated depreciation and any accumulated impairment. Depreciation according to plan takes place following the straight-line method over the asset's expected useful life, commencing when the asset is put into operation. Depreciation and any scrapping and divestments are recognised in profit or loss. Impairment is tested in accordance with IAS 36 Impairment of Assets. Useful lives are retested at the end of every fiscal year. Useful lives of equipment:

- Office equipment 5 years
- Improvements to leased premises 5-7 years
- Vehicles 5 years
- Computer equipment 3-5 years

### Provisions

A provision is reported in the balance sheet when the Group has an existing legal or informal obligation as a result of an event that has occurred and it is probable that an outflow of financial resources will be required to settle the obligation and a reliable estimate of the amount can be made.

A provision differs from other liabilities since there is uncertainty regarding the date of payment and the amount for settling the provision. A restructuring provision is recognised when an established, detailed and formal restructuring plan exists, and the restructuring process has either commenced or been publicly announced. No provisions are made for future operating expenses. Where the effect of when a payment is made is significant, provisions are calculated by discounting the anticipated future cash flow at an interest rate before tax that reflects current market assessments of the time value of money and, if applicable, the risks related to the liability.

### Contingent liabilities

A contingent liability is recognised when there is a possible commitment originating from past events and whose existence is confirmed only by one or more uncertain future events, or when there is a commitment that is not recognised as a liability or provision because it is probable that an outflow of resources will be required, or cannot be measured with sufficient reliability.

### Loan commitments

A loan commitment can be:

- A unilateral commitment by the company to issue a loan with predetermined terms and conditions in which borrowers can choose whether they want to accept the loan or not, or
- A loan agreement in which both the company and the borrower are subject to terms and conditions for a loan that begins at a certain point in the future.

Loan commitments are not recognised in the balance sheet. Issued irrevoca-

ble loan commitments are valid for three months and recognised as a commitment under memorandum items. The right to cancel the loan commitment is retained if the customer's credit rating has diminished on the date of payment.

### Financial guarantees

Guarantee agreements issued by the Group, which comprise leasing guarantees and credit guarantees, entail that the company has a commitment to compensate the holder when the holder incurs a loss due to a specific debtor not making due payments to the holder in accordance with original or changed contractual terms.

Financial guarantee agreements are initially measured at fair value, which normally means the amount that the company received as compensation for the guarantee issued. The premium received for issued guarantee agreements is recognised as a provision and allocated straight-line over the term of the guarantee. When the agreement is subsequently valued, the liability for the financial guarantee is recognised at the amount to be recognised under IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount that was originally recognised less deductions for accumulated allocations.

## Note 3 Risks and capital adequacy

The Bank Group is exposed to risks that are managed in accordance with the framework set by the Board for risk appetite and risk limits. Follow-up of the risks defined under this framework comprises a natural part of ongoing work in the banking operations and is monitored by the Bank Group's independent risk control function, which is called Risk Management. Accordingly, duality in risk management is achieved and risk awareness is prevalent in all day-to-day business decisions. The risks to which the Bank Group is primarily exposed are defined below.

<b>Credit risk</b>	Credit risk pertains to the risk of losses arising due to counterparties being unable to fulfil their undertakings and of any collateral provided not covering the receivable. Credit risk encompasses lending risk, issuer risk, counterparty risk, settlement risk and creditworthiness risk.
<b>Market risks</b>	Market risk pertains to the risk of loss arising that is directly or indirectly caused by changes in the level or volatility in the market price of assets, liabilities and financial instruments, including losses caused by shortcomings in the matching between assets and liabilities. Market risk includes interest-rate risk, currency risk, credit-spread risk, equities risk, property risk, option risk and pension risk.
<b>Liquidity risk</b>	Liquidity risk is defined as the risk that payment commitments cannot be fulfilled due to insufficient cash funds. Liquidity risk includes structural liquidity risk, financing risk, rollover risk and intraday liquidity risk.
<b>Operational risk</b>	Operational risk refers to the risk of losses arising due to inadequate or failed internal processes, human error, erroneous systems or external events, including legal risks. Operational risk includes product and process risk, personnel risk, security risk, legal risks, compliance risks, IT risks and model risk.
<b>Business risk</b>	Business risk pertains to the risk of lower earnings, higher expenses or loss of confidence from customers or other stakeholders. Business risk encompasses strategic risk, reputation risk and conduct risk.

Risks are continuously monitored and evaluated. As the external business environment changes new risks emerge for the Bank Group to manage, one of which is climate risk. Climate risk refers to the risks that the consequences of climate change may have on the company's business activities. Climate risks can materialise either through physical risks, such as more cases of extreme weather and gradually rising sea levels, or through transition risks, such as regulatory, political and market changes related to the transition to a low-carbon society.

### Risk-management and internal-control system

The Bank Group's risk management follows the division of roles and responsibilities according to the three lines of defence:

**The first line of defence** pertains to all risk-management activities performed in the business operations. The operations that are exposed to risk also own the risk, which means that the daily risk management takes place within the operations. The operations are also responsible for ensuring that control processes for monitoring are in place, implemented and reported. All employees assume individual responsibility for working towards a well-functioning risk culture by complying with the established risk-management guidelines and framework.

**The second line of defence** pertains to the independent Risk Management and Compliance functions, which establish principles and frameworks for risk management and regulatory compliance. Accordingly, duality in risk management and risk control, risk culture and risk awareness is prevalent in all day-to-day business decisions. Risk Management controls and monitors arising risks and ensures that risk awareness and correct and consistent risk management takes place on a daily basis. Risk Management also provides assistance when the operations introduce the procedures, systems and tools required for maintaining this continuous risk management. The role of compliance is to provide support and control to ensure that the operations comply with regulatory requirements.

**The third line of defence** is Internal Audit, which comprises the Board's support for quality assurance and evaluation of the organisation's risk management, governance and internal controls. Internal Audit performs independent and regular audits to control, evaluate and ensure, for example, the procedures and processes for financial reporting, the operation and management of information systems and the operations' risk-management system.

The Board is responsible for ensuring that an efficient risk-management system is in place and that it is customised to the Bank Group's risk appetite and risk limits through the adoption of relevant governance documents. The Board approves all significant elements of the internal models used within the bank and is also responsible for ensuring that regulatory compliance and risks are managed in a satisfactory manner through the Bank Group's Compliance, Risk Management and Internal Audit control functions. The Risk and Capital Committee supports the Board in risk and capital issues, and prepares cases ahead of Board decisions, for example, regarding market, liquidity, credit and operational risk, and capital and financing matters.

The President is responsible for ensuring that daily management takes place in accordance with the strategies, guidelines and governance documents established by the Board. The President also ensures that the methods, models, systems and processes that form the internal measurement and control of identified risks work in the manner intended and decided by the Board. The President is to continuously ensure relevant reporting from each unit, including Risk Management, to the Board. The President is the Chairman of the Asset Liability Committee (ALCO), whose main task is to follow up on capital and financial matters, as well as the Chairman of the Risk Committee, which follows up on all risks, appetites, limits and internally assessed capital requirements. Risk Management is charged with the operational responsibility for the independent risk control and must thus objectively manage and report risks in the banking operations. The independent Risk Manager, or Chief Risk Officer (CRO), is directly subordinate to the President and reports directly to the President, the Risk and Capital Committee, Audit Committee and the Board. The CRO is also responsible for Risk Management, whose areas of responsibility are defined and documented in the guidelines adopted by the Board.

This ensures that the Bank Group has an effective and robust system for risk management, which allows continuous evaluation and assessment of the risks associated with the business activities. The system is an integrated part of the decision-making processes.

The risk-management system consists of strategies, processes, procedures, internal rules, limits, controls and reporting procedures needed to ensure that the Bank Group is able to continuously identify, measure, govern,

report and have control over the risks to which the operations are, or could be expected to become, exposed to, and the interdependence of these risks. The Bank Group manages and evaluates its exposure to the risks to which its operations are exposed on the basis of:

- Clear and documented descriptions of processes and procedures.
- Clearly defined and documented responsibilities and authorities.
- Risk-measurement methods and system support that are customised to the requirements, complexity and size of the operations.
- Regular incident reporting of the operations according to a documented process.
- Sufficient resources and expertise for attaining the desired level of quality in both the business and control activities.
- Documented and communicated business contingency, continuity and recovery plans.
- Clear instructions for each respective risk area and a documented process for approving new or considerably amended products, services, markets, processes and IT systems, as well as exceptional transactions and major changes to operations and organisation.

### Credit risk

Credit risk is defined as the risk of losses arising due to a counterparty not being able to fulfil its commitments to the Group and the risk that the counterparty's pledged collateral will not cover the company's receivables, leading to a loss. The Bank Group calculates credit risks for loans to the public in accordance with the IRB Approach except Wasa Kredit's credit card loans and business lending. The Standardised Approach is used for other exposure classes.

The loan portfolio largely comprises mortgages, mainly with single-family homes as collateral. All lending takes place in Sweden. Concentration risk primarily comprises the lending segment and geographic distribution. Most exposures are relatively small, with a good geographic spread, meaning that the Bank Group does not have any significant exposure to concentration risk.

The Swedish Financial Supervisory Authority approved the Bank group's 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.

### Credit process

The banking operations impose strict requirements in terms of customer selection, customers' repayment capacity and the quality of collateral. The Parent Company Länsförsäkringar Bank is responsible for ensuring that loans are granted based on standardised and stringent credit regulations, as well as an integrated credit scoring system in which the Board's adopted guidelines create a foundation for a shared view on lending in the Länsförsäkringar Alliance. Together with the Bank Group, the regional insurance companies continuously monitor and review the quality of the loan portfolio and borrowers' repayment capacity. Combined with system support for risk classification, this leads to balanced and consistent risk control.

The Board's adopted credit regulations form the foundation of all lending and apply for all regional insurance companies and the Bank Group. The size of the loan and level of risk determine the decision level, where the highest instance is the Board and the lowest instance a decision by an advisor. Mandates for granting credit at the respective decision-making instance are set out in the credit regulations.

The credit regulations also set out minimum requirements for underlying documentation for credit-granting decisions. Compliance with the credit regulations is monitored by the regional insurance companies and by the Bank Group.

The credit regulations and credit process, combined with local customer and market knowledge, create a loan portfolio that maintains high credit quality.

### IRB system

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

- Credit process for risk assessment and credit-granting decisions
- Calculation of loss allowances
- Calculation of risk-adjusted returns
- Monitoring and reporting to management and the Board
- Calculation of capital requirement
- Risk-adjusted pricing

Some of the core concepts in the IRB system are described below. The probability of default (PD) is the probability that a counterparty is unable to meet its undertaking to the bank. A PD with a 12-month horizon is initially calculated for each counterparty and is then adjusted to reflect the average proportion of default over a longer time period. The counterparties are ranked and grouped according to a PD scale comprising 11 risk classes (grades) for non-defaulted counterparties and one risk category for defaulted counterparties. A loss given default (LGD) is the portion of an exposure that is expected to be lost in the event of default. Exposure at default (EAD) is the exposure amount that the counterparty is expected to have utilised upon default. For off balance-sheet commitments, EAD is calculated by multiplying the counterparty's total granted amount by a conversion factor (CF). These estimates are calculated on the basis of internal information regarding the payment percentage, degree of utilisation and products.

### Credit quality

The loan portfolio exclusively comprises loans in Sweden and 78% (76) comprises mortgages with collateral in single-family homes and tenant-owned apartments. First-lien mortgages with loan-to-value ratios up to 75% of the market value at the time the mortgage is granted account for the largest percentage of the retail mortgage portfolio. Retail mortgages with a loan-to-value ratio of 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 up to a maximum loan-to-value ratio of 85%. Low loan-to-value ratio, combined with a well-diversified geographic spread and local presence, are the core pillars in ensuring that the loan portfolio maintains high credit quality.

Loans to the agricultural segment amounted to 10% (10) of the loan portfolio. The lending segment is a complement to the bank's mortgages since a large share pertains to loans to family-owned agricultural businesses.

Loans for leasing and hire purchase to Swedish households and companies accounted for 6% (6) of the loan portfolio, and comprise collateral in leased assets and collateral in ownership reservations. Loans without collateral, comprising unsecured loans and credit card loans, amounted to 3% (3) of lending. Total IRB classified exposure was SEK 303,389 M (282,368), corresponding to 98.6% (97.4) of total loans to the public.

The Bank Group's credit risk exposure is primarily secured against direct collateral in real property and tenant-owned apartments, the values and LTV ratios of which are taken into consideration when preparing new loans and also within the framework of the risk-classification system's LGD calculations. To a lesser extent, other types of collateral exist and are also taken into consideration in LGD calculations. A specification of the Bank Group's maximum credit risk exposure for balance-sheet items is presented in the following tables.

Credit risk exposure, SEK M	31 Dec 2019	31 Dec 2018
<i>Credit risk exposure for items recognised in the balance sheet</i>		
Cash and balances with central banks	9,831.1	22.2
Treasury bills and other eligible bills, etc.	9,934.4	10,846.8
Loans to credit institutions	407.8	4,485.9
of which collateral in repurchase agreements	-	-
Loans to the public	307,667.9	289,851.4
of which collateral in properties and tenant-owned apartments	278,454.5	257,773.0
Bonds and other interest-bearing securities	42,673.3	36,790.4
Derivative instruments	8,224.3	6,055.5
Other assets	558.6	560.9
<i>Credit risk exposure for memorandum items</i>		
Guarantees	27.8	34.7
Loan commitments and other credit commitments	21,845.6	20,842.0
<b>Total</b>	<b>401,170.8</b>	<b>369,489.8</b>

The table below shows the credit quality of treasury bills and other eligible bills, bonds and other interest-bearing securities, loans to credit institutions and derivatives based on external risk classification.

Credit risk exposure, SEK M	31 Dec 2019	31 Dec 2018
<b>Not credit-impaired (Stage 1)</b>		
	Gross carrying amount	Gross carrying amount
<b>Treasury bills and other eligible bills</b>		
AAA-AA	9,934.4	10,846.8
<b>Total</b>	<b>9,934.4</b>	<b>10,846.8</b>
<b>Bonds and other interest-bearing securities</b>		
AAA-AA	42,673.3	36,790.4
<b>Total</b>	<b>42,673.3</b>	<b>36,790.4</b>
<b>Loans to credit institutions</b>		
AAA-AA	130.9	4,130.5
A	276.9	354.9
Not risk classified		0.4
<b>Total</b>	<b>407.8</b>	<b>4,485.9</b>
<b>Derivatives</b>		
AAA-AA	2,443.0	1,626.8
A	4,883.7	3,895.9
BBB-BB	63.8	-
Not risk classified <sup>1)</sup>	833.8	532.7
<b>Total</b>	<b>8,224.3</b>	<b>6,055.5</b>

<sup>1)</sup> Exposure to central counterparties is recognised without any rating. The entire exposure to central counterparties and banks on 31 December 2019 comprised exposure to Nasdaq Clearing AB. Nasdaq Clearing AB does not have any rating but is a very strong counterparty due to the strict statutory regulations that apply to Nasdaq Clearing AB and other central counterparties. Nasdaq Clearing AB has been certified by the Swedish Financial Supervisory Authority as an EMIR counterparty and is subject to the supervision of the Authority.

The tables below show the credit quality of loans to the public and for loan commitments and other credit commitments based on the IRB Approach and region and per stage according to the Bank Group's expected loss impairment model. See note 2 Accounting policies. Credit exposures that are not risk classified below include a time-limited exemption that pertains to exposure in Wasa Kredit.

Credit risk exposure by internal risk classification, SEK M		31 Dec 2019		
		Not credit-impaired		Credit-impaired
		Stage 1	Stage 2	Stage 3
		Total		
Loans to the public		Gross carrying amount	Gross carrying amount	Gross carrying amount
Internal rating 1-3		177,125.9	5.3	14.1
Internal rating 4-6		112,371.5	184.9	17.1
Internal rating 7-9		6,365.3	5,451.1	41.4
Internal rating 10-11		111.7	1,490.8	15.9
Defaulted		-	-	784.2
Not risk classified		2,894.9	734.5	59.3
Total		298,869.3	7,866.6	932.0
		Total		
		Stage 1	Stage 2	Stage 3
Loan commitments and other credit commitments		Credit risk exposure	Credit risk exposure	Credit risk exposure
Internal rating 1-3		9,774.6	0.3	0.1
Internal rating 4-6		7,426.8	14.9	-
Internal rating 7-9		856.5	168.4	0.1
Internal rating 10-11		7.7	22.0	0.1
Defaulted		-	-	2.5
Not risk classified		3,476.2	95.3	0.1
Total		21,541.8	300.9	2.9

Credit risk exposure by internal risk classification, SEK M		31 Dec 2018		
		Not credit-impaired		Credit-impaired
		Stage 1	Stage 2	Stage 3
		Total		
Loans to the public		Gross carrying amount	Gross carrying amount	Gross carrying amount
Internal rating 1-3		170,840.7	4.8	25.9
Internal rating 4-6		98,635.8	282.0	29.1
Internal rating 7-9		5,509.9	4,972.3	19.9
Internal rating 10-11		84.1	1,341.1	26.6
Defaulted		-	-	595.4
Not risk classified		6,756.2	683.0	44.6
Total		281,826.7	7,283.1	741.6
		Total		
		Stage 1	Stage 2	Stage 3
Loan commitments and other credit commitments		Credit risk exposure	Credit risk exposure	Credit risk exposure
Internal rating 1-3		9,467.8	1.6	0.3
Internal rating 4-6		7,096.4	28.3	0.1
Internal rating 7-9		829.0	199.3	-
Internal rating 10-11		14.2	17.1	0.4
Defaulted		-	-	7.1
Not risk classified		3,089.8	90.4	0.1
Total		20,497.3	336.7	8.0

The table below presents loans to the public and loan commitments and credit commitments by region.

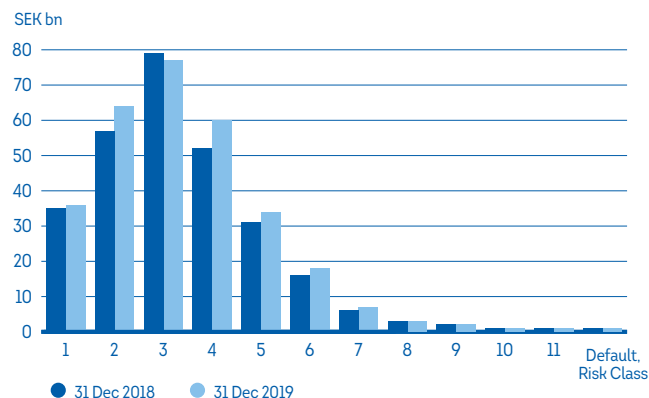
Credit risk exposure by region, SEK M		31 Dec 2019		
		Not credit-impaired		Credit-impaired
		Stage 1	Stage 2	Stage 3
		Gross carrying amount	Gross carrying amount	Gross carrying amount
Loans to the public		Gross carrying amount		Gross carrying amount
Western Sweden		65,478.5	1,543.1	152.9
Eastern Central Sweden		64,642.0	1,530.8	241.0
Stockholm		39,300.2	1,676.1	176.0
Southern Sweden		42,024.8	1,136.6	102.7
Northern Central Sweden		29,696.5	641.6	67.0
Småland and islands		32,661.0	788.6	153.5
Northern Norrland		14,856.3	273.7	21.0
Central Norrland		10,210.1	276.1	17.9
<b>Total</b>		<b>298,869.3</b>	<b>7,866.6</b>	<b>932.0</b>
		Not credit-impaired		Credit-impaired
		Stage 1	Stage 2	Stage 3
		Credit risk exposure	Credit risk exposure	Credit risk exposure
Loan commitments and other credit commitments		Credit risk exposure		Credit risk exposure
Western Sweden		4,383.8	54.0	0.9
Eastern Central Sweden		4,555.0	49.1	0.7
Stockholm		4,187.6	82.3	0.1
Southern Sweden		3,024.1	43.7	0.2
Northern Central Sweden		1,837.8	29.5	0.6
Småland and islands		1,984.8	23.5	0.3
Northern Norrland		873.7	8.7	-
Central Norrland		694.9	10.0	0.1
<b>Total</b>		<b>21,541.8</b>	<b>300.9</b>	<b>2.9</b>

#### Credit risk exposure by region, SEK M

		31 Dec 2018		
		Not credit-impaired		Credit-impaired
		Stage 1	Stage 2	Stage 3
		Gross carrying amount	Gross carrying amount	Gross carrying amount
Loans to the public		Gross carrying amount		Gross carrying amount
Western Sweden		60,642.4	1,556.2	127.7
Eastern Central Sweden		61,773.2	1,433.0	186.4
Stockholm		40,684.5	1,565.3	146.4
Southern Sweden		38,015.9	964.3	89.4
Northern Central Sweden		27,515.3	578.1	58.7
Småland and islands		30,142.8	721.3	80.4
Northern Norrland		13,717.8	218.8	21.0
Central Norrland		9,334.6	246.1	31.4
<b>Total</b>		<b>281,826.7</b>	<b>7,283.1</b>	<b>741.6</b>
		Not credit-impaired		Credit-impaired
		Stage 1	Stage 2	Stage 3
		Credit risk exposure	Credit risk exposure	Credit risk exposure
Loan commitments and other credit commitments		Credit risk exposure		Credit risk exposure
Western Sweden		4,512.0	54.1	0.3
Eastern Central Sweden		4,360.4	77.0	1.6
Stockholm		3,616.6	81.4	0.1
Southern Sweden		2,728.2	41.3	4.0
Northern Central Sweden		1,803.2	28.1	1.4
Småland and islands		1,871.2	31.2	0.3
Northern Norrland		805.2	11.8	0.0
Central Norrland		800.5	11.8	0.2
<b>Total</b>		<b>20,497.3</b>	<b>336.7</b>	<b>8.0</b>



The Group's credit exposure according to risk class is presented in the diagram below. The results show a distribution of exposure, with 78% (79) found in the best grades 1-4. In addition to the credit exposure below, SEK 4,279 M (7,484) is included in loans to the public which are not graded under the IRB Approach, and which include a time-limited exemption that pertains to exposure in Wasa Kredit.



The table below shows loans to the public. Collateral is provided in the form of mortgage deeds for mortgages, agricultural lending, multi-family housing and industrial properties, while collateral concerning leasing and hire purchase consists of collateral in assets.

Loan portfolio	31 Dec 2019		31 Dec 2018	
	SEK M	%	SEK M	%
Lending segment				
Retail mortgages	240,417.0	78.1	221,729.4	76.5
Agricultural loans	29,778.9	9.7	28,303.3	9.8
Unsecured loans	9,163.9	3.0	8,913.8	3.1
Leasing	7,819.9	2.5	7,568.3	2.6
Hire purchase	10,503.9	3.4	9,581.0	3.3
Multi-family housing	7,447.4	2.4	7,525.1	2.6
Industrial properties	1,028.7	0.3	853.6	0.3
Other	1,508.2	0.5	5,376.9	1.9
Loans to the public, gross	307,667.9	100.0	289,851.4	100
Provisions	-568.6		-425.4	
<b>Total</b>	<b>307,099.3</b>		<b>289,426.0</b>	

97% (95) of the loan portfolio comprises loans in the segments of Retail mortgages, Agricultural loans, Hire purchase, Leasing and Unsecured loans. Loans in these segments specified by region in Sweden are presented below.

31 Dec 2019					Hire purchase, leasing and unsecured loans	
Loan portfolio by region, SEK M	Retail mortgages	%	Agricultural loans	%		%
Western Sweden	53,781.3	22.4	6,561.0	22.0	4,725.0	17.2
Eastern Central Sweden	51,053.6	21.2	7,252.0	24.4	5,135.2	18.7
Stockholm	35,936.6	14.9	128.3	0.4	5,243.0	19.1
Southern Sweden	34,615.2	14.4	5,750.2	19.3	4,514.4	16.4
Northern Central Sweden	21,109.8	8.8	1,718.1	5.8	2,980.4	10.8
Småland and islands	23,762.6	9.9	5,905.7	19.8	2,244.4	8.2
Northern Norrland	11,987.9	5.0	1,269.3	4.3	1,310.3	4.8
Central Norrland	8,170.0	3.4	1,194.3	4.0	1,335.0	4.9
Total	240,417.0	100.0	29,778.9	100.0	27,487.7	100.0
Loan portfolio by company, SEK M						
Länsförsäkringar Hypotek	231,368.9	96.2	-	-	-	-
Länsförsäkringar Bank	9,048.1	3.8	29,778.9	100.0	2,707.2	9.8
Wasa Kredit		-	-	-	24,780.5	90.2
Total	240,417.0	100.0	29,778.9	100.0	27,487.7	100.0

31 Dec 2018					Hire purchase, leasing and unsecured loans	
Loan portfolio by region, SEK M	Retail mortgages	%	Agricultural loans	%		%
Western Sweden	49,626.5	22.4	6,260.9	22.1	4,682.5	18.0
Eastern Central Sweden	48,042.2	21.7	7,024.0	24.8	4,968.4	19.1
Stockholm	33,521.7	15.1	117.1	0.4	5,392.5	20.7
Southern Sweden	30,637.8	13.8	5,565.7	19.7	3,964.9	15.2
Northern Central Sweden	19,606.6	8.8	1,561.2	5.5	2,648.7	10.2
Småland and islands	21,755.2	9.8	5,508.0	19.5	2,235.4	8.6
Northern Norrland	11,011.7	5.0	1,172.6	4.1	1,094.6	4.2
Central Norrland	7,527.7	3.4	1,093.8	3.9	1,076.1	4.1
Total	221,729.4	100	28,303.3	100	26,063.1	100

<b>Loan portfolio by company, SEK M</b>						
Länsförsäkringar Hypotek	212,553.7	95.9	-	-	-	-
Länsförsäkringar Bank	9,175.7	4.1	28,303.3	100.0	3,080.5	11.8
Wasa Kredit	-	-	-	-	22,982.6	88.2
<b>Total</b>	<b>221,729.4</b>	<b>100</b>	<b>28,303.3</b>	<b>100</b>	<b>26,063.1</b>	<b>100</b>

Credit-impaired loan receivables (stage 3) by type of collateral are presented below. Collateral for credit-impaired loan receivables comprises residential properties, commercial properties, other physical collateral and guarantees.

Credit-impaired loan receivables by collateral, SEK M	31 Dec 2019	31 Dec 2018
Residential properties, including tenant-owned apartments	167.9	135.2
Commercial immovable property	242.9	207.3
Other physical collateral	134.4	105.3
Guarantees	8.3	4.0
Other collateral	-	-
Unsecured loans	378.4	289.7
<b>Total credit-impaired loan receivables</b>	<b>932.0</b>	<b>741.6</b>

The retail mortgage portfolio specified by loan-to-value ratio interval is shown below. The average loan commitment for each borrower is low and the relationship between the loan portfolio and the underlying assets expressed as the weighted average loan-to-value (LTV) ratio was 61% (61).

#### Retail mortgages by loan-to-value ratio interval

Loan-to-value ratio	31 Dec 2019		31 Dec 2018	
	SEK M	%	SEK M	%
0-50%	192,376.2	80.0	80.1	80.1
51-60%	23,299.3	9.7	9.8	9.8
61-70%	15,512.5	6.5	6.3	6.3
71-75%	4,546.9	1.9	1.8	1.8
75%-	4,682.1	1.9	2.0	2.0
<b>Total</b>	<b>240,417.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100</b>

#### Credit losses and non-performing loan receivables

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

The table below shows non-performing receivables by company and the number of days overdue.

#### Non-performing loan receivables that are not credit-impaired, by company

31 Dec 2019, SEK M	Länsförsäkringsringar Bank	Länsförsäkringsringar Hypotek	Wasa Kredit	Group
Receivables overdue by 10-30 days	-	-	36.3	36.3
Receivables overdue by 31-60 days	20.9	61.1	375.6	457.6
Receivables overdue by 61-90 days	-	-	76.8	76.8
<b>Total</b>	<b>20.9</b>	<b>61.1</b>	<b>488.7</b>	<b>570.7</b>

#### Non-performing loan receivables that are not credit-impaired, by company

31 Dec 2018, SEK M	Länsförsäkringsringar Bank	Länsförsäkringsringar Hypotek	Wasa Kredit	Group
Receivables overdue by 10-30 days	30.6	50.8	44.2	125.6
Receivables overdue by 31-60 days	7.8	-	340.4	348.2
Receivables overdue by 61-90 days	-	-	69.0	69.0
<b>Total</b>	<b>38.4</b>	<b>50.8</b>	<b>453.5</b>	<b>542.8</b>

A condition for full payment of the regional insurance companies' distribution remuneration by the Bank Group is that the loans generated by each company for the Bank Group (excluding Wasa Kredit) are of high quality. If this is not the case, up to 80% of any credit losses are off-set against the accrued remuneration to the regional insurance companies. This settlement account is kept separate and is taken into consideration when the provisions are established. On 31 December 2019, the total loss allowance requirement for loans to the public and commitments and guarantees amounted to SEK 699 M (519), of which the Bank Group's recognised loss allowance accounted for SEK 591 M (442) and the remainder of SEK 108 M (77) was settled against the regional insurance companies' withheld funds, according to the model described above. For more information on loss allowances, refer to note 2 Accounting policies, note 16 Loans to the public and note 34 Pledged assets, contingent liabilities and commitments.

Credit losses remained very 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). Credit losses continued to account for a minor percentage of total loans. For more information on credit losses, see note 11 Credit losses.

Collateral was only withdrawn by the subsidiary Wasa Kredit AB during the year. Such collateral primarily comprises vehicles and machinery. A decision to withdraw collateral is made after taking into account the customer's repayment capacity and Section 42 of the Consumer Credit Act, and takes place following documented procedures. The carrying amount on 31 December 2019 was SEK 18 M (15<sup>1)</sup>).

#### Sensitivity in calculation of loss allowances

The assessment of what constitutes a significant increase in credit risk is an important factor in calculating the loss allowance. The Bank Group's assessment is based on the PD change compared with the initial reporting date. The criteria includes a relative threshold of 200% combined with an absolute threshold of 100 basis points and an independent absolute threshold of 500 basis points. In addition, a credit risk is deemed to have increased significantly for assets that are more than 30 days past due. If the relative threshold had been set at 150% instead, the loss allowance would have increased by 1.5%. If the relative threshold had been set at 250% instead, the loss allowance would have declined by 1.6%. The sensitivity analysis includes loss allowance for loans to the public, commitments and guarantees.

Expected credit losses are to be estimated in a manner that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. The estimate is to include information about past events, current conditions and forecasts of future economic conditions. The forward-looking information used to estimate expected credit losses is based on the Group's internal macroeconomic forecasts. These macroeconomic forecasts take into account both internal and external information and correspond to the forward-looking information used for other purposes, such as forecasts and financial planning. Three potential macroeconomic scenarios are considered when calculating expected credit losses: a base scenario that is currently weighted at 60%, and a more positive scenario and a more negative scenario that are both weighted at 20%.

#### Macro variables in each scenario

	Scenario		
	Basic	Negative	Positive
GDP, annual change in %	0.9-2.0	-5.0-2.0	2.0-3.5
Unemployment, level in %	6.8-7.5	6.8-11.0	4.8-6.8
Housing prices, annual change in %	2.0-4.0	-25.0-4.0	4.0-10.0

A deterioration in the forecast macro variables in each scenario or an increase in the probability of a negative scenario would generally entail an increase in the estimated loss allowance. An improvement in the forecast macro variables or an increase in the probability of a positive scenario would

<sup>1)</sup> Comparative figures have been adjusted.

instead have the opposite effect on the estimated loss allowance. The table below shows the loss allowances that would have been recognised on 31 December 2019 if a positive or a negative macroeconomic scenario assigned a probability of 100% had been used. The sensitivity analysis includes loss allowance for loans to the public, commitments and guarantees.

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

Recognised probability-weighted loss allowance, SEK M	Scenario	Loss allowance according to sensitivity analysis, SEK M	Change compared with probability-weighted loss allowance, %
590.7	Positive scenario	499.5	-15.5%
	Negative scenario	797.7	35.0%

#### Counterparty risk

Counterparty risk is defined as the risk that the Group could suffer losses pertaining to investments in other credit institutions, bank funds or derivative transactions due to counterparties not fulfilling their commitments. Repurchase agreements are included in counterparty risk. Risk in derivative transactions is managed by the company having a number of swap counterparties, all with high ratings and established ISDA agreements. ISDA agreements allow net accounting of positive and negative derivatives, which reduces the risk to the net position per counterparty. For the covered-bond operations, ISDA agreements are in place, as well as accompanying unilateral CSA agreements. CSA agreements involve commitments concerning delivery and receipt of collateral in the event of changes to the included derivatives' market values. Each counterparty is also assigned a maximum exposure amount.

#### Credit risk exposure for derivatives regarding collateral received and other forms of credit enhancement

SEK M	31 Dec 2019				31 Dec 2018
	Maximum credit risk exposure	Collateral			Net exposure
		Cash and cash equivalents	Securities	Other	Net exposure
AAA-AA	2,443.0	979.7	-	-	1,158.6
A	4,883.7	4,444.5	-	-	212.8
BBB-BB	63.8	64.9	-	-	0.0
Not risk classified	833.8	932.4	-	-	0.0
<b>Total</b>	<b>8,224.3</b>	<b>6,421.4</b>	<b>0.0</b>	<b>0.0</b>	<b>1,371.4</b>

Derivatives and pledged assets are totalled for each legal entity in the Group. Counterparties with positive exposure are included in the table.

#### Market risks

The overall framework for the financial operations is adopted by the Board in the risk policy. The Board also adopts the risk appetite and limits for market risk, and the bank generally has a low risk appetite for market risks that are to be minimised as far as reasonably possible. The primary market risks are interest-rate risk and currency risk, which are measured and monitored on a daily basis. The Bank Group applies a number of supplementary risk measures to market risk, such as Value-At-Risk and sensitivity measures.

#### Interest-rate risk

Interest-rate risk arises when assets, liabilities and derivatives do not have matching fixed-interest periods and this is to be minimised as far as reasonably possible; firstly, fixed-interest periods are matched and secondly interest-rate derivatives are used.

Interest-rate risk is managed by the bank's Treasury unit. On 31 December 2019, a parallel shift of 100 basis points in the yield curve would have changed the value of interest-bearing assets and liabilities, including derivatives, by SEK -18.6 M (50.3). Interest-rate risk is almost exclusively in SEK.

#### Impact of interest-rate risk

Group, SEK M	31 Dec 2019	31 Dec 2018
Interest-rate risk	-18.6	50.3
Impacts profit	0.1	0.0
Impacts equity	7.7	2.2
Impacts own funds	1.4	-10.1

#### Interest-rate risk by currency

Group, SEK M Currency	31 Dec 2019	31 Dec 2018
EUR	4.0	-0.5
CHF	0.0	0.0
NOK	-0.1	-0.1
USD	0.0	0.0
SEK	-22.6	50.9

The table below presents the two scenarios for changes in market interest rates and their impact on net interest income over the next few years.

#### Net interest income risk

SEK M	31 Dec 2019	31 Dec 2018
Parallel shift, up 100 bp	162.3	191.7
Parallel shift, down 50 bp	-80.9	-102.0

#### Currency risk

Exposure to foreign-currency risk arises when the Group invests or issues bonds in foreign currency. The bank's policy is not to have any net exposure to foreign-currency risk, which is why risk that arises is managed using currency and cross-currency interest rate swaps.

#### Currency distribution, securities and derivatives

31 Dec 2019 Group, SEK M	CHF	EUR	GBP	NOK	USD
Securities (translated at nominal amount to SEK)	-	2,458.8	-	-	622.5
Debt securities in issue (translated at nominal amount to SEK)	-4,978.5	-49,596.7	-868.1	-2,130.6	-1,039.1
Derivatives (translated at nominal amount to SEK)	4,978.5	47,137.9	868.1	2,130.6	416.6
<b>Net position in currency (translated at nominal amount to SEK)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

31 Dec 2018 Group, SEK M	CHF	EUR	GBP	NOK	USD
Securities (translated at nominal amount to SEK)	-	1,707.7	-	-	492.1
Debt securities in issue (translated at nominal amount to SEK)	-6,394.4	-43,742.6	-790.4	-2,047.7	-88.7
Derivatives (translated at nominal amount to SEK)	6,394.4	42,034.9	790.4	2,047.7	-403.4
<b>Net position in currency (translated at nominal amount to SEK)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

#### Other market risks

In addition to interest-rate and currency risk, the Bank Group has a currency-basis spread risk and a credit-spread risk. The currency-basis spread risk arises in foreign funding when currency is swapped to SEK and credit-spread risks arise in the liquidity portfolio.

Fixed-interest periods for assets and liabilities – Interest-rate exposure (nominal values, non-interest-bearing assets and liabilities have been excluded)

Group 31 Dec 2019, SEK M	Up to 3 months	3–12 months	1–5 years	More than 5 years	Total
Loans	211,231.9	18,572.6	86,144.2	1,389.3	317,338.1
Bonds, etc.	9,391.4	13,707.9	27,367.3	682.0	51,148.6
<b>Total</b>	<b>220,623.3</b>	<b>32,280.6</b>	<b>113,511.5</b>	<b>2,071.3</b>	<b>368,486.8</b>
Customer deposits	123,923.2	1,435.4	510.3	0.0	125,868.9
Debt securities in issue, etc.	29,029.3	22,845.7	136,424.5	37,678.5	225,978.0
<b>Total</b>	<b>152,952.5</b>	<b>24,281.1</b>	<b>136,934.8</b>	<b>37,678.5</b>	<b>351,846.8</b>
<b>Difference assets and liabilities</b>	<b>67,670.9</b>	<b>7,999.5</b>	<b>-23,423.3</b>	<b>-35,607.1</b>	
Interest-rate derivatives, nominal values, net	-47,165.6	-6,288.8	22,838.2	35,839.5	
<b>Net exposure</b>	<b>20,505.3</b>	<b>1,710.6</b>	<b>-585.1</b>	<b>232.3</b>	

Group 31 Dec 2018, SEK M	Up to 3 months	3–12 months	1–5 years	More than 5 years	Total
Loans	229,115.0	16,538.2	46,929.9	1,351.0	293,934.1
Bonds, etc.	8,815.1	6,943.8	29,614.7	382.0	45,755.6
<b>Total</b>	<b>237,930.0</b>	<b>23,482.1</b>	<b>76,544.6</b>	<b>1,733.0</b>	<b>339,689.7</b>
Customer deposits	111,000.6	2,695.3	437.9	-	114,133.9
Debt securities in issue, etc.	22,698.5	11,152.2	141,716.5	33,658.6	209,225.9
<b>Total</b>	<b>133,699.2</b>	<b>13,847.6</b>	<b>142,154.4</b>	<b>33,658.6</b>	<b>323,359.7</b>
<b>Difference assets and liabilities</b>	<b>104,230.8</b>	<b>9,634.5</b>	<b>-65,609.8</b>	<b>-31,925.6</b>	
Interest-rate derivatives, nominal values, net	-89,217.4	-7,546.6	68,119.8	32,099.6	
<b>Net exposure</b>	<b>15,013.4</b>	<b>2,087.9</b>	<b>2,510.0</b>	<b>174.0</b>	

### IBOR and Interest Rate Benchmark Reform

After the financial crisis, global supervisory authorities have focused on interbank offered rates (IBORs) and an international trend is that IBORs are being replaced by or supplemented with alternative risk-free rates (RFRs) to improve the function of the financial market. Currently, there is uncertainty about the timing and exact nature of these changes. The Group's primary exposure to IBORs currently comprises contracts that refer to Stibor and Euribor. There are also relationships with CHF-Libor, USD Libor, GBP Libor and Nibor. The exposures to international IBORs refer to the Bank Group's funding and liquidity reserve and associated derivative hedging contracts.

Länsförsäkringar expects that it may be necessary to review systems and processes in order to manage the changes to contracts including IBORs, including any tax and accounting consequences. Länsförsäkringar Bank will continue to work together with its industry colleagues to ensure an orderly transition to alternative risk-free rates and to minimise risks that may arise on transition. Länsförsäkringar Bank is a panel bank on the Stibor committee that manages Stibor developments. The process of adapting Stibor to the EU Benchmark Regulation is based on the expectation that Stibor will continue to exist. Länsförsäkringar Bank is also a member of the Swedish Bankers' Association working group tasked with proposing a new alternative reference rate. The current idea is that a new alternative reference rate is to exist in parallel with Stibor. Regarding developments internationally, the Group has no significant exposure to any of the rates that will disappear in the near future and more long-term developments are being monitored. It currently appears that Euribor will continue to exist.

The IASB is currently working on amendments to IAS 39 and IFRS 9 due to the accounting consequences that may arise at the time of the changes in contracts with an IBOR. The Group is continuing to monitor the status of the IASB's work and will assess the effects for the Group when further information is available.

	Nominal amount per IBOR			Total nominal amount
	Stibor	Euribor	CHF Libor	
Cash flow hedge				
Currency risk				
Cross-currency interest rate swaps	-	47,009.5	4,833.5	51,843.0
Fair value hedge				
Interest-rate risk				
Interest-rate swaps	282,798.0	54,525.9	4,833.5	342,157.4

## Hedge accounting – Group

	Derivatives		Assets		Liabilities		Hedge accounting			
	Nominal amount		Carrying amount		Carrying amount		Change in value for the year		Accumulated changes in value	
SEK M	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	2019	2018	31 Dec 2019	31 Dec 2018
Fair value hedges										
<i>Interest-rate contracts</i>										
Hedged items <sup>2)</sup>										
Treasury bills and other eligible bills			5,262.9	5,766.2			-2.6	10.7	12.4	9.5
Bonds and other interest-bearing securities			33,855.0	31,711.5			-59.4	-106.3	131.8	190.0
Debt securities in issue										
Hedging instruments										
Interest-rate swaps	37,819.0	32,739.8	52.0	17.3	124.8	150.8	62.7	98.7		
Ineffectiveness <sup>1)</sup>							0.7	3.1		
<i>Currency contracts</i>										
Hedged items <sup>2)</sup>										
Treasury bills and other eligible bills			888.3	439.8			15.9	-0.2	25.9	12.4
Bonds and other interest-bearing securities			2,249.3	1,745.1			4.0	-16.1	1,087.6	85.3
Debt securities in issue					50,997.6	47,087.5	-433.7	-207.6	1,278.2	-645.6
Hedging instruments										
Cross-currency interest rate swaps	52,963.4	48,449.7	1,566.5	1,097.5	163.7	137.3	430.3	226.1		
Ineffectiveness <sup>1)</sup>							16.5	2.2		
Portfolio of fair value hedges										
<i>Interest-rate contracts</i>										
Hedged items										
Loans to the public			105,554.7	72,048.6			-277.5	-122.8	-152.3	125.2
Deposits and funding from the public					500.5	5,879.7	0.3	2.0	-0.5	-0.3
Debt securities in issue					137,481.9	143,883.5	-9.5	153.2	1,090.1	-959.0
Hedging instruments										
Interest-rate swaps	251,375.0	204,867.0	1,829.6	1,534.5	352.7	277.4	289.4	-35.6		
Ineffectiveness <sup>1)</sup>							2.7	-3.2		
Cash flow hedges <sup>5)</sup>										
<i>Currency contracts</i>										
Hedged items <sup>3)</sup>							-25.2	-15.3		
Hedging instruments										
Cross-currency interest rate swaps <sup>4)</sup>	51,843.0	50,919.0	5,058.9	3,649.2	81.3	437.4	25.2	15.3		
Ineffectiveness <sup>1)</sup>										
<b>Total hedged item</b>			<b>147,810.2</b>	<b>111,711.2</b>	<b>188,980.0</b>	<b>196,850.7</b>	<b>-787.7</b>	<b>-302.4</b>	<b>3,473.2</b>	<b>-1,182.5</b>
<b>Total hedging instruments</b>	<b>394,000.4</b>	<b>336,975.5</b>	<b>8,507.0</b>	<b>6,298.5</b>	<b>722.5</b>	<b>1,002.9</b>	<b>807.6</b>	<b>304.5</b>		
<b>Total ineffectiveness</b>							<b>19.9</b>	<b>2.1</b>		

Hedging instruments with positive fair values are recognised in the balance sheet as assets on the line item "derivatives" and hedging instruments with negative fair values are recognised in the balance sheet as liabilities on the line item "derivatives."

The average fixed interest on outstanding derivatives on 31 December 2019 was 0.5% (0.6).

<sup>1)</sup> The ineffectiveness of all hedging relationships is recognised in the line item "Net gains/losses from financial items" in profit or loss.

<sup>2)</sup> For terminated fair value hedges and cash flow hedges, no accumulated changes in value remain in the balance sheet.

<sup>3)</sup> The change in value of the hedged item pertains to a perfectly effective hypothetical hedging instrument. Such an instrument is used to determine the effective portion of the hedging instrument, which is recognised in other comprehensive income, and the ineffective portion, which is recognised in the line item "Net gains/losses from financial items" in profit or loss.

<sup>4)</sup> Of changes in value for the year, SEK 0 pertains to amounts reclassified to profit or loss. Amounts reclassified to profit or loss for terminated hedging relationships amounted to SEK 0 M.

<sup>5)</sup> Amounts recognised in the hedging reserve are presented in the "Statement of changes in equity." Amounts pertaining to cash flow hedges recognised through other comprehensive income are presented in the "Statement of comprehensive income."

The fixed-interest periods of the hedging instrument are presented in the section Credit losses and non-performing loan receivables. The maturity dates of the instruments are presented in the section Liquidity and financing strategy.

The Statement of comprehensive income presents the changes in value of hedging instruments in cash flow hedges for the period and the amount that has been reclassified from equity to profit or loss.

## Maturity profile for nominal amounts in hedging instruments

	31 Dec 2019			31 Dec 2018		
	< 1 year	Remaining contractual term 1-5 years	> 5 years	< 1 year	Remaining contractual term 1-5 years	> 5 years
<b>Currency risk</b>						
<b>Nominal amount</b>	<b>4,375.0</b>	<b>32,534.90</b>	<b>11,928.00</b>	<b>1,628.2</b>	<b>26,170.6</b>	<b>17,543.0</b>



## Hedge accounting – Parent Company

	Derivatives		Assets		Liabilities		Hedge accounting			
	Nominal amount		Carrying amount		Carrying amount		Change in value for the year		Accumulated changes in value	
SEK M	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	2019	2018	31 Dec 2019	31 Dec 2018
Fair value hedges										
<i>Interest-rate contracts</i>										
Hedged items <sup>2)</sup>										
Treasury bills and other eligible bills			5,262.9	5,766.2			-2.6	10.7	12.4	9.5
Bonds and other interest-bearing securities			23,551.0	21,528.6			-19.8	-50.6	118.9	129.2
Debt securities in issue										
Hedging instruments										
Interest-rate swaps	29,079.0	25,739.8	31.7	14.8	108.2	121.9	23.7	41.7		
Ineffectiveness <sup>1)</sup>							1.3	1.8		
<i>Currency contracts</i>										
Hedged items <sup>2)</sup>										
Treasury bills and other eligible bills			888.3	439.8			15.9	-0.2	26.0	12.4
Bonds and other interest-bearing securities			2,249.2	1,745.1			4.1	-16.1	93.2	85.3
Debt securities in issue					12,067.8	12,305.6	-95.3	-87.3	194.7	99.4
Hedging instruments										
Cross-currency interest rate swaps	14,884.2	14,348.8	229.4	139.1	163.7	137.3	77.8	106.9		
Ineffectiveness <sup>1)</sup>							2.5	3.3		
Portfolio of fair value hedges										
<i>Interest-rate contracts</i>										
Hedged items										
Loans to the public			6,442.6	6,246.1			-21.0	-18.8	0.6	21.6
Deposits and funding from the public					500.5	5,879.7	0.2	2.0	-0.5	-0.2
Debt securities in issue					10,028.3	11,208.5	59.0	38.3	1.7	60.7
Hedging instruments										
Interest-rate swaps	17,072.0	20,859.0	103.5	147.8	44.8	36.2	-38.7	-20.7		
Ineffectiveness <sup>1)</sup>							-0.5	0.8		
Cash flow hedges <sup>5)</sup>										
<i>Currency contracts</i>										
Hedged items <sup>3)</sup>							-6.5	41.5		
Hedging instruments										
Cross-currency interest rate swaps <sup>4)</sup>	12,326.7	13,631.6	531.5	404.1	4.3	223.7	6.5	-41.5		
Ineffectiveness <sup>1)</sup>										
<b>Total hedged item</b>			<b>38,394.0</b>	<b>35,725.8</b>	<b>22,596.6</b>	<b>29,393.8</b>	<b>-66.0</b>	<b>-80.5</b>	<b>447.0</b>	<b>417.9</b>
<b>Total hedging instruments</b>	<b>73,361.9</b>	<b>74,579.2</b>	<b>896.1</b>	<b>705.8</b>	<b>321.0</b>	<b>519.1</b>	<b>69.4</b>	<b>86.4</b>		
<b>Total ineffectiveness</b>							<b>3.4</b>	<b>5.9</b>		

Hedging instruments with positive fair values are recognised in the balance sheet as assets on the line item "derivatives" and hedging instruments with negative fair values are recognised in the balance sheet as liabilities on the line item "derivatives."

The average fixed interest on outstanding derivatives on 31 December 2019 was 0.5% (0.6).

<sup>1)</sup> The ineffectiveness of all hedging relationships is recognised in the line item "Net gains/losses from financial items" in profit or loss.

<sup>2)</sup> For terminated fair value hedges and cash flow hedges, no accumulated changes in value remain in the balance sheet.

<sup>3)</sup> The change in value of the hedged item pertains to a perfectly effective hypothetical hedging instrument. Such an instrument is used to determine the effective portion of the hedging instrument, which is recognised in other comprehensive income, and the ineffective portion, which is recognised in the line item "Net gains/losses from financial items" in profit or loss.

<sup>4)</sup> Of changes in value for the year, SEK 0 M pertains to amounts reclassified to profit or loss. Amounts reclassified to profit or loss for terminated hedging relationships amounted to SEK 0 M.

<sup>5)</sup> Amounts recognised in the hedging reserve are presented in the "Statement of changes in equity." Amounts pertaining to cash flow hedges recognised through other comprehensive income are presented in the "Statement of comprehensive income."

The fixed-interest periods of the hedging instrument are presented in the section Credit losses and non-performing loan receivables. The maturity dates of the instruments are presented in the section Liquidity and financing strategy.

The Statement of comprehensive income presents the changes in value of hedging instruments in cash flow hedges for the period and the amount that has been reclassified from equity to profit or loss.

### Maturity profile for nominal amounts in hedging instruments

	31 Dec 2019			31 Dec 2018		
	< 1 year	Remaining contractual term 1-5 years	> 5 years	< 1 year	Remaining contractual term 1-5 years	> 5 years
<b>Currency risk</b>						
<b>Nominal amount</b>	<b>-</b>	<b>11,908.0</b>	<b>-</b>	<b>332.8</b>	<b>11,704.9</b>	<b>203.1</b>

### **Risks and hedging instruments**

The risks hedged and for which hedge accounting is applied are:

- Interest-rate risk, excluding credit-spread risk
- Currency risk

The hedged items are hedged in their entirety for the above risk components.

The Group's derivatives, which comprise interest and cross-currency interest rate swaps, have been acquired in their entirety to hedge the risks of interest and exchange-rate exposure arising during the course of operations. Interest-rate swaps are used to swap fixed interest in SEK to variable interest in SEK. Cross-currency interest rate swaps are used to swap foreign currencies to SEK and fixed foreign interest to variable interest in SEK.

### **Determination of economic relationship**

#### *Fair value hedges of interest-rate risk*

The Group applies the fair value hedge method to specific portfolios of funding, deposits and loans bearing fixed interest rates. The Group also applies the fair value hedge method to assets in the liquidity portfolio that are recognised in the category of Fair value through other comprehensive income.

The following terms have been identified as critical in a fair value hedge of interest-rate risk:

- Nominal amount
- Currency
- Maturity date
- Coupon rate of interest

If the terms correspond, an economic relationship is deemed to exist between the hedged item and the hedging instrument, meaning that the hedging instrument and the hedged item have values that normally develop in opposite directions as a result of changes in the IBOR risk. Effectiveness is assessed by comparing the change in value of the swap's fixed legs with the change in value of the hedged item.

For hedging relationships to which portfolio hedging is applied, each portfolio and the hedging instruments that hedge the portfolio are divided into time pockets. The volume in the hedged item (the portfolio) and the volume in the hedging instrument are compared in each time pocket. If the current volume of the hedged item is less than the volume of the hedging instrument, the difference is removed from the hedging relationship. If the current volume of the hedged item exceeds the volume of the hedging instrument, the surplus portion is not included in the hedging relationship and thus is not remeasured. Hedging relationships are reconciled monthly.

For hedging relationships whereby a one-to-one hedge is applied, the volume in the hedged item always corresponds to the volume in the hedging instrument. The hedge ratio (the ratio in a nominal amount between the hedged item and the hedging instrument) is 1:1 and corresponds to the actual risk management.

The derivative counterparties all have a high credit rating (normally AA) and, as long as this does not change, the credit risk is not deemed to dominate the change in the value of the hedging instrument.

#### *Cash flow hedging of currency risk*

The Group applies cash flow hedges for hedging currency risk in the Group's debt securities in issue in foreign currency.

The following terms have been identified as critical in a cash flow hedge of currency risk:

- Nominal amount
- Maturity date
- Reference rate
- Interest reset date
- The swap swaps the hedged item's currency flows to the Group's functional currency.

If the terms correspond, an economic relationship is expected to exist between the hedged item and the hedging instrument. The nominal amount of the hypothetical derivative and the hedging instrument are to be the same (a hedge ratio of 1:1). The hedge ratio corresponds to the actual risk management.

The derivative counterparties all have a high credit rating (normally AA) and, as long as this does not change, the credit risk is not deemed to dominate the change in the value.

### **Sources of ineffectiveness**

The ineffectiveness arising in a hedging relationship is recognised in profit or loss. Sources of ineffectiveness in the Group's hedging relationships are described below.

#### *Fair value hedges of interest-rate risk:*

The variable leg of the swap does not have a counterpart in the hedged item.

#### *Cash flow hedging of currency risk:*

Ineffectiveness arises if the terms of the hypothetical derivative deviate from the hedging instrument at the same time as the change in the value of the hedging instrument exceeds the change in the value of the hypothetical derivative.

### **Liquidity risk**

Liquidity risk is defined as the risk that payment commitments cannot be fulfilled due to insufficient cash funds.

The Bank Group's risk appetite for liquidity risk is low. Liquidity risk is minimised and prevented by forecasting future liquidity requirements, high access to funds, explicit functional definitions and a high level of control. The Board establishes the risk appetite, liquidity risk limits and the direction of liquidity risk management.

The Liquidity Coverage Ratio for the consolidated situation on 31 December 2019 was 295% (305).

The Net Stable Funding Ratio (NSFR) for the consolidated situation amounted to 131% (130) on 31 December 2019<sup>1)</sup>. Refer to the definition of the Consolidated Situation under the section Capital.

### **Liquidity and financing strategy**

The Bank Group's liquidity risk is governed based on the liquidity and financing strategy to comply with the Board's low risk tolerance. The strategy is determined annually and is updated whenever necessary. The liquidity strategy is specified in a financing plan decided by the Board and contains key figures and targets for fulfilment of the established objectives, which are continuously monitored.

### **Liquidity risk management**

The objective of liquidity management is that the bank, at any given time, is to have sufficient liquid assets with which to fulfil its commitments under both normal and stressed market conditions when access to funding is limited or non-existent. Liquidity risk is managed by the Treasury unit and is quantified using daily liquidity forecasts based on all contracted cash flows and expected business volumes of deposits and lending. The Treasury unit is also responsible for meeting the limits for liquidity risk set by the Board.

The central measure in the management of liquidity risk comprises the Bank Group's "survival horizon," meaning the period of time during which the Bank Group is able to meet its commitments without requiring access to new financing. The liquidity limit for the survival horizon has been set at 12 months. A contingency plan group has been appointed to manage disruptions and action plans are kept up-to-date and approved.

To comprehensively analyse the liquidity risk, a number of structural and quantitative risk measures are in place, including a minimum requirement for unutilised amount in the cover pool for the issuance of covered bonds.

### **Liquidity reserve**

The Bank Group's liquidity reserve comprises securities of very high liquidity, credit quality and investments with the Riksbank or the Swedish National Debt Office. Most of the securities holdings are eligible for transactions with the Riksbank and, where appropriate, with the ECB or the Federal Reserve, and can be quickly converted to liquid assets in order to ensure that sufficient liquidity always remains available.

On 31 December 2019, the liquidity reserve amounted to SEK 60.4 billion (54.3) and 48% (49) of the reserve comprised Swedish covered bonds.

<sup>1)</sup> The calculation is based on the application of the regulatory requirements according to the future update of the Capital Requirements Regulation. The comparative figure was also calculated according to the new application.

## Funding

Funding takes place in a manner that creates a sound maturity profile without maturity concentrations, and is broadly diversified in terms of investors and markets. Funding takes place primarily through covered bonds, and mainly in the currencies of SEK and EUR, since the majority of the Bank Group's lending comprises Swedish mortgages. Certain funding also takes place in CHF and NOK.

In its funding operations, the Bank Group is to act predictably and actively

in the market and aim at achieving as high liquidity as possible in outstanding debt to build up long-term confidence among investors. The Bank Group endeavours to regularly launch issuances to achieve healthy diversification and maintain investors' interests and credit limits. Regular meetings are held with both Swedish and international investors to ensure that these investors have a clear overview of the Bank Group's operations, low risk profile and high-quality risk management.

### Liquidity exposure, financial instruments – Remaining term of contract (undiscounted values)

Group 31 Dec 2019, SEK M	On demand	< 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Without maturity	Total nominal cash flows	Carrying amount	Of which, expected recovery period of > 12 months
<b>Assets</b>									
Cash and balances with central banks	9,831.1	–	–	–	–	–	9,831.1	9,831.1	0.0
Treasury bills and other eligible bills	–	3,783.0	1,356.2	4,005.8	300.0	–	9,444.9	9,934.4	4,305.8
Loans to credit institutions	338.2	69.6	–	–	–	–	407.8	407.8	0.0
Loans to the public	–	4,026.8	10,166.6	35,934.4	256,971.4	–	307,099.3	307,099.3	292,905.8
Bonds and other interest-bearing securities	–	1,405.4	12,579.5	27,336.9	382.0	–	41,703.7	42,673.3	27,718.9
Other assets	–	302.4	–	–	–	256.2	558.6	558.6	0.0
<b>Total assets</b>	<b>10,169.2</b>	<b>9,587.2</b>	<b>24,102.3</b>	<b>67,277.1</b>	<b>257,653.4</b>	<b>256.2</b>	<b>369,045.4</b>	<b>370,504.4</b>	<b>324,930.4</b>
<b>Liabilities</b>									
Due to credit institutions	0.1	6,565.3	–	–	–	–	6,565.4	6,565.4	0.0
Deposits and funding from the public	109,736.9	7,620.8	1,435.4	510.3	0.0	–	119,303.5	119,303.5	510.3
Debt securities in issue	–	3,812.0	27,080.7	154,748.9	37,778.5	–	223,420.1	227,616.0	192,527.4
Lease liabilities	–	8.6	25.8	54.4	–	–	88.8	88.7	54.4
Other liabilities	–	106.3	–	–	–	780.5	886.8	886.8	0.0
Subordinated liabilities	–	–	–	–	2,600.0	–	2,600.0	2,595.0	2,600.0
<b>Total liabilities</b>	<b>109,737.0</b>	<b>18,113.0</b>	<b>28,542.0</b>	<b>155,313.5</b>	<b>40,378.5</b>	<b>780.5</b>	<b>352,864.4</b>	<b>357,055.3</b>	<b>195,692.0</b>
<b>Difference assets and liabilities</b>	<b>-99,567.8</b>	<b>-8,525.8</b>	<b>-4,439.7</b>	<b>-88,036.5</b>	<b>217,274.9</b>	<b>-524.3</b>	<b>16,181.0</b>	<b>13,449.1</b>	<b>129,238.4</b>

Group 31 Dec 2018, SEK M	On demand	< 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Without maturity	Total nominal cash flows	Carrying amount	Of which, expected recovery period of > 12 months
<b>Assets</b>									
Cash and balances with central banks	22.2	–	–	–	–	–	22.2	22.2	–
Treasury bills and other eligible bills	–	5,500.0	–	4,749.1	–	–	10,249.1	10,846.8	4,749.1
Loans to credit institutions	302.3	4,183.6	–	–	–	–	4,485.9	4,485.9	–
Loans to the public	–	7,575.2	9,319.6	31,680.7	240,850.6	–	289,426.0	289,426.0	272,531.2
Bonds and other interest-bearing securities	–	1,524.0	5,695.8	27,804.7	482.0	–	35,506.5	36,790.4	28,286.7
Other assets	–	8.6	–	–	–	314.3	322.9	322.9	–
<b>Total assets</b>	<b>324.5</b>	<b>18,791.4</b>	<b>15,015.4</b>	<b>64,234.4</b>	<b>241,332.6</b>	<b>314.3</b>	<b>340,012.6</b>	<b>341,894.2</b>	<b>305,567.0</b>
<b>Liabilities</b>									
Due to credit institutions	0.9	5,991.2	–	–	–	–	5,992.1	5,992.1	–
Deposits and funding from the public	–	105,008.5	2,695.3	437.9	–	–	108,141.7	108,141.7	437.9
Debt securities in issue	–	1,874.2	14,478.5	156,514.6	33,758.6	–	206,625.9	210,781.1	190,273.2
Other liabilities	–	57.4	–	–	–	126.0	183.4	183.4	–
Subordinated liabilities	–	–	–	–	2,600.0	–	2,600.0	2,593.1	2,600.0
<b>Total liabilities</b>	<b>0.9</b>	<b>112,931.3</b>	<b>17,173.8</b>	<b>156,952.5</b>	<b>36,358.6</b>	<b>126.0</b>	<b>323,543.1</b>	<b>327,691.4</b>	<b>193,311.1</b>
<b>Difference assets and liabilities</b>	<b>323.6</b>	<b>-94,139.9</b>	<b>-2,158.4</b>	<b>-92,718.1</b>	<b>204,974.0</b>	<b>188.3</b>	<b>16,469.5</b>	<b>14,202.8</b>	<b>112,255.9</b>

## Liquidity exposure, financial instruments – Remaining term of contract (undiscounted values)

Parent Company 31 Dec 2019, SEK M	On demand	< 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Without maturity	Total nominal cash flows	Carrying amount	Of which, expected recovery period of > 12 months
<b>Assets</b>									
Cash and balances with central banks	9,831.1	-	-	-	-	-	9,831.1	9,831.1	-
Treasury bills and other eligible bills	-	3,783.0	1,356.2	4,005.8	300.0	-	9,444.9	9,934.0	4,305.8
Loans to credit institutions	120.6	40.9	25.7	77,535.5	1,140.0	-	78,862.7	78,862.7	78,675.5
Loans to the public	-	1,075.9	2,549.2	6,569.0	32,605.9	-	42,800.0	42,800.0	39,174.9
Bonds and other interest-bearing securities	-	1,405.4	8,679.5	21,196.9	382.0	-	31,663.7	32,369.3	21,578.9
Other assets	-	79.9	-	-	-	246.7	326.6	326.6	-
<b>Total assets</b>	<b>9,951.6</b>	<b>6,385.1</b>	<b>12,610.6</b>	<b>109,307.2</b>	<b>34,427.9</b>	<b>246.7</b>	<b>172,929.0</b>	<b>174,123.7</b>	<b>143,735.0</b>
<b>Liabilities</b>									
Due to credit institutions	4,533.1	6,331.8	-	-	-	-	10,864.9	10,864.9	-
Deposits and funding from the public	110,216.6	7,620.8	1,435.4	510.3	0.0	-	119,783.2	119,783.2	510.3
Debt securities in issue	0.0	3,130.7	6,376.8	29,223.2	100.0	-	38,830.6	39,115.0	29,323.2
Other liabilities	-	88.1	-	-	-	275.0	363.0	363.0	-
Subordinated liabilities	-	-	-	-	2,600.0	-	2,600.0	2,595.0	2,600.0
<b>Total liabilities</b>	<b>114,749.7</b>	<b>17,171.4</b>	<b>7,812.2</b>	<b>29,733.4</b>	<b>2,700.0</b>	<b>275.0</b>	<b>172,441.7</b>	<b>172,721.1</b>	<b>32,433.4</b>
<b>Difference assets and liabilities</b>	<b>-104,798.1</b>	<b>-10,786.3</b>	<b>4,798.4</b>	<b>79,573.7</b>	<b>31,727.9</b>	<b>-28.3</b>	<b>487.3</b>	<b>1,402.6</b>	<b>111,301.6</b>

Parent Company 31 Dec 2018, SEK M	On demand	< 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Without maturity	Total nominal cash flows	Carrying amount	Of which, expected recovery period of > 12 months
<b>Assets</b>									
Cash and balances with central banks	22.2	-	-	-	-	-	22.2	22.2	-
Treasury bills and other eligible bills	-	5,500.0	-	4,749.1	-	-	10,249.1	10,846.8	4,749.1
Loans to credit institutions	127.7	4,217.8	73,867.3	-	801.0	-	79,013.9	79,013.9	801.0
Loans to the public	-	5,227.2	2,585.3	6,524.1	31,404.2	-	45,740.8	45,742.5	37,928.3
Bonds and other interest-bearing securities	-	1,524.0	3,324.3	20,935.4	282.0	-	26,065.7	26,873.7	21,217.4
Other assets	-	8.4	-	-	-	66.3	74.7	74.7	-
<b>Total assets</b>	<b>149.9</b>	<b>16,477.4</b>	<b>79,776.9</b>	<b>32,208.6</b>	<b>32,487.2</b>	<b>66.3</b>	<b>161,166.4</b>	<b>162,573.8</b>	<b>64,695.8</b>
<b>Liabilities</b>									
Due to credit institutions	4,982.3	5,773.6	-	-	-	-	10,755.9	10,755.9	-
Deposits and funding from the public	-	105,406.5	2,695.3	437.9	-	-	108,539.8	108,539.8	437.9
Debt securities in issue	-	1,874.2	5,669.6	31,687.5	100.0	-	39,331.3	39,586.1	31,787.5
Other liabilities	-	57.5	-	-	-	-	57.5	57.5	-
Subordinated liabilities	-	-	-	-	2,600.0	-	2,600.0	2,593.1	2,600.0
<b>Total liabilities</b>	<b>4,982.3</b>	<b>113,111.8</b>	<b>8,364.9</b>	<b>32,125.4</b>	<b>2,700.0</b>	<b>0.0</b>	<b>161,284.5</b>	<b>161,532.4</b>	<b>34,825.4</b>
<b>Difference assets and liabilities</b>	<b>-4,832.4</b>	<b>-96,634.4</b>	<b>71,412.0</b>	<b>83.2</b>	<b>29,787.2</b>	<b>66.3</b>	<b>-118.1</b>	<b>1,041.4</b>	<b>29,870.4</b>

## Liquidity exposure, derivatives

Group 31 Dec 2019, SEK M	< 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Total nominal cash flows
<b>Derivatives at fair value in profit or loss</b>					
- Currency	-10.0	-25.8	0.0	0.0	-35.7
- Interest	-0.1	-0.1	-0.5	-0.1	-0.8
<b>Derivatives in hedging relationships</b>					
- Currency	95.6	1,122.3	4,904.1	577.3	6,699.3
- Interest	7.4	612.5	1,592.9	349.0	2,561.8
<b>Total difference derivatives</b>	<b>93.0</b>	<b>1,708.9</b>	<b>6,496.5</b>	<b>926.3</b>	<b>9,224.6</b>

Group 31 Dec 2018, SEK M	< 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Total nominal cash flows
<b>Derivatives at fair value in profit or loss</b>					
- Currency	-1.6	0.0	0.0	0.0	-1.6
- Interest	0.0	-0.1	-0.5	-0.1	-0.7
<b>Derivatives in hedging relationships</b>					
- Currency	116.1	527.4	3,776.9	637.1	5,057.5
- Interest	68.0	697.0	1,932.0	405.5	3,102.5
<b>Total difference derivatives</b>	<b>182.4</b>	<b>1,224.3</b>	<b>5,708.5</b>	<b>1,042.6</b>	<b>8,157.7</b>

Parent Company 31 Dec 2019, SEK M	< 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Total nominal cash flows
<b>Derivatives at fair value in profit or loss</b>					
- Currency	-10.0	-25.8	0.0	0.0	-35.7
- Interest	-0.1	-0.1	-0.5	-0.1	-0.8
<b>Derivatives in hedging relationships</b>					
- Currency	-62.7	54.4	761.5	0.0	753.2
- Interest	32.3	-36.3	-75.0	-8.6	-87.6
<b>Total difference derivatives</b>	<b>-40.4</b>	<b>-7.9</b>	<b>686.0</b>	<b>-8.7</b>	<b>629.1</b>

Parent Company 31 Dec 2018, SEK M	< 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Total nominal cash flows
<b>Derivatives at fair value in profit or loss</b>					
- Currency	-1.6	0.0	0.0	0.0	-1.6
- Interest	0.0	-0.1	-0.5	-0.1	-0.7
<b>Derivatives in hedging relationships</b>					
- Currency	-39.5	134.8	391.9	0.0	487.2
- Interest	31.4	-29.1	6.2	-9.2	-0.7
<b>Total difference derivatives</b>	<b>-9.8</b>	<b>105.6</b>	<b>397.7</b>	<b>-9.3</b>	<b>484.3</b>



## Operational risk

Operational risk is defined as the risk of losses arising due to inadequate or failed internal processes, human error, erroneous systems or external events and includes legal and compliance risks. Based on this definition, operational risk encompasses the entire banking operations, including outsourced operations.

The Bank Group is to base its assessments of operational risk on products, services, functions, processes and IT systems. The risk assessment is to be followed up against risk outcome (incident reporting).

### Risk categories

The Bank Group categorises operational risk into the following risk categories:

Product and process risks	Refer to the risk of losses arising due to established work procedures not functioning well, being unknown to employees or not being appropriate.
Personnel risks	Refer to the risk of losses arising due to unclear areas of responsibility, inadequate know-how needed for work duties, or a shortage of personnel in relation to work duties.
Legal risks	Refer to the risk of the company not ensuring or monitoring compliance with laws, regulations or other relevant rules and recommendations, or that signed agreements or other legal documents are correct and valid, not archiving agreements and other legal documents or not managing and following up legal processes.
Compliance risks	Refer to the risk that the company does not ensure or follow up compliance with laws, regulations, general guidelines from the Swedish Financial Supervisory Authority and European authorities or other relevant regulations and recommendation for licensable operations, and the company does not comply with internal rules in this area and thereby is exposed to the risk of authorities imposing sanctions or making other remarks.
IT risks	Refer to the risk of IT systems not being available to the extent decided or not being sufficiently secure. IT risk includes availability and business continuity risk, IT security risk, IT change risk, data integrity risk and IT outsourcing risk. Cyber risk, defined as risks inherent in the use or transfer of digital data, is included in most of the risks described above.
Security risks	Refer to the risk of losses arising due to the bank being exposed to external crimes or internal fraud. It also encompasses the risk of damage to physical assets in the Bank Group.
Model risks	Refer to the risk of losses arising due to decisions that are primarily based on the results of models on the basis of errors in the production, implementation or use of such models.

## Risk management process

The risk management process for operational risk comprises the following main stages:

### Risk evaluation and monitoring controls

Risk evaluation is one of the tools used to identify operational risks that could impact the business and to plan risk-limiting activities and controls that the operations have introduced to business processes and follow. These analyses are part of the operations' overall risk assessment.

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

- Probability – expected number of risk outcomes per year
  - Consequence – expected cost each time risks actually materialise.
- The assessment of consequences includes the following:
- Costs – direct and indirect
  - Customer impact – direct customer impact, complaints from customers and reputation risk
  - Compliance risks – risk relating to regulatory compliance
  - Other – mainly process-related risks or other impacts on the operations

The assessment of both probability and consequence including considering any existing controls for reducing the risk, meaning residual risk. The combination of probability and consequence provides a quantitative risk assessment of operational risk. Each manager is responsible for identifying, assessing, monitoring and managing operational risk in their area of responsibility. The process owner is responsible for documenting the process and its controls and for identifying, assessing, monitoring and managing operational risk for the process, including its products and services.

The risk methods are regularly evaluated with the aim of minimising the risk of these methods themselves giving rise to significant misjudgements of operational risks.

### Risk indicators

The aim for the use of risk indicators is to create conditions for better insight into the bank's risk profile and the risks that are increasing or reducing at that point in time and over time.

### Follow-up of incidents

Review of incidents that have occurred. Particular emphasis in these reviews is attached to incidents of a more serious nature.

### Approval process

The process for approving new or significantly changed products, services, markets, processes, IT systems as well as for implementing reorganisations or in the case of exceptional transactions. The purpose of the approval process is to achieve efficient and appropriate management of the risks that may arise in connection with change work, impact capital, to ensure that products and changes that are approved are compatible with risk strategy and risk appetite and to create customer value.

### Incident reporting

The Bank Group has system support for reporting incidents. This system enables all employees to report any incidents. Risk Management periodically prepares a summary of the incidents in its reports. Incident management is an important part of the Group's operational risk management. Incident statistics contribute to the assessment and forecast of operational risk, and enables the company to quickly identify critical problems and act upon these. The responsibility for analysing incidents and taking measures lies with the head of the process or operations.

### Continuity management

Continuity management involves measures to be taken to manage serious and extensive business interruptions, disruptions or crises, how the operations are to be maintained in such cases and the operations' priorities and procedures when returning to normal operations after an interruption or major business disruption. Business contingency, continuity and recovery plans have been produced in the operations to support employees and managers in a crisis and if a serious event were to occur. Crisis training is conducted at least once annually to ensure that the plans are suitable.

### Business risk

Business risk primarily comprises earnings risk. Earnings risk is defined as volatility in earnings that creates a risk of lower income due to such factors as competition or volume reductions. Earnings risk is associated with all of the Bank Group's products and portfolios. A large portion of the banking operations involves retail mortgages. These operations have a low level of volatility and thus a low earnings risk. Business risk is managed in the internal capital and liquidity adequacy assessment process (ICAAP and ILAAP).

### Capital

#### Consolidated Situation

The consolidated situation encompasses: Länsförsäkringar AB, Länsförsäkringar Bank AB (publ), Länsförsäkringar Hypotek AB, Wasa Kredit AB and Länsförsäkringar Fondförvaltning AB. Länsförsäkringar AB sold its holding in the property-holding company Utile Dulci 2 HB during the year. For more information about the Group, refer to Länsförsäkringar AB's Annual Report.

There is no current or foreseen material practical or legal impediment in the consolidated situation for transferring funds from own funds or repayment of liabilities between parent company and subsidiary.

#### Parent Company's participating interest and consolidation method

Company name	Parent Company's participating interest (%)	Corp. Reg. No.	Consolidation method
<b>Länsförsäkringar AB Parent Company</b>			
Länsförsäkringar Bank AB (publ)	100	516401-9878	Complete
Länsförsäkringar Fondliv Försäkrings AB (publ)	100	516401-8219	Deducted from own funds
Länsförsäkringar Sak Försäkrings AB (publ)	100	502010-9681	Deducted from own funds
Länsförsäkringar Liv Försäkrings AB (publ)	100	516401-6627	Deducted from own funds
<b>Länsförsäkringar Bank AB Parent Company</b>			
Länsförsäkringar Hypotek AB	100	556244-1781	Complete
Länsförsäkringar Fondförvaltning AB	100	556364-2783	Complete
Wasa Kredit AB	100	556311-9204	Complete

## Own funds and capital requirements

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	Consolidated Situation		Bank Group	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
<b>Common Equity Tier 1 capital: instruments and reserves</b>				
Capital instruments and the related share premium accounts	6,513.4	6,513.4	2,864.6	2,864.6
<i>Of which: share capital</i>	1,042.5	1,042.5	2,864.6	2,864.6
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
Independently reviewed interim profits net of any foreseeable charge or dividend	1,245.2	2,488.3	1,427.9	1,179.5
<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>26,797.4</b>	<b>25,553.7</b>	<b>16,267.3</b>	<b>14,904.1</b>
<b>Common Equity Tier 1 capital: regulatory adjustments</b>				
Additional value adjustments	-63.0	-54.4	-60.5	-53.5
Intangible assets (net related tax liability)	-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 has a significant investment in those entities	-5,704.0	-5,794.1	-	-
Amounts exceeding threshold of 15%	-	-	-	-
<i>Of which: direct, indirect and synthetic holdings by the institution of Common Equity Tier 1 instruments of financial sector entities where the institution has a significant investment in those entities</i>	-	-	-	-
<i>Of which: deferred tax assets arising from temporary differences</i>	-	-	-	-
<b>Total regulatory adjustments to Common Equity Tier 1 capital</b>	<b>-8,057.1</b>	<b>-7,804.4</b>	<b>-1,634.2</b>	<b>-1,264.8</b>
<b>Common Equity Tier 1 capital</b>	<b>18,740.3</b>	<b>17,749.3</b>	<b>14,633.1</b>	<b>13,639.3</b>
<b>Additional Tier 1 capital: instruments</b>				
Capital instruments and the related share premium accounts	-	-	2,200.0	1,200.0
<i>Of which: classified as equity within the meaning of the applicable accounting standards</i>	-	-	2,200.0	1,200.0
Qualifying Tier 1 capital included in consolidated Additional Tier 1 capital issued by subsidiaries and held by third parties	743.4	927.6	-	-
<b>Additional Tier 1 capital</b>	<b>743.4</b>	<b>927.6</b>	<b>2,200.0</b>	<b>1,200.0</b>
<b>Tier 1 capital (Tier 1 capital = Common Equity Tier 1 capital + Additional Tier 1 capital)</b>	<b>19,483.8</b>	<b>18,676.9</b>	<b>16,833.1</b>	<b>14,839.3</b>
<b>Tier 2 capital: instruments and provisions</b>				
Capital instruments and the related share premium accounts	-	-	2,589.7	2,589.7
Qualifying own funds instruments included in consolidated Tier 2 capital issued by subsidiaries and held by third parties	768.1	2,035.5	-	-
<b>Tier 2 capital</b>	<b>768.1</b>	<b>2,035.5</b>	<b>2,589.7</b>	<b>2,589.7</b>
<b>Total capital (total capital = Tier 1 capital + Tier 2 capital)</b>	<b>20,251.9</b>	<b>20,712.4</b>	<b>19,422.7</b>	<b>17,429.0</b>
<b>Total risk-weighted assets</b>	<b>121,827.0</b>	<b>113,283.1</b>	<b>104,924.9</b>	<b>95,927.8</b>
<b>Capital ratios and buffers</b>				
Common Equity Tier 1 capital (as a percentage of total risk exposure amount)	15.4%	15.7%	13.9%	14.2%
Tier 1 capital (as a percentage of total risk exposure amount)	16.0%	16.5%	16.0%	15.5%
Total capital (as a percentage of total risk exposure amount)	16.6%	18.3%	18.5%	18.2%
Institution-specific buffer requirements	9.5%	9.0%	9.5%	9.0%
<i>Of which: capital conservation buffer requirement</i>	2.5%	2.5%	2.5%	2.5%
<i>Of which: countercyclical capital buffer requirement</i>	2.5%	2.0%	2.5%	2.0%
<i>Of which: systemic risk buffer requirement</i>	-	-	-	-
<i>Of which: Global Systemically Important Institution or Other Systemically Important Institution buffer</i>	-	-	-	-
Common Equity Tier 1 capital available to meet buffers (as a percentage of risk exposure amount)	8.6%	10.3%	9.4%	9.5%

## Own funds

Own funds is the total of Tier 1 capital and Tier 2 capital, less items indicated in the capital adequacy rules.

Tier 1 capital comprises the institution's Common Equity Tier 1 capital and a limited share of perpetual subordinated debt (Tier 1 instruments). Common Equity Tier 1 capital comprises equity according to applicable accounting standards after deductions for certain items as defined in the capital adequacy rules.

Tier 2 capital comprises perpetual and dated loans with subordinated preferential rights.

### Common Equity Tier 1 capital

Equity comprises share capital, capital contributed, reserves and net profit for the year. During the period, equity included in the Common Equity Tier 1 capital in the consolidated situation increased net, primarily due to profit generated from the Bank Group. Profit may be included in Common Equity Tier 1 capital prior to a decision by a general meeting only if approved by the Swedish Financial Supervisory Authority, after deductions have been made for proposed dividends or other foreseeable charges and the company's auditors have verified the profits. A deduction for the expected, proposed dividend from the Parent Company Länsförsäkringar AB to the shareholders of SEK 700 M was made from Common Equity Tier 1 capital at year-end. Changes in equity attributable to cash flow hedges may not be included in own funds, which is why this effect is excluded. Common Equity Tier 1 capital is also adjusted due to the regulatory requirements regarding prudent valuation of items measured at fair value. Other deductions from Common Equity Tier 1 capital that are applicable to the consolidated situation are intangible assets, goodwill, IRB deficit and significant holdings in units in the financial sector. Common Equity Tier 1 capital after applicable deductions amounted to SEK 18,740 M (17,749).

### Tier 1 capital

Additional Tier 1 capital in the consolidated situation solely comprises Additional Tier 1 capital. Additional Tier 1 capital is subordinated liabilities which fulfil certain conditions in order to be included as Tier 1 capital when calculating the size of own funds. Länsförsäkringar Bank have two issued Additional Tier 1 Capital loans totalling SEK 2,200 M (1,200). When compiling consolidated own funds, Tier 1 instruments may only be included to the extent that they are used to cover the issuing institution's capital requirements. Eligible Tier 1 capital amounted to SEK 743 M (928). Tier 1 capital in the Consolidated Situation was 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 own funds qualifying for inclusion 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.

### Tier 2 capital

Tier 2 capital must be subordinate to other claims of all nonsubordinated creditors, except for equity instruments and Additional Tier 1 capital. Fixed-term subordinated debt that is included may not be covered or guaranteed in any form by an issuing institution or institution in the consolidated situation.

Tier 2 capital comprises fixed-term subordinated debt issued by Länsförsäkringar Bank. The instruments are subject to the same rules as for Tier 1 instruments above. Eligible Tier 2 capital amounted to SEK 768 M (2,036) on 31 December 2019.

### Outstanding subordinated loans 31 Dec 2019

Borrower	Loan amount	Loan date	Repayment date	Premature redemption (break-off date)
<b>Additional Tier 1 capital – External</b>				
Länsförsäkringar Bank AB (publ)	SEK 1,200 M	9 June 2015	Perpetual	9 June 2020
Länsförsäkringar Bank AB (publ)	SEK 1,000 M	10 Apr 2019	Perpetual	10 Apr 2024
<b>Tier 2 capital – External</b>				
Länsförsäkringar Bank AB (publ)	SEK 500 M	26 April 2016	26 April 2026	26 April 2021
Länsförsäkringar Bank AB (publ)	SEK 1,000 M	26 April 2016	26 April 2026	26 April 2021
Länsförsäkringar Bank AB (publ)	SEK 400 M	1 Mar 2018	1 Mar 2028	1 Mar 2023
Länsförsäkringar Bank AB (publ)	SEK 700 M	1 Mar 2018	1 Mar 2028	1 Mar 2023

For more detailed information about the most significant elements of the own funds instruments presented in accordance with the European Commission's Implementing Regulation (EU) No 1423/2013, see the disclosures on own funds on the Länsförsäkringar Bank website.

## Capital requirement

Capital requirements are divided into Pillar I requirements, which are general minimum requirements for all institutions, and Pillar II requirements that are based on individual assessments performed by each institution. Alongside these capital requirements, there are additional capital requirements in the form of a combined buffer. The various capital requirements are described in more detail in the document Risk and Capital Management in Länsförsäkringar Bank, which is available from the company's website.

Capital requirement	Consolidated Situation 31 Dec 2019		Consolidated situation 31 Dec 2018		Bank Group 31 Dec 2019		Bank Group 31 Dec 2018	
	Risk Exposure Amount	Capital require- ment	Risk Exposure Amount	Capital require- ment	Risk Exposure Amount	Capital require- ment	Risk Exposure Amount	Capital require- ment
<b>SEK M</b>								
<b>Credit risk according to Standardised Approach</b>								
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
<b>Total capital requirement and Risk Exposure Amount</b>	<b>19,566.2</b>	<b>1,565.3</b>	<b>19,153.6</b>	<b>1,532.3</b>	<b>11,067.0</b>	<b>885.4</b>	<b>9,405.9</b>	<b>752.5</b>
<b>Credit risk according to IRB Approach</b>								
<i>Retail exposures</i>								
Secured by immovable property, small and medium-sized businesses	2,616.4	209.3	1,932.1	154.6	2,616.4	209.3	1,932.1	154.6
Secured by immovable property, other	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 retail exposures, small and medium-sized businesses	4,573.5	365.9	4,332.5	346.6	4,573.5	365.9	4,332.5	346.6
Other retail exposures	7,193.6	575.5	6,879.4	550.4	7,193.6	575.5	6,879.4	550.4
<b>Total retail exposures</b>	<b>29,951.3</b>	<b>2,396.1</b>	<b>27,985.3</b>	<b>2,238.8</b>	<b>29,951.3</b>	<b>2,396.1</b>	<b>27,985.3</b>	<b>2,238.8</b>
Exposures to corporates	8,689.1	695.1	7,496.3	599.7	8,689.3	695.1	7,496.3	599.7
<b>Total capital requirement and Risk Exposure Amount</b>	<b>38,640.4</b>	<b>3,091.2</b>	<b>35,481.6</b>	<b>2,838.5</b>	<b>38,640.7</b>	<b>3,091.3</b>	<b>35,481.6</b>	<b>2,838.5</b>
<b>Operational risk</b>								
Standardised Approach	13,543.1	1,083.4	12,305.6	984.4	5,140.0	411.2	4,697.9	375.8
<b>Total capital requirement for operational risk</b>	<b>13,543.1</b>	<b>1,083.4</b>	<b>12,305.6</b>	<b>984.4</b>	<b>5,140.0</b>	<b>411.2</b>	<b>4,697.9</b>	<b>375.8</b>
<b>Credit valuation adjustment, Standardised Approach</b>	<b>1,458.1</b>	<b>116.6</b>	<b>1,323.4</b>	<b>105.9</b>	<b>1,458.1</b>	<b>116.6</b>	<b>1,323.4</b>	<b>105.9</b>
<b>Additional Risk Exposure Amounts according to Article 458 CRR</b>	<b>48,619.2</b>	<b>3,889.5</b>	<b>45,018.9</b>	<b>3,601.5</b>	<b>48,619.2</b>	<b>3,889.5</b>	<b>45,018.9</b>	<b>3,601.5</b>
<b>Total capital requirement and Risk Exposure Amount</b>	<b>121,827.0</b>	<b>9,746.2</b>	<b>113,283.1</b>	<b>9,062.6</b>	<b>104,924.9</b>	<b>8,394.0</b>	<b>95,927.8</b>	<b>7,674.2</b>

## Minimum capital requirement

The minimum capital requirement under Pillar I is expressed as a percentage of the Risk Exposure Amount (REA). REA in the consolidated situation on 31 December 2019 amounted to SEK 121,827 M (113,283). The increase in REA was mainly attributable continued growth in lending, primarily to households in the form of mortgages, which also increases REA in accordance with the Financial Supervisory Authority's macroprudential measures under the framework of Article 458 of CRR. REA for operational risk has increased since the preceding year due to the annual upward adjustment of the income included in the calculation according to the Standardised Approach.

## Buffer requirement

The consolidated situation is subject to requirements on maintaining a capital conservation buffer and a countercyclical capital buffer. The capital conservation buffer is to correspond to 2.5% of REA and amounted to SEK 3,046 (2,832) M on 31 December 2019. The Financial Supervisory Authority raised the requirement of the countercyclical capital buffer from 2% to 2.5% of REA during the year, which corresponded to SEK 3,046 M (2,266) on 31 December 2019. Both buffers are to be covered by Common Equity Tier 1 capital.

## Capital management and

### Internal Capital Adequacy Assessment Process (ICAAP)

The internal capital adequacy assessment process (ICAAP) is designed based on the Pillar II requirements, the requirements established by the Board of Directors for the operations and the internal demands. The purpose of the process is to assess the capital required for covering all of the risks that the

consolidated situation is, or could be, exposed to. The internally assessed capital requirement is to be prospective and ensure healthy capitalisation, and form the basis of short and long-term capital planning. Scenario analyses and stress tests are carried out to assess the capital requirement based on a prospective perspective. The process reviews the risks in the operations and evaluates the methods and models used for quantifying them. The process is to be carried out annually and the prerequisites for stress tests are to be reviewed by the Board at least once annually, which are to guide future work.

## Total assessed capital requirement

The total assessed capital requirement comprises the internally assessed capital requirement (minimum capital requirement under Pillar I and the capital requirement for risks managed under Pillar II) plus the combined buffer.

### Total assessed capital requirement

Consolidated Situation	31 Dec 2019		31 Dec 2018	
	SEK M	% of REA	SEK M	% of REA
Pillar I	9,746.2	8.0%	9,062.6	8.0%
Pillar II	1,963.7	1.6%	2,227.4	2.0%
Combined buffer	6,091.4	5.0%	5,097.7	4.5%
<b>Total</b>	<b>17,801.3</b>	<b>14.6%</b>	<b>16,387.7</b>	<b>14.5%</b>

## Leverage ratio

The leverage ratio is a non-risk-based metric that establishes a floor for how low the capital requirement can fall in relation to a bank's gross assets. The leverage ratio on 31 December 2019 amounted to 4.9% (5.1).



## New and amended rules

### *Impending changes to capital adequacy rules*

In 2019, the EU adopted amendments to regulations and directives related to capital adequacy and bank recovery and resolution. The changes include amendments and revisions to the Capital Requirements Regulation, the Capital Requirements Directive and the Crisis Management Directive. These regulatory changes are known collectively as the Banking Package. Certain parts of the Banking Package need to be incorporated into Swedish law before they come into force. At the end of 2019, the Swedish government presented a report on how these proposed regulatory changes are to be adapted and supplemented in Swedish law. The proposed amendments to the Capital Requirements Regulation include a binding minimum requirement for the leverage ratio and net stable funding ratio. New methods are also proposed for calculating counterparty risk and stricter rules on large exposures. The new directive proposal includes a revised Pillar II framework. The measures in the Banking Package are to aid the implementation of risk-reduction global standards at EU level and are also part of completing the Banking Union, and are expected to come into effect in 2020/2021.

The work on completing the Basel III regulations is in progress. The European Commission issued a public consultation in 2019 on implementing the final Basel III reforms. The views in response to this consultation will be important to the European Commission in preparing a concrete legal proposal that is expected in 2020. The proposal entails major changes for banks and include restrictions on the use of internal models, changes to the Standardised Approach for both credit and operational risk as well as the introduction of a capital floor of 72.5%. The capital floor entails that the risk-weighted assets for a bank that applies internal models may not, in total, be lower than 72.5% of the risk-weighted amount calculated according to the Standardised Approach. The purpose of the changes is to introduce standardised capital requirements and reduce the risk of unwarranted differences between countries and banks. The rules also aim to increase comparability between the banks. The new rules are expected to take effect in 2022 with a phase-in period of five years.

The European Banking Authority (EBA) also deferred the implementation of certain new requirements for internal models in the review of the IRB regulatory framework. The purpose of the review is to ensure consistency in the results of the internal models and to make risk-weighted exposures more comparable between banks. The new standards include a new definition of default and estimates of PD and LGD. Combined, this will entail extensive changes for many banks.

### *Increased capital requirements on banks loans for commercial real estate*

At the start of 2020, the Swedish Financial Supervisory Authority decided to introduce increased capital requirements in Pillar II on lending for commercial real estate. The decision was based on the proposal made by the Financial Supervisory Authority at the end of 2019 and means that a risk weight has been set on lending for commercial real estate and commercial residential properties at 35% and 25%, respectively. This new requirement is expected to have a minor impact on capital adequacy and comes into effect with the Financial Supervisory Authority's assessment of capital requirements as part of its annual supervisory review and evaluation process in 2020.

### *New EU rules on covered bonds*

In November 2019, the EU decided on new regulations regarding covered bonds comprising a new directive and regulation on amendments to the Capital Requirements Regulation. The new rules are part of the European Commission's work on deepening the Capital Markets Union since the covered bond market is unequally developed in EU countries. The aim of the regulations is to create standardised rules for covered bonds within the EU. The directive regulates the minimum level of harmonisation based on national systems so as not to jeopardise the functioning of the existing markets. The proposal includes introducing a separate requirement for a cover pool liquidity buffer, which is to cover the net liquidity outflow for a period of 180 days. A higher match funding requirement is also proposed, meaning the degree to which the value of the cover pool is to exceed the nominal value of the covered bonds. The requirement entails a rise from the current level of 2% to 5%. Adjustments are needed to introduce the directive and the regulation amendments to Swedish law. The Swedish government decided in December 2019 to

appoint a special investigator to present proposals on law amendments by 31 October 2020. The new directive is expected to take effect in 2021.

### *Crisis management*

Sweden has had new rules for managing failing banks since 2016. These rules are based on the European Parliament and Council's Crisis Management Directive (2014/59/EU). The key aim is to prevent banks' problems from becoming a burden for the tax payer. The rules establish a special procedure for handling a failing institution without putting it into bankruptcy. This procedure is called resolution. It means that the government, through the National Debt Office, can take control of the failing bank. The Debt Office has a number of tools available to reconstruct or discontinue banks in a structured manner. To facilitate efficient resolution, the Debt Office has prepared resolution plans for the institutions that it considers have critical operations for the financial system. As part of its work, the Debt Office will determine minimum requirements for own funds and eligible liabilities that can be used to cover losses in a failing institution. In December 2019, the Debt Office announced its decisions on resolution plans and minimum requirements for own funds and eligible liabilities (MREL) for the institutions that have business activities that are deemed to be critical to the Swedish financial system, including Länsförsäkringar Bank. The Debt Office decided on an MREL at group level. The liabilities issued that may be used to meet the requirements are to be issued by Länsförsäkringar Bank. In addition, the Debt Office also made a decision on a minimum requirement for the individual institutions Länsförsäkringar Bank, Länsförsäkringar Hypotek and Wasa Kredit. The Debt Office's decision on MREL involves only the amount of the minimum requirement. In addition to this decision, the Debt Office has decided to apply a number of principles (that are not part of this decision) on how the minimum requirement should be met. For example, the minimum requirement at group level is to be met with a certain amount of debt instruments (the liabilities proportion principle) and the requirement from 2022 that MREL should be fully met in full with subordinated instruments (subordinated liabilities principle). The MREL for the consolidated situation is 6.2% of total liabilities and own funds. On 31 December 2019, Länsförsäkringar Bank had SEK 29.4 billion in eligible liabilities with a remaining term of more than one year, which exceeded the minimum requirement by a healthy margin.

Länsförsäkringar Bank is following regulatory developments and is highly prepared and well capitalised for impending changes, even if it is unclear at this stage what the effects of a capital requirement will be.

<b>Note 4 Segment reporting</b>						
<b>Group, SEK M</b>	<b>Banking operations</b>	<b>Mortgage institution</b>	<b>Finance company</b>	<b>Mutual funds</b>	<b>Eliminations/ Adjustments</b>	<b>Total</b>
<b>Income statement 2019</b>						
Net interest income	1,283.8	2,521.5	812.1	-	0.0	4,617.4
Dividends received	4.7	-	-	-	-	4.7
Total commission income	611.0	22.7	209.0	726.9	-112.1	1,457.5
Total commission expense	-588.8	-1,199.2	-65.1	-352.8	112.1	-2,093.9
Net gains / losses 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
<b>Total operating income</b>	<b>1,448.3</b>	<b>1,348.4</b>	<b>982.1</b>	<b>374.1</b>	<b>-126.1</b>	<b>4,026.8</b>
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	24.3	-1,754.8
Depreciation/amortisation and impairment	-125.1	-0.2	-21.5	-0.3	-24.3	-171.4
<b>Total operating expenses</b>	<b>-1,246.2</b>	<b>-120.9</b>	<b>-492.6</b>	<b>-192.6</b>	<b>126.1</b>	<b>-1,926.2</b>
<b>Profit before credit losses</b>	<b>202.1</b>	<b>1,227.6</b>	<b>489.5</b>	<b>181.5</b>	<b>0.0</b>	<b>2,100.7</b>
Credit losses, net	-5.2	0.9	-202.1	-	-0.8	-207.2
<b>Operating profit</b>	<b>196.9</b>	<b>1,228.5</b>	<b>287.4</b>	<b>181.5</b>	<b>-0.8</b>	<b>1,893.5</b>
<b>Balance sheet, 31 December 2019</b>						
<b>Total assets</b>	<b>192,027.1</b>	<b>262,204.7</b>	<b>25,079.0</b>	<b>857.4</b>	<b>-99,472.3</b>	<b>380,695.8</b>
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
<b>Total liabilities and equity</b>	<b>192,027.1</b>	<b>262,204.7</b>	<b>25,079.0</b>	<b>857.4</b>	<b>-99,472.3</b>	<b>380,695.8</b>
<b>Group, SEK M</b>	<b>Banking operations</b>	<b>Mortgage institution</b>	<b>Finance company</b>	<b>Mutual funds</b>	<b>Eliminations/ Adjustments</b>	<b>Total</b>
<b>Income statement 2018</b>						
Net interest income	1,233.7	2,433.6	829.8	-	0.0	4,491.1
Dividends received	29.9	-	-	-	-	29.9
Total commission income	556.5	2.5	209.8	572.5	-88.4	1,252.9
Total commission expense	-490.5	-1,242.1	-68.8	-313.2	88.4	-2,026.1
Net gains / losses 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
<b>Total operating income</b>	<b>1,470.0</b>	<b>1,192.1</b>	<b>982.2</b>	<b>259.4</b>	<b>-120.7</b>	<b>3,782.9</b>
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
<b>Total operating expenses</b>	<b>-1,505.7</b>	<b>-109.0</b>	<b>-509.9</b>	<b>-174.3</b>	<b>120.7</b>	<b>-2,178.3</b>
<b>Profit before credit losses</b>	<b>-35.7</b>	<b>1,083.0</b>	<b>472.2</b>	<b>85.1</b>	<b>-</b>	<b>1,604.7</b>
Credit losses, net	15.6	1.3	-112.4	-	0.8	-94.7
<b>Operating profit</b>	<b>-20.1</b>	<b>1,084.4</b>	<b>359.9</b>	<b>85.1</b>	<b>0.8</b>	<b>1,510.0</b>
<b>Balance sheet, 31 December 2018</b>						
<b>Total assets</b>	<b>178,405.9</b>	<b>241,368.0</b>	<b>23,376.4</b>	<b>687.5</b>	<b>-93,980.7</b>	<b>349,857.1</b>
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
<b>Total liabilities and equity</b>	<b>178,405.9</b>	<b>241,368.0</b>	<b>23,376.4</b>	<b>687.5</b>	<b>-93,980.7</b>	<b>349,857.1</b>

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, i.e. The Group's 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 comprise Group-wide eliminations within the Bank Group. For more information, see the section on operating segment under note 2 and note 6 Net commission income.

<b>Note 5</b>	<b>Net interest income</b>	
SEK M	2019	2018
<b>Interest income</b>		
Loans to credit institutions	-10.0 <sup>1)</sup>	-14.7 <sup>1)</sup>
Loans to the public	6,197.0	5,673.2
Interest-bearing securities	129.6 <sup>1)</sup>	157.2 <sup>1)</sup>
Derivatives	-330.2	-585.4
Other interest income	0.0	0.0
<b>Total interest income</b>	<b>5,986.3</b>	<b>5,230.3</b>
<b>Interest expense</b>		
Due to credit institutions	26.4 <sup>1)</sup>	41.1 <sup>1)</sup>
Deposits and borrowing from the public	-125.4	-113.2
Debt securities in issue <sup>2)</sup>	-2,187.9	-2,095.8
Subordinated liabilities	-53.3	-50.4
Derivatives	1,180.8	1,728.2
Other interest expense, including government deposit insurance	-209.6	-242.9
<b>Total interest expense</b>	<b>-1,368.9</b>	<b>-733.2</b>
<b>Total net interest income</b>	<b>4,617.4</b>	<b>4,497.1</b>
Average interest rate on loans to the public during the period, including net leasing, %	2.1	2.1
Average interest rate on deposits from the public during the period, %	0.1	0.1

<sup>1)</sup> Of which negative interest on Loans to credit institutions of SEK -16.6 M (-26.4). Interest-bearing securities of SEK -63.2 M (-74.1) and Due to credit institutions of SEK -29.9 M (-41.2)M.

<sup>2)</sup> Interest expense for senior non-priority debt amounts to SEK 7.1 (-)M.

Interest income calculated according to the effective interest method amounts to SEK 5 986,3 M (5 230,3).

<b>Note 6</b>	<b>Net commission</b>	
SEK M	2019	2018
<b>Commission income</b>		
Payment mediation	118.6	93.6
Loans	244.8	244.8
Deposits	8.0	13.5
Securities	759.6	603.5
Cards	273.0	248.3
Remuneration from the regional insurance companies	53.9	48.8
Other commission	-0.5	0.3
<b>Total commission income<sup>1)</sup></b>	<b>1,457.5</b>	<b>1,252.9</b>
<b>Commission expense</b>		
Payment mediation	-131.9	-129.3
Securities	-97.4	-77.7
Cards	-150.5	-135.3
Remuneration to the regional insurance companies	-1,613.0	-1,580.5
Management costs	-86.4	-90.0
Other commission	-14.7	-13.3
<b>Total commission expense</b>	<b>-2,093.9</b>	<b>-2,026.1</b>
<b>Total net commission income</b>	<b>-636.4</b>	<b>-773.3</b>

<sup>1)</sup> Refers to revenue from contracts with customers.

For more information, see note 2, Accounting policies and note 4 Segment reporting.

<b>Note 7</b>	<b>Net gains/losses from financial items</b>	
SEK M	2019	2018
Interest-bearing assets and liabilities and related derivatives	-16.0	-16.0
Other financial assets and liabilities	0.2	0.7
Interest compensation (refers to items measured at amortised cost)	31.2	28.8
<b>Total net gains/losses from financial items</b>	<b>15.4</b>	<b>13.5</b>
<b>SEK M</b>	<b>2019</b>	<b>2018</b>
<b>Profit/loss by measurement category</b>		
Financial assets measured at FVPL	0.0	0.4
Financial assets measured at amortised cost	30.6	28.2
Financial liabilities measured at amortised cost	-48.2	-31.8
Financial assets measured at FVOCI	4.0	5.7
Hedge accounting at fair value	19.9	2.1
Ineffectiveness of cash-flow hedges	-	0.0
Exchange-rate effect	9.2	8.9
<b>Total</b>	<b>15.4</b>	<b>13.5</b>

<b>Note 8</b>	<b>Employees, staff costs and remuneration of senior executives</b>	
Average number of employees	2019	2018
Sweden		
Men	273	269
Women	303	287
<b>Total</b>	<b>576</b>	<b>556</b>

<b>Salaries, other remuneration and social security expenses, other employees</b>	<b>2019</b>	<b>2018</b>
<b>SEK M</b>		
Salaries and remuneration	-369.7	-342.0
of which, variable remuneration	-	-
Social security expenses	-205.5	-192.5
of which, pension costs	-72.4	-67.7
<b>Total</b>	<b>-575.2</b>	<b>-534.4</b>

<b>Board of Directors and senior executives, number 18 (20)</b>	<b>2019</b>	<b>2018</b>
Salaries and remuneration	-27.1	-27.4
of which, variable remuneration	-	-
Social security expenses	-20.2	-20.3
of which, pension costs	-9.1	-9.3
<b>Total</b>	<b>-47.3</b>	<b>-47.7</b>

<b>Total salaries, other remuneration and social security expenses</b>	<b>2019</b>	<b>2018</b>
<b>SEK M</b>		
Salaries and remuneration	-396.8	-369.4
of which, variable remuneration	-	-
Social security expenses	-225.7	-212.8
of which, pension costs	-81.6	-76.9
<b>Total</b>	<b>-622.5</b>	<b>-582.2</b>

Länsförsäkringar Bank has about 1,400 individuals who are also employed at Länsförsäkringar Bank and the regional insurance companies. They receive their entire remuneration from their respective regional insurance company.

## Note 8 Employees, staff costs and remuneration of senior executives, cont.

### Remuneration of senior executives

Remuneration of the President and other senior executives comprises basic salary and other benefits. Pension benefits and other benefits paid to the President and other senior executives are included as part of total remuneration. For more information, refer to the Parent Company's note 9.

### Severance pay

A mutual period of notice of 6 months applies to the President and the Executive Vice President. If termination of employment is issued by the company, severance pay corresponding to 12 months' salary will be paid to the President and 18 months' salary will be paid to the Executive Vice President, in addition to the period of notice. A mutual period of notice of six months applies for other senior executives. If termination of employment is issued by the company, severance pay corresponding to 12 or 18 months' salary will also be paid, in addition to the period of notice. Otherwise, the period of notice for other senior executives follows the terms and conditions of the collective agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (Forena) and the Swedish Confederation of Professional Associations (SACO).

### Pensions

The retirement age for the President is 65. The pension is a defined-contribution plan and the pension premium is to amount to 35% of the monthly salary. The retirement age for the Executive Vice President and other senior executives is 65. The pension is a defined-contribution plan and the pension premium is to amount to 35% of the monthly salary. The retirement age for a senior executive is 62. The pension between 62 and 65 is a defined-contribution plan and the pension premium is to amount to 14% of the monthly salary. Pension from the age of 65 is subject to the terms of the pension agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (Forena) and the Swedish Confederation of Professional Associations (SACO). The retirement age for other senior executives is 65. The terms comply with pension agreements between the FAO and the Forena/SACO. Furthermore, an additional pension premium corresponding to one price base amount per year is paid every year for each senior executive. One senior executive has an agreement for an additional pension provision corresponding to 12% of the executive's monthly salary.

### Preparation and decision-making process applied in relation to the issue of remuneration of senior executives

A Remuneration Policy for the Länsförsäkringar AB Group regulates the preparation and decision-making process for remuneration of senior executives. The Remuneration Committee prepares important remuneration decisions and decisions on measures for following up the application of the Remuneration Policy. The Board decides on remuneration and other terms of employment for corporate management and employees with overall responsibility for one of the company's control functions.

### Composition of Remuneration Committee

The composition and duties of the Remuneration Committee are regulated in the Board's formal work plan.

### Policies for remuneration of senior executives

Senior executives in the Länsförsäkringar AB Group are to have market-based employment terms and conditions. Total remuneration is to be in line with the industry standard. The structure and level of remuneration should correspond to the company's values, meaning that it should be reasonable, moderate and well-balanced, and also contribute to good ethics and organisational culture, characterised by openness and transparency.

### Fixed remuneration

Fixed remuneration is paid according to the general policy above.

### Pensions

Pensions should comply with the terms of the pension agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (Forena) and the Swedish Confederation of Professional Associations (SACO).

### Other benefits

In addition to the above benefits, a company car is offered in accordance with applicable conditions, individual health care insurance and other benefits offered to all employees.

### Preparation and decision-making process applied in relation to the issue of remuneration of senior executives

Remuneration to the President is determined by the Remuneration Committee and thereafter confirmed by the Board. Remuneration to other senior executives is determined by the President in accordance with the policies for salaries and conditions for senior executives.

Number of women among senior executives, %	31 Dec 2019	31 Dec 2018
Board members	37	41
Other senior executives	44	44

## Loans to senior executives

	Bank Group		Parent Company Group	
SEK M	2019	2018	2019	2018
<b>Board members</b>	<b>20.5</b>	<b>21.6</b>	<b>63.4</b>	<b>64.7</b>
Of which, loans from Bank	4.6	3.9	21.3	8.8
Of which, loans from Hypotek	15.9	17.7	42.1	55.9
Of which, loans from Wasa Kredit	0.0	0.0	0.0	0.0
<b>President and Executive Vice Presidents</b>	<b>2.0</b>	<b>2.4</b>	<b>20.2</b>	<b>22.0</b>
Of which, loans from Bank	0.5	0.5	2.2	2.0
Of which, loans from Hypotek	1.5	1.9	18.0	20.0
Of which, loans from Wasa Kredit	0.0	0.0	0.0	0.0
<b>Senior executives</b>	<b>6.9</b>	<b>26.5</b>	<b>44.8</b>	<b>94.3</b>
Of which, loans from Bank	1.2	2.4	5.4	10.6
Of which, loans from Hypotek	5.7	24.1	39.3	83.7
Of which, loans from Wasa Kredit	-	-	0.1	-

Loans granted comprise personnel loans and other loans. Personnel loans carry loan terms comparable to what applies to other employees in the Group. The interest rate for personnel loans is the repo rate less 0.5 percentage points, but can never be lower than 0.5 percentage points. The interest benefit is calculated in accordance with the Swedish National Tax Board's rules and is included in other benefits as above. Personnel loans are restricted to SEK 0.5 M. The terms and conditions of other loans are market-based.

The Group has not pledged assets, other collateral or assumed any liability undertaking for the benefit of any senior executive.

### Remuneration Policy

In accordance with the regulations and general advice of the Swedish Financial Supervisory Authority (FFFS 2011:1) regarding remuneration policies in credit institutions, investment firms and fund management companies, the Board of Directors is to adopt a Remuneration Policy. It is intended that a statement of remuneration in the company be published on the website when the Annual Report is published.

Note 9	Other administration expenses	
SEK M	2019	2018
Costs for premises	-73.2	-62.1
IT costs	-515.1	-452.9
Consultant costs	-128.1	-196.1
Marketing	-46.5	-33.8
Management costs	-24.2	-18.2
Other administration expenses	-327.6	-401.5
<b>Total administration expenses</b>	<b>-1,114.7</b>	<b>-1,164.7</b>

Note 10	Remuneration of auditors	
SEK M	2019	2018
<b>Audit fees</b>		
<b>KPMG</b>		
- Audit assignment	-5.3	-4.7
- Audit activities other than audit assignment	-2.4	-2.1
- Tax advice	-	-0.4
- Other assignments	0.0	-

Audit assignment pertains to a review of the Annual Report and accounting, as well as the Board's and President's administration. Audit activities other than audit assignment pertain to various types of quality-assurance services, such as reviews of the administration, Articles of Association, regulations or agreements that result in reports or certificates. Other assignments pertain to activities that are not included in the abovementioned items, for example, legal consultations alongside audit activities and that are not attributable to tax consultancy services.

Note 11	Credit losses, net	
SEK M	2019	2018
<b>Change in loss allowance for loan receivables</b>		
Stage 1 (not credit-impaired)	-24.0	6.3
Stage 2 (not credit-impaired)	-39.2	-22.8
Stage 3 (credit-impaired)	-80.0	-53.2
<b>Total change in loss allowance for loan receivables</b>	<b>-143.3</b>	<b>-69.7</b>
Expense for confirmed credit losses	-146.0	-119.3
Payment received for prior confirmed credit losses	90.5	83.7
<b>Net expense for the period for credit losses for loan receivables</b>	<b>-198.7</b>	<b>-105.4</b>
Change in loss allowance for commitments	-5.5	2.0
Net expense for other credit losses	-2.6	8.7
Net expense of the modification result	-0.3	0.0
<b>Net expense for credit losses</b>	<b>-207.2</b>	<b>-94.7</b>

A condition for full payment of the regional insurance companies' distribution remuneration by the Bank Group is that the loans generated by each regional insurance company for the Bank Group (excluding Wasa Kredit AB) are of high quality. If this is not the case, up to 80% of any credit losses are off-set against the accrued remuneration to the regional insurance companies. This model for settlement of credit losses is kept separate and is taken into consideration when the provisions are established. In 2019, total credit losses amounted to SEK -85.3 M (-75.3), of which the Bank Group's recognised credit losses amounted to SEK -81.5 M (-94.7) and the remainder of SEK 3.7 (19.4) M was settled against remuneration to the regional insurance companies.

#### Loss allowance

SEK M	2019-12-31	2018-12-31
<b>Financial assets measured at amortised cost</b>		
Cash and balances at central banks	-	-
Loans to credit institutions	0.0	0.0
Loans to the public	568.6	425.4
Other assets	-	-
<b>Financial assets measured at FVOCI</b>		
Treasury bills and other eligible bills	0.3	0.2
Bonds and other interest-bearing securities	0.6	0.6
<b>Provisions</b>		
Commitments	21.9	16.6
Guarantees	0.0	0.0
<b>Total loss allowance</b>	<b>591.6</b>	<b>442.8</b>

All exposures are in stage 1 except for loans to the public and commitments which have exposure in all three stages. For more information about the change in loss allowance for loans to the public and commitments, refer to notes 16 and 34.

Note 12	Depreciation/amortisation and impairment of property and equipment/intangible assets	
SEK M	2019	2018
Depreciation of property and equipment	-4.5	-4.5
Depreciation of right-of-use assets	-24.3	-
Amortisation of intangible assets	-142.6	-111.6
<b>Total depreciation/amortisation</b>	<b>-171.4</b>	<b>-116.1</b>
Impairment of intangible assets	-	-309.3
<b>Total depreciation/amortisation and impairment of assets</b>	<b>-171.4</b>	<b>-425.3</b>

For more information, see note 21 Intangible assets.



Note 13	Taxes	
SEK M	2019	2018
<b>Current tax</b>		
Tax expense for the year	-326.1	-309.8
Adjustment of tax expense pertaining to prior years	-255.1	-2.6
<b>Total current tax</b>	<b>-581.2</b>	<b>-312.3</b>
<b>Deferred tax</b>		
Change in deferred tax expense on temporary differences	127.4	-16.1
<b>Total deferred tax</b>	<b>127.4</b>	<b>-16.1</b>
<b>Total recognised tax expense</b>	<b>-453.8</b>	<b>-328.4</b>
<b>Reconciliation of effective tax rate</b>		
Profit before tax	1,893.5	1,510.0
Tax in accordance with applicable tax rate for Parent Company	-405.2	-332.2
Tax on non-deductible costs	-26.1	-85.3
Tax on non-taxable income	240.6	22.5
Deferred tax pertaining to temporary differences	-	53.1
Tax attributable to changed tax rates	-8.1	16.0
Tax attributable to earlier years	-255.1	-2.6
<b>Total tax on net profit for the year</b>	<b>-453.8</b>	<b>-328.4</b>
Applicable tax rate	21.4%	22.0%
Effective tax rate	24.0%	21.7%
<b>Tax items recognised in other comprehensive income</b>		
Tax on financial assets measured at fair value through other comprehensive income	-4.9	11.0
Tax on cash flow hedges	3.6	12.8
<b>Total tax attributable to other comprehensive income</b>	<b>-1.3</b>	<b>23.8</b>

Note 14	Treasury bills and other eligible bills	
SEK M	31 Dec 2019	31 Dec 2018
<b>Carrying amount</b>		
Swedish government	9,466.6	10,794.3
German government	277.9	-
Finnish government	189.9	52.5
<b>Total treasury bills and other eligible bills</b>	<b>9,934.4</b>	<b>10,846.8</b>
Fair value	9,934.4	10,846.8
Amortised cost	9,820.7	10,745.5
Nominal value	9,444.9	10,255.8

For loss allowance, see note 11.

Note 15	Loans to credit institutions	
SEK M	31 Dec 2019	31 Dec 2018
Loans to credit institutions	407.8	4,485.9
<b>Total loans to credit institutions</b>	<b>407.8</b>	<b>4,485.9</b>

For loss allowance, see note 11.

Note 16	Loans to the public	
Loan receivables are geographically attributable in their entirety to Sweden.		
SEK M	31 Dec 2019	31 Dec 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
<b>Loan to the public before reserves</b>	<b>307,667.9</b>	<b>289,851.4</b>
Reserves	-568.6	-425.4
<b>Loans to the public</b>	<b>307,099.3</b>	<b>289,426.0</b>
<b>Fixed-interest period</b>		
Remaining term of not more than 3 months	194,600.2	220,878.9
Remaining term of more than 3 months but not more than 1 year	18,397.5	15,607.2
Remaining term of more than 1 year but not more than 5 years	91,635.3	51,023.6
Remaining term of more than 5 years	2,466.3	1,916.3
<b>Loans to the public</b>	<b>307,099.3</b>	<b>289,426.0</b>

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

Note 16, Loans to the public, cont.

Reconciliation of gross carrying amount and loss allowance

SEK M	Not credit-impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3		Gross carrying amount	Loss allowance
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance		
<b>Opening balance 1 Jan 2018</b>	<b>254,457.9</b>	<b>-73.2</b>	<b>6,513.8</b>	<b>-93.6</b>	<b>739.9</b>	<b>-188.9</b>	<b>261,711.6</b>	<b>-355.7</b>
New loans <sup>1)</sup>	77,307.2	-61.3	47.5	-0.6	37.5	-1.7	77,392.2	-63.6
<b>Changes:</b>								
Change in loss allowance model or method	-	3.1	-	2.9	-	-0.1	-	5.8
Repayment <sup>1)</sup>	-47,020.1	33.8	-1,546.2	30.1	-191.1	32.2	-48,757.4	96.1
Change in risk parameters	-	-69.4	-	-41.4	-	-46.8	-	-157.6
Other <sup>1)</sup>	-251.6	1.1	-56.8	2.3	-10.1	2.0	-318.5	5.4
<b>Transfer between stages:</b>								
Transfer from stage 1 to stage 2	-5,132.6	48.4	5,132.6	-78.9	-	-	-	-30.5
Transfer from stage 2 to stage 1	2,608.8	-2.7	-2,608.8	5.9	-	-	-	3.2
Transfer to stage 3	-208.8	53.4	-265.9	57.1	474.7	-166.2	-	-55.7
Transfer from stage 3	65.9	0.0	67.0	-0.3	-132.9	5.4	-	5.1
Write-off	-	-	-	-	-176.4	122.0	-176.4	122.0
<b>Closing balance 31 Dec 2018</b>	<b>281,826.7</b>	<b>-66.9</b>	<b>7,283.1</b>	<b>-116.4</b>	<b>741.6</b>	<b>-242.1</b>	<b>289,851.4</b>	<b>-425.4</b>
<b>Opening balance 1 Jan 2019</b>	<b>281,826.7</b>	<b>-66.9</b>	<b>7,283.1</b>	<b>-116.4</b>	<b>741.6</b>	<b>-242.1</b>	<b>289,851.4</b>	<b>-425.4</b>
New loans	76,919.4	-66.7	51.3	-0.5	16.5	-0.6	76,987.2	-67.8
<b>Changes:</b>								
Change in loss allowance model or method	-	-	-	-	-	-0.1	-	-0.1
Repayment	-56,336.3	32.0	-2,020.3	37.9	-217.2	42.0	-58,573.8	111.9
Change in risk parameters	-	-104.3	-	-70.3	-	-69.9	-	-244.5
Other	-367.8	1.1	-57.6	2.6	-10.3	2.6	-435.8	6.3
<b>Transfer between stages:</b>								
Transfer from stage 1 to stage 2	-5,430.9	54.0	5,430.9	-94.7	-	-	-	-40.7
Transfer from stage 2 to stage 1	2,527.7	-4.7	-2,527.7	10.5	-	-	-	5.8
Transfer to stage 3	-287.5	64.5	-328.1	75.9	615.6	-203.7	-	-63.3
Transfer from stage 3	18.1	-	35.0	-0.6	-53.2	4.2	-	3.6
Write-off	-	-	-	-	-161.1	145.5	-161.1	145.5
<b>Closing balance 31 Dec 2019</b>	<b>298,869.3</b>	<b>-90.9</b>	<b>7,866.7</b>	<b>-155.6</b>	<b>931.9</b>	<b>-322.1</b>	<b>307,667.9</b>	<b>-568.6</b>

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

**Note 16, Loans to the public, cont.**

	Not credit-impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
<b>Loans to the public before loss allowances 2018</b>	<b>281,826.7</b>	<b>7,283.1</b>	<b>741.6</b>	<b>289,851.4</b>
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
<b>Loans to the public 2018</b>	<b>281,759.8</b>	<b>7,166.7</b>	<b>499.5</b>	<b>289,426.0</b>
<b>Loans to the public before loss allowances 2019</b>	<b>298,869.3</b>	<b>7,866.7</b>	<b>931.9</b>	<b>307,667.9</b>
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
<b>Loans to the public 2019</b>	<b>298,778.4</b>	<b>7,711.1</b>	<b>609.8</b>	<b>307,099.3</b>

A condition for full payment of the regional insurance companies' distribution remuneration by the Bank Group is that the loans generated by each regional insurance company for the Bank Group (excluding Wasa Kredit AB) are of high quality. If this is not the case, up to 80% of any credit losses are off-set against the accrued remuneration to the regional insurance companies. This model for settlement of credit losses is kept separate and is taken into consideration when the provisions are established. On 31 December 2019, the total credit reserve requirement for loan receivables amounted to SEK 672.0 (498.9) M of which the Bank Group's recognised loss allowance for loan receivables accounted for SEK 568.6 (425.4) M and the remainder of SEK 103.3 (73.5) M was settled against the remuneration to the regional insurance companies.

The recognised loss allowance increased SEK 143.3 M (69.7) during the year. The increase was primarily attributable to the subsidiary Wasa Kredit AB. Portfolio growth and a decline in credit risk parameters increased the loss allowance. Some of the reasons for the decline in the credit risk parameters were the higher number of late payers and updates to macroeconomic forecasts used for calculating the loss allowance. The decline in credit risk parameters was also driven by migration of credits to stage 2 and to stage 3, which contributed to the increase for the year.

The contractual amounts outstanding for financial assets that were written off during the period and that are still encompassed by compliance measured amount to SEK 188.0 (178.9) M on 31 December 2019.

<b>Modified loan receivables in loans to the public, SEK M</b>	<b>2019-12-31</b>	<b>2018-12-31</b>
Loan receivables modified during the period that were in stages 2 and 3 when they were modified		
Amortised cost before modification	158.6	187.1 <sup>1)</sup>
Modification gain/loss	0.0	-0.2
Gross carrying amount for loan receivables that have been modified since initial recognition and on the modification date were in stage 2 or 3 and that were transferred to stage 1 during the period	51.4	76.2

<sup>1)</sup> Comparative figures have been adjusted.

<b>Note 17</b>	<b>Financial leasing</b>
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**Financial lease agreements specified by maturity structure where the Group is the lessor**

31 Dec 2019, SEK M	Up to 1 year	1-5 years	More than 5 years	Total
Present value of future minimum lease fees	2,559.1	4,226.1	852.6	7,637.8
Unearned financial income <sup>1)</sup>	537.4	742.3	102.5	1,382.1
<b>Gross investment</b>	<b>3,096.5</b>	<b>4,968.4</b>	<b>955.1</b>	<b>9,020.0</b>

31 Dec 2018, SEK M	Up to 1 year	1-5 years	More than 5 years	Total
Present value of future minimum lease fees	2,500.6	4,195.9	746.0	7,442.5
Unearned financial income <sup>1)</sup>	498.8	678.4	77.2	1,254.5
<b>Gross investment</b>	<b>2,999.4</b>	<b>4,874.3</b>	<b>823.2</b>	<b>8,696.9</b>

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

	2019	2018
Provision for impaired loans pertaining to minimum lease fees	182.1	125.8
Variable portion of leasing fees included in net profit for the year	7.2	7.1

Minimum lease fees are payments, excluding variable fees, service charges and taxes that are made by the lessee to the lessor over the leasing period, with additions for any amount that is guaranteed by the lessee or a related party to the lessee.

Variable fees comprise the portion of leasing fees that are not fixed and that are calculated based on factors other than only the passage of time.

Financial leasing is included in loans to the public.

<b>Note 18</b>	<b>Bonds and other interest-bearing securities</b>
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Issued by organisations other than public bodies.

SEK M	31 Dec 2019	31 Dec 2018
<b>Carrying amount</b>		
Swedish mortgage institutions (not guaranteed)	31,192.3	27,898.0
Other Swedish issuers	4,961.2	4,270.8
Other foreign issuers (guaranteed by German government)	1,486.9	1,251.6
Other foreign issuers (not guaranteed)	5,032.9	3,370.0
<b>Total bonds and other interest-bearing securities</b>	<b>42,673.3</b>	<b>36,790.4</b>
Fair value	42,673.3	36,790.4
Amortised cost	42,189.6	36,211.4
Nominal value	41,703.7	35,506.5
<b>Market status</b>		
Securities listed	42,673.3	36,790.4

For loss allowance, see note 11.

<b>Note 19</b>	<b>Derivatives</b>
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SEK M	31 Dec 2019		31 Dec 2018	
	Nominal value	Fair value	Nominal value	Fair value
<b>Derivatives with positive values</b>				
<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	-	-
<b>Total derivatives with positive values</b>	<b>263,195.1</b>	<b>8,509.4</b>	<b>208,926.3</b>	<b>6,169.0</b>
Offset derivatives with positive values	-35,259.0	-285.1	-31,739.0	-113.5
<b>Net amount after offset</b>	<b>227,936.1</b>	<b>8,224.3</b>	<b>177,187.3</b>	<b>6,055.5</b>
<b>Derivatives with negative values</b>				
<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
<b>Total derivatives with negative values</b>	<b>83,408.9</b>	<b>764.3</b>	<b>81,456.2</b>	<b>874.7</b>
Offset derivatives with negative values	-35,259.0	-285.1	-31,739.0	-113.5
<b>Net amount after offset</b>	<b>48,149.9</b>	<b>479.2</b>	<b>49,717.2</b>	<b>761.2</b>

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.

<b>Note 20</b>	<b>Fair value changes of interest-rate risk hedged items in portfolio hedge</b>
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SEK M	31 Dec 2019	31 Dec 2018
<b>Assets</b>		
Carrying amount at beginning of year	125.2	248.0
Changes during the year pertaining to lending	-124.6	-122.8
Changes during the year pertaining to borrowing	3.4	-
Changes during the year pertaining to deposits	0.5	-
<b>Carrying amount at year-end</b>	<b>4.5</b>	<b>125.2</b>
<b>Liabilities</b>		
Carrying amount at beginning of year	1,057.8	1,200.2
Changes during the year pertaining to lending	0.3	-2.0
Changes during the year pertaining to funding	30.2	-140.4
Changes during the year pertaining to borrowing	152.9	-
<b>Carrying amount at year-end</b>	<b>1,241.2</b>	<b>1,057.8</b>



<b>Note 21</b>	<b>Intangible assets</b>
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SEK M	Internally developed IT systems		Acquired IT systems		Total	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
<b>Cost</b>						
Opening cost	2,536.1	2,138.5	27.9	27.9	2,564.0	2,166.4
Acquisitions during the year	405.0	441.2	-	-	405.0	441.2
Divestments during the year	-	-43.6	-	-	-	-43.6
<b>Closing cost</b>	<b>2,941.1</b>	<b>2,536.1</b>	<b>27.9</b>	<b>27.9</b>	<b>2,969.0</b>	<b>2,564.0</b>
<b>Amortisation</b>						
Opening accumulated amortisation	-1,026.7	-958.7	-27.9	-27.9	-1,054.6	-986.6
Amortisation for the year	-142.5	-111.6	-	-	-142.5	-111.6
Divestments during the year	-	43.6	-	-	-	43.6
<b>Closing accumulated amortisation</b>	<b>-1,169.2</b>	<b>-1,026.7</b>	<b>-27.9</b>	<b>-27.9</b>	<b>-1,197.1</b>	<b>-1,054.6</b>
<b>Impairment</b>						
Opening accumulated impairment	-519.9	-210.6	-	-	-519.9	-210.6
Impairment for the year	-	-309.3 <sup>1)</sup>	-	-	-	-309.3
<b>Closing accumulated impairment</b>	<b>-519.9</b>	<b>-519.9</b>	<b>-</b>	<b>-</b>	<b>-519.9</b>	<b>-519.9</b>
<b>Total intangible assets</b>	<b>1,252.0</b>	<b>989.6</b>	<b>-</b>	<b>-</b>	<b>1,252.0</b>	<b>989.6</b>

<sup>1)</sup> Impairment in 2018 mainly refers to the bank's new platform for deposits, lending and payments. The carrying amount on 31 December 2019 was SEK 781.3 M (547.7).

<b>Note 22</b>	<b>Property and equipment</b>
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SEK M	31 Dec 2019	31 Dec 2018
<b>Equipment</b>		
Opening cost	56.8	54.7
Purchases	3.2	5.0
Sales/disposals	-20.4	-2.9
<b>Closing cost</b>	<b>39.6</b>	<b>56.8</b>
Opening depreciation	-46.7	-44.1
Sales/scrapping	20.1	1.9
Depreciation for the year	-4.2	-4.5
<b>Closing accumulated depreciation</b>	<b>-30.8</b>	<b>-46.7</b>
Right-of-use assets (excl premises)	80.1	-
<b>Total property and equipment</b>	<b>88.8</b>	<b>10.1</b>

#### The Group as lessee

Property and equipment comprises both owned and leased assets that do not meet the definition of owner-occupied property. The Group's rents for premises are recognised under owner-occupied property and are classified under Other assets in the balance sheet.

The Group is the lessee of underlying assets in the form of leases for premises, vehicles, IT hardware and other types of equipment.

#### Right-of-use assets

2019	Premises	Vehicles	IT hardware	Equipment	Total
Depreciation for the period	-2.1	-7.4	-14.7	-	-24.3
Carrying amount, 31 December	8.6	6.9	73.2	-	88.7

Right-of-use assets arose during the year at an initial carrying amount of SEK 60.9 M.

#### Lease liabilities

The Group's lease liabilities are recognised under other liabilities in the balance sheet and are presented in the Group's note 29 Other liabilities. Future lease payments paid by the Group over the remaining contracted term are presented in the maturity analysis for disclosures to the Group's liquidity risk in note 3 Risks and capital adequacy.

Amounts recognised in statement of comprehensive income	2019
Interest expense for lease liabilities	0.0
Variable fees not included in calculation of lease liability	-47.4
Costs for short-term leases	-
Costs for low-value leases (excluding short-term leases of low-value assets)	-1.1

Variable fees in the Group refer to lease payments for rent of internal premises and change over time based on the space used depending on the number of employees.

Amounts recognised in cash-flow statement	2019
Total cash outflow for leases	-72.8

Disclosure requirements in accordance with IAS 17 for Leasing

SEK M	2018
<b>Lease expenses paid</b>	
Rent for premises	-61.2
of which, variable fees	-47.4
Leasing fees, company cars	-6.9
Other leasing expenses	-12.3
<b>Future basic rents for irrevocable leasing contracts</b>	
Within 1 year	-23.3
Between 1 and 5 years	-32.2
<b>Total</b>	<b>-55.4</b>

## Note 23 Deferred tax assets and tax liabilities

Recognised deferred tax assets and tax liabilities are attributable to the following:

SEK M	Deferred tax assets		Deferred tax liabilities		Net	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Intangible assets	-42.3	-53.1	-	-	-42.3	-53.1
Cash flow hedges	-46.3	-42.7	-	-	-46.3	-42.7
Liabilities, provisions	-0.3	-0.3	-	-	-0.3	-0.3
Untaxed reserves	-	-	439.1	577.3	439.1	577.3
<b>Deferred tax assets(-)/deferred tax liabilities (+)</b>	<b>-88.9</b>	<b>-96.1</b>	<b>439.1</b>	<b>577.3</b>	<b>350.2</b>	<b>481.2</b>

### Change in deferred tax in temporary differences

SEK M	Amount at 1 Jan	Recognised in profit or loss	Recognised in other comprehensive income	Amount at 31 Dec
<b>2019</b>				
Intangible assets	-53.1	10.9	-	-42.3
Cash flow hedges	-42.7	-	-3.6	-46.3
Liabilities, provisions	-0.3	0.0	-	-0.3
Untaxed reserves	577.3	-138.2	-	439.1
<b>Deferred tax assets (-)/deferred tax liabilities (+)</b>	<b>481.2</b>	<b>-127.3</b>	<b>-3.6</b>	<b>350.2</b>

### 2018

Intangible assets	-	-53.1	-	-53.1
Cash flow hedges	-29.8	-	-12.8	-42.7
Liabilities, provisions	-0.2	-0.1	-	-0.3
Untaxed reserves	508.0	69.3	-	577.3
<b>Deferred tax assets (-)/deferred tax liabilities (+)</b>	<b>477.9</b>	<b>16.1</b>	<b>-12.8</b>	<b>481.2</b>

## Note 24 Other assets

SEK M	31 Dec 2019	31 Dec 2018
Accounts receivable <sup>1)</sup>	302.4	231.6
Right-of-use assets (premises)	8.6	-
Other assets	256.2	329.2
<b>Total other assets</b>	<b>567.2</b>	<b>560.9</b>

<sup>1)</sup> Refers to revenue from contracts with customers.

In its calculation of loss allowance for other financial assets, the Group uses the simplified method that is described in more detail in note 2. For loss allowance, see note 11.

For more information on rights of use, see Note 22 Tangible assets.

## Note 25 Prepaid expenses and accrued income

SEK M	31 Dec 2019	31 Dec 2018
Accrued interest income	41.9	47.2
Other accrued income <sup>1)</sup>	192.4	155.7
Prepaid expenses	199.9	179.5
<b>Total prepaid expenses and accrued income</b>	<b>434.3</b>	<b>382.4</b>

<sup>1)</sup> Refers to revenue from contracts with customers.

## Note 26 Due to credit institutions

SEK M	31 Dec 2019	31 Dec 2018
Swedish banks	6,331.9	5,816.9
Other Swedish credit institutions	233.5	175.3
<b>Total due to credit institutions</b>	<b>6,565.4</b>	<b>5,992.1</b>
Payable on demand	43.3	43.3

Genuine repurchase transactions amount to SEK - M (159.2).

## Note 27 Deposits from the public

SEK M	31 Dec 2019	31 Dec 2018
Deposits from insurance companies	3,862.9	3,442.6
Deposits from households	101,528.2	92,220.9
Deposits from other Swedish public	13,912.3	12,478.2
<b>Total deposits from the public</b>	<b>119,303.5</b>	<b>108,141.7</b>

Fixed-term deposits amount to SEK 9,379.2 M (12,992.6). Interest compensation is paid on premature redemption.

## Note 28 Debt securities in issue

SEK M	31 Dec 2019	31 Dec 2018
Commercial papers	1,451.3	324.3
Bond loans <sup>1)</sup>	223,129.5	210,404.2
Senior non-preferred debt	2,992.8	-
Cashier's cheques issued	42.1	52.6
<b>Total debt securities in issue</b>	<b>227,615.7</b>	<b>210,781.1</b>

<sup>1)</sup> Covered bonds in the Group amount to SEK 188,500.7 M (171,195.1).

## Note 29 Other liabilities

SEK M	31 Dec 2019	31 Dec 2018
Accounts payable	70.1	89.4
Withheld preliminary tax, customers	36.2	30.1
Leas liabilities	88.7	-
Other liabilities	780.7	726.8
<b>Total other liabilities</b>	<b>975.5</b>	<b>846.3</b>

<b>Note 30</b>	<b>Accrued expenses and deferred income</b>	
<b>SEK M</b>	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
Accrued interest expense	1,083.1	1,146.0
Accrued remuneration of regional insurance companies	1,157.8	1,116.4
Prepaid rent	247.2	241.7
Other accrued expenses	480.3	468.3
<b>Total accrued expenses and deferred income</b>	<b>2,968.4</b>	<b>2,972.4</b>

<b>Note 31</b>	<b>Provisions</b>	
<b>SEK M</b>	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
Pension provisions	1.4	1.1
Loss allowance for commitments	22.1	16.6
Other provisions	10.3	10.0
<b>Total provisions</b>	<b>33.6</b>	<b>27.7</b>

For the change in loss allowance for commitments, refer to note 34.

#### Defined-contribution pension plans

Defined-contribution pension plans are plans according to which the company pays fixed contributions to a separate legal entity and does not have a legal or informal obligation to pay additional contributions. The Group's payments of defined-contribution plans are recognised as expenses during the period in which the employee performed the services to which the contributions refer. Primarily, contributions to the Insurance Industry's Pension Fund (FPK) are recognised here. This plan includes all company employees except for a few employees who have individual solutions. The pension agreement for the insurance industry, the FTP plan, through insurance with the FPK, is a multi-employer defined-benefit pension plan. According to IAS 19 Employee Benefits, this pension plan entails that, as a rule, a company is to recognise its proportional share of the defined-benefit pension commitment and the plan assets and expenses associated with the pension commitment. Disclosure is also to be presented in the accounts according to the requirements for defined-benefit pension plans. FPK is unable to provide the necessary information on this, which is why the pension plans above are recognised as a defined-contribution plan in accordance with item 34 of IAS 19. Nor is any information available on future surpluses and deficits in the plan or whether these surpluses and deficits would then affect the contributions for the plan in future years.

The Group's expected fees in 2020 for the FTP plan amount to SEK 31.9 M.

	<b>2019</b>	<b>2018</b>
Expenses for defined - contribution plans	77.1	73.4

<b>Note 32</b>	<b>Subordinated liabilities</b>	
<b>SEK M</b>	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
External subordinated debt with three-month floating interest rates	1,697.6	1,696.4
External subordinated debt with a fixed interest rate	897.6	896.7
<b>Total subordinated liabilities</b>	<b>2,595.2</b>	<b>2,593.1</b>

The subordinated loans listed and can be redeemed on 26 April 2021 and 1 March 2023 at the earliest. These loans fall due on 26 April 2026 and 1 March 2028. During 2019-12-31 the interest on the variable loans were 2.3 (1.9) percent and 1.3 (0.8) percent. The interest rate on fixed loans is 2.7 percent and 1.8 percent. For more information, see note 3 Risks and capital adequacy.

<b>Note 33</b>	<b>Equity according to the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL)</b>	
<b>SEK M</b>	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
<b>Restricted equity</b>		
Share capital	2,864.6	2,864.6
Development expenditures fund	1,218.2	915.9 <sup>1)</sup>
Statutory reserve	18.4	18.4
<b>Total restricted equity</b>	<b>4,101.1</b>	<b>3,798.9</b>
<b>Non-restricted equity</b>		
Reserves	-76.2	-78.5
Additional Tier 1 instruments	2,200.0	1,200.0
Retained earnings	10,814.3	10,004.1
Net profit for the year	1,439.7	1,181.6
<b>Total non-restricted equity</b>	<b>14,377.7</b>	<b>12,307.2</b>
<b>Total equity</b>	<b>18,479.0</b>	<b>16,106.2</b>

<sup>1)</sup> The comparative figures have been reclassified from Non-restricted to Restricted equity

The other changes in equity for the period and division according to IFRS are contained in Statement of changes in shareholders' equity.

The company implemented a bonus issue during 2018. Share capital comprises 9,548,708 (9,548,708) shares with a quotient value of SEK 300 (300).

<b>Note 34</b>	<b>Pledged assets, contingent liabilities and commitments</b>	
<b>SEK M</b>	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
<b>For own liabilities, pledged assets</b>		
Pledged securities in the central bank	2,549.1	2,596.5
Pledged securities in Euroclear	2,089.7	1,966.2
Collateral provided for derivatives	27.2	4.7
Securities collateral paid, derivatives	2,048.7	1,541.6
Loan receivables, covered bonds	230,387.5	211,411.6
Loan receivables, substitute collateral	10,040.0	9,500.0
Commitments resulting from repurchase agreement	-	159.2
Other collateral for securities	15.3	15.4
<b>For own liabilities, pledged assets</b>	<b>247,157.6</b>	<b>227,195.1</b>
<b>Contingent liabilities</b>		
Financial guarantees	27.8	34.7
<b>Total contingent liabilities</b>	<b>27.8</b>	<b>34.7</b>
<b>Commitments</b>		
Loans approved but not disbursed	17,369.4	16,559.4
Unutilised portion of overdraft facilities	2,623.6	2,563.5
Unutilised portion of credit card facilities	1,852.7	1,719.1
<b>Total other commitments</b>	<b>21,845.6</b>	<b>20,842.0</b>

Loans to the public were provided as collateral for issuance of covered bonds and mortgage bonds. In the event of the company's insolvency, bond holders have preferential rights to the assets that are registered as cover pool. Other pledged securities will be transferred to the pledgee in the event of bankruptcy.

For loss allowance for financial guarantees, see note 11.

## Note 34, Pledged assets, contingent liabilities and commitments cont.

### Reconciliation of reported gross carrying amount and loss allowance for commitments

SEK M	Not credit-impaired				Credit impaired		Total	
	Stage 1		Stage 2		Stage 3		Credit risk exposure	Loss allowance
	Credit risk exposure	Loss allowance	Credit risk exposure	Loss allowance	Credit risk exposure	Loss allowance		
<b>Opening balance, 1 Jan 2018</b>	<b>21 657,0</b>	<b>-11,7</b>	<b>298,8</b>	<b>-6,4</b>	<b>23,6</b>	<b>-0,4</b>	<b>21 979,3</b>	<b>-18,5</b>
New loan commitments and increase in existing loan commitments	62,291.4	-13.9	76.2	-2.7	29.5	-0.9	62,397.1	-17.6
<b>Changes:</b>								
Change in loss allowance model or method	-	0.0	-	0.0	-	-	-	0.0
Net change in existing loan commitments and credit commitments (utilised and repaid)	-23,712.1	2.9	-65.6	1.1	-30.3	0.1	-23,808.0	4.1
Change in risk parameters	-	1.0	-	1.9	-	-0.1	-	2.9
<b>Transfer of loan commitments and credit commitments:</b>								
Transfer from stage 1 to stage 2	-582.6	3.1	582.6	-5.5	-	-	-	-2.4
Transfer from stage 2 to stage 1	129.3	-0.8	-129.3	1.2	-	-	-	0.4
Transfer to stage 3	-9.1	0.2	-0.5	0.0	9.6	-0.2	-	0.0
Transfer from stage 3	1.4	0.0	2.7	0.0	-4.2	0.2	-	0.1
Expired loan commitments	-39,278.1	8.8	-428.3	4.7	-20.1	1.1	-39,726.6	14.6
<b>Closing balance 31 Dec 2018</b>	<b>20,497.3</b>	<b>-10.5</b>	<b>336.7</b>	<b>-5.7</b>	<b>8.0</b>	<b>-0.3</b>	<b>20,842.0</b>	<b>-16.6</b>
<b>Opening balance, 1 Jan 2019</b>	<b>20,497.3</b>	<b>-10.5</b>	<b>336.7</b>	<b>-5.7</b>	<b>8.0</b>	<b>-0.3</b>	<b>20,842.0</b>	<b>-16.6</b>
New loan commitments and increase in existing loan commitments	60,929.3	-15.9	85.0	-3.2	5.6	-0.1	61,019.8	-19.3
<b>Changes:</b>								
Change in loss allowance model or method	-	0.0	-	0.0	-	-	-	0.0
Net change in existing loan commitments and credit commitments (utilised and repaid)	-20,631.0	2.7	-84.9	1.2	-8.1	0.0	-20,724.0	3.9
Change in risk parameters	-	-1.5	-	2.0	-	-0.1	-	0.4
<b>Transfer of loan commitments and credit commitments:</b>								
Transfer from stage 1 to stage 2	-573.0	3.4	573.0	-6.4	-	-	-	-3.1
Transfer from stage 2 to stage 1	140.7	-1.1	-140.7	1.6	-	-	-	0.5
Transfer to stage 3	-3.8	0.1	-0.9	0.1	4.7	-0.2	-	0.0
Transfer from stage 3	0.9	-0.1	1.3	0.0	-2.2	0.2	-	0.0
Expired loan commitments	-38,818.4	8.2	-468.7	3.7	-5.0	0.2	-39,292.1	12.1
<b>Closing balance 31 Dec 2019</b>	<b>21,541.8</b>	<b>-14.8</b>	<b>300.9</b>	<b>-6.9</b>	<b>2.9</b>	<b>-0.3</b>	<b>21,845.6</b>	<b>-21.9</b>

The loss allowance increased by SEK 5.4 M (-1.9) during the year. This was due to new loan commitments, an increase in existing credit commitments and certain transfers from stage 1 to stage 2.

On 31 December 2019, the total loss allowance for commitments amounted to SEK 25.9 M (20.1), of which the Group's recognised loss allowance amounted to SEK 21.9 M (16.6) and the remainder of SEK 4.0 M (3.5) was settled against remuneration to the regional insurance companies. For more information on the distribution remuneration model, refer to note 16, Loans to the public.

<b>Note 35</b>	<b>Classification of financial assets and liabilities</b>
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31 Dec 2019, SEK M	Financial assets measured at FVPL			Financial assets measured at FVOCI			Fair value
	Measured at fair value through profit or loss	Derivatives used in hedge accounting	Financial assets measured at amortised cost	Debt instruments valued at fair value through other comprehensive income	Equity instruments	Total carrying value	
Assets							
Cash and balances with central banks			9,831.1			9,831.1	9,831.1
Treasury bills and other eligible bills				9,934.4		9,934.4	9,934.4
Loans to credit institutions			407.8			407.8	407.8
Loans to the public			307,099.3			307,099.3	308,208.6
Bonds and other interestbearing securities				42,673.3		42,673.3	42,673.3
Shares and participations					90.0	90.0	90.0
Derivatives	2.4	8,221.9				8,224.3	8,224.3
Other assets			256.6			256.6	256.6
Prepaid expenses and accrued income			43.1			43.1	43.1
Total assets	2.4	8,221.9	317,637.9	52,607.7	90.0	378,559.9	379,669.2

	Financial liabilities measured FVPL		Financial liabilities measured at amortised cost	Total carrying value	Fair value
31 dec 2019, SEK M	Measured at fair value through profit or loss	Derivatives used in hedge accounting			
Liabilities					
Due to credit institutions			6,565.4	6,565.4	6,565.4
Deposits and funding from the public			119,303.5	119,303.5	119,858.5
Debt securities in issue			227,615.7	227,615.7	233,835.4
Derivatives	41.8	437.4		479.2	479.2
Other liabilities			395.6	395.6	395.6
Subordinated liabilities			2,595.2	2,595.2	2,653.2
Accrued expenses and deferred income			1,084.3	1,084.3	1,084.3
Total liabilities	41.8	437.4	357,559.7	358,038.9	364,871.6

31 Dec 2018, SEK M	Financial assets measured at FVPL		Financial assets measured at FVOCI			Total carrying value	Fair value
	Measured at fair value through profit or loss	Derivatives used in hedge accounting	Financial assets measured at amortised cost	Debt instruments valued at fair value through other comprehensive income	Equity instruments		
Assets							
Cash and balances with central banks			22.2			22.2	22.2
Treasury bills and other eligible bills				10,846.8		10,846.8	10,846.8
Loans to credit institutions			4,485.9			4,485.9	4,485.9
Loans to the public			289,426.0			289,426.0	290,227.6
Bonds and other interestbearing securities				36,790.4		36,790.4	36,790.4
Shares and participations					66.3	66.3	66.3
Derivatives		6,055.5				6,055.5	6,055.5
Other assets			256.6			256.6	256.6
Prepaid expenses and accrued income			47.2			47.2	47.2
<b>Total Assets</b>		<b>6,055.5</b>	<b>294,237.9</b>	<b>47,637.2</b>	<b>66.3</b>	<b>347,996.8</b>	<b>348,798.7</b>



## Note 35 Classification of financial assets and liabilities, cont.

	Financial liabilities measured FVPL		Financial liabilities measured at amortised cost	Total carrying value	Fair value
31 Dec 2018 SEK M	Measured at fair value through profit or loss	Derivatives used in hedge accounting			
Liabilities					
Due to credit institutions			5,992.1	5,992.1	5,992.1
Deposits and funding from the public			108,141.7	108,141.7	108,677.4
Debt securities in issue			210,781.1	210,781.1	214,791.8
Derivatives	1.3	759.9		761.2	761.2
Other liabilities			183.4	183.4	183.4
Subordinated liabilities			2,593.1	2,593.1	2,631.7
Accrued expenses and deferred income			1,146.0	1,146.0	1,146.0
Total liabilities	1.3	759.9	328,837.4	329,598.5	334,183.6

The carrying amount of cash and balances with central banks, treasury bills and other eligible bills, loan to credit institutions, other asset, 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 term. Gains and losses are recognised in profit or loss under "net gains/losses from financial items". The only result arising on the derecognition of assets recognised at amortised cost is interest compensation received. For more information, refer to note 7.

## Note 36 Fair value valuation techniques

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 Dec 2019 SEK M	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
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
<b>Liabilities</b>				
Derivatives		479.2		479.2

### 31 Dec 2018 SEK M

<b>Assets</b>				
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
<b>Liabilities</b>				
Derivatives		761.2		761.2

Länsförsäkringar Bank AB holds shares and participations that cannot be reliably measured based on listing in an active market. Instead, regular valuations are performed based on, for example, recent company reports and forecast results. The fair value of Level 2 shares and participations that pertain to unquoted Series B and Series 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 has been calculated by discounting expected future cash flows.

In the third quarter of 2018, a transfer of SEK 9.2 M took place from Level 2 to Level 1 since the holding became listed. No other significant transfers took place in 2019 or 2018.

No transfers were made from Level 3 in these years.

## Note 36 Fair value valuation techniques, cont.

### Change in Level 3

SEK M	Shares and participations	
<b>Opening balance, 1 January 2018</b>	-	<b>30.1</b>
Acquisition	-	0.3
Conversion to shares	-	0.2
Change in value of shares and participations	-	-10.0
<b>Closing balance, 31 December 2018</b>	-	<b>20.5</b>
<b>Opening balance, 1 January 2019</b>		<b>20.5</b>
Recognised in profit for the year		0.2
<b>Closing balance, 31 December 2019</b>		<b>20.7</b>

### Financial instruments measured at amortised cost in the balance sheet

31 Dec 2019 SEK M	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Loans to the public			308,208.6	308,208.6
<b>Liabilities</b>				
Deposits and borrowing from the public		119,858.5		119,858.5
Debt securities in issue		233,835.4		233,835.4
Subordinated liabilities		2,653.2		2,653.2

### 31 Dec 2018 SEK M

<b>Assets</b>				
Loans to the public			290,227.6	290,227.6
<b>Liabilities</b>				
Deposits and borrowing from the public		108,677.4		108,677.4
Debt securities in issue		214,791.8		214,791.8
Subordinated liabilities		2,631.7		2,631.7

Fair values of deposits from the public (Level 2) and loans to the public (Level 3) have been calculated using discounted expected cash flows where the discount rates applied are the current deposit and lending rates (including discounts). No other significant transfers took place in 2019 or 2018.

Fair value for debt securities in issue and subordinated liabilities (Level 2) is determined based on quoted prices. Parts of debt securities in issue that are considered to be illiquid are adjusted based on expected current issue prices. Commercial papers do not have external market prices and the fair value is determined based on the yield curve of each currency.

For further information about how the fair value was determined for financial instruments measured at fair value, and about valuation techniques and inputs, see also the note 2 on Accounting policies.

## Note 37 Information about offsetting

The table below contains financial assets and liabilities covered by a legally binding framework netting agreement or a similar agreement but that is not offset in the balance sheet. The Bank Group has ISDA and CSA agreements with all derivative counterparties and corresponding netting agreements for repurchase agreements, which means that all

exposures are covered by both types of agreements. The framework netting agreement entails that parties are to settle their exposures net (meaning that receivables are offset against liabilities) in the event of a serious credit incident.

### Financial assets and liabilities that are offset or subject to netting agreements

SEK M 31 Dec 2018	Gross amount	Offset in balance sheet	Net amount in balance sheet	Related amounts not offset in the balance sheet		Net amount
				Netting framework agreement	Collateral Received (-) / Pledged (+)	
Assets						
Derivatives	6,169.0	-113.5	6,055.5	-277.7	-4,613.2	1,164.5
Liabilities						
Derivatives	-874.7	113.5	-761.2	277.7	4.7	-478.8
Repurchase agreements	-159.1	-	-159.1	-	159.1	0.0
Total	5,135.2	-	5,135.2	-	-4,449.4	685.8
SEK M 31 Dec 2019						
Assets						
Derivatives	8,509.4	-285.1	8,224.3	-182.6	-6,411.5	1,630.2
Liabilities						
Derivatives	-764.3	285.1	-479.2	182.6	27.2	-269.4
Repurchase agreements	-	-	-	-	-	-
Total	7,745.1	-	7,745.1	-	-6,384.3	1,360.8

## Note 38 Disclosures on related parties, pricing and agreements

### Related parties

Related legal entities to Länsförsäkringar Bank Group include companies within the Länsförsäkringar AB Group, companies within the Länsförsäkringar Liv Group, the regional insurance companies, associated companies of the Länsförsäkringar AB Group and other related parties, comprising Länsförsäkringar Mäklarservice AB, Länsförsäkringar Fastighetsförmedling AB and Humlegården Fastigheter AB. These companies are wholly owned within the Länsförsäkringar Alliance. Related key persons are Board members, senior executives and their close family members.

### Agreements

Significant agreements for the Bank Group are primarily assignment agreements with the 23 regional insurance companies and assignment agreements with Länsförsäkringar AB regarding development, service, finance and IT.

Commission income from outsourcing agreements with the regional insurance companies refers to support and back office services performed by the Bank Group. Income is recognised on an ongoing basis according to managed volumes and is adjusted to actual volumes every quarter.

### Pricing, preparation and decision-making process

The price level of the goods and services that the Bank Group purchases and sells within the Länsförsäkringar Alliance is determined by Länsförsäkringar AB's corporate management once a year in conjunction with the adoption of the business plan.

Transactions SEK M	Receivables		Liabilities		Income		Expenses		Commitments	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	2019	2018	2019	2018	2019	2018
Länsförsäkringar AB (Parent Company)	13.3	35.7	150.9	261.2	0.1	1.7	618.5	595.2	-	-
Other companies in the Länsförsäkringar AB Group	0.2	0.4	925.0	1,082.0	-3.6	-8.6	509.7	453.4	-	-
Regional insurance companies	48.2	49.4	4,794.7	4,030.7	105.7	105.8	1,632.2	1,584.2	61.7	57.3
Länsförsäkringar Liv Group	-	-	806.0	959.0	-	-	41.5	21.9	-	-
Other related parties	12.4	11.3	34.7	36.6	3.7	3.4	0.0	0.0	7.2	8.6

For information regarding remuneration of related key persons such as members of the Board of Directors and senior executives, see note 8 concerning staff costs. In all other respects, no transactions took place between these individuals and their family members apart from normal customer transactions.

## Note 39 Events after balance-sheet date

On February 6, 2020, Bengt-Erik Lindgren left the board of Länsförsäkringar Bank.

## Note 40 Financial effect of change in accounting policy from IAS 17 Leases to IFRS 16 Leases

### Group, SEK M

<b>Future operating lease payments at 31 December 2018</b>	<b>56.4</b>
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
<b>Total operating lease payments before discounting at 1 January 2019 is to be recognised in the balance sheet</b>	<b>52.8</b>
Discount effect at 1 January 2019	-0.7
Financial lease liabilities at 31 December 2018	-
<b>Lease liabilities recognised in the balance sheet at 1 January 2019</b>	<b>52.1</b>

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%.

## Five-year summary for the Parent Company

SEK M	2019	2018 <sup>2)</sup>	2017	2016 <sup>1)</sup>	2015
<b>INCOME STATEMENT</b>					
Net interest income	1,283.8	1,233.7	1,127.2	1,123.8	981.8
Dividends received	4.7	29.9	42.3	0.2	0.1
Net commission	22.2	66.0	22.9	-60.0	-104.5
Net gains/losses from financial items	12.0	15.4	-6.4	29.3	28.3
Other operating income	125.7	124.9	115.8	123.5	108.7
<b>Total operating income</b>	<b>1,448.3</b>	<b>1,470.0</b>	<b>1,301.9</b>	<b>1,216.7</b>	<b>1,014.4</b>
Staff costs	-327.5	-290.3	-267.7	-185.7	-173.8
General administrative expenses	-793.6	-840.0	-661.0	-614.6	-569.0
Depreciation/amortisation	-125.1	-375.4	-79.0	-65.0	-102.5
<b>Total operating expenses</b>	<b>-1,246.2</b>	<b>-1,505.7</b>	<b>-1,007.7</b>	<b>-865.3</b>	<b>-845.3</b>
<b>Profit/loss before credit losses</b>	<b>202.1</b>	<b>-35.7</b>	<b>294.2</b>	<b>351.4</b>	<b>169.1</b>
Credit losses, net	-5.2	15.6	-4.6	-21.6	41.0
<b>Operating profit/loss</b>	<b>196.9</b>	<b>-20.1</b>	<b>289.6</b>	<b>329.8</b>	<b>210.1</b>
Appropriations	-51.1	-70.0	-90.0	-97.1	-18.0
Tax	-46.5	2.4	-49.4	-48.0	-56.2
<b>Net profit/loss for the year</b>	<b>99.3</b>	<b>-87.7</b>	<b>150.2</b>	<b>184.7</b>	<b>135.9</b>
<b>BALANCE SHEET</b>					
Cash and balances with central banks	9,831.1	22.2	17.0	21.6	21.5
Treasury bills and other eligible bills	9,934.4	10,846.8	10,531.5	7,867.2	8,824.0
Loans to credit institutions	78,862.7	79,013.9	67,005.7	64,183.5	56,129.9
Loans to the public	42,800.0	45,742.5	42,203.2	39,483.6	38,927.6
Bonds and other interest-bearing securities	32,369.3	26,873.7	25,880.0	23,495.8	22,646.5
Shares and participations	9,854.0	9,830.3	9,802.3	7,724.4	7,014.5
Derivatives	6,738.8	4,667.2	3,639.1	4,268.6	3,029.3
Fair value changes of interest-rate-risk hedged items in portfolio hedge	4.5	21.6	40.5	99.5	120.4
Intangible assets	1,173.3	904.7	873.2	451.9	282.5
Other assets	378.2	393.8	283.2	285.4	303.1
Prepaid expenses and accrued income	80.7	89.1	121.4	126.0	916.5
<b>Total assets</b>	<b>192,027.1</b>	<b>178,405.9</b>	<b>160,396.8</b>	<b>148,007.4</b>	<b>138,215.8</b>
Due to credit institutions	10,864.9	10,755.9	7,031.4	8,682.1	7,020.7
Deposits and funding from the public	119,783.2	108,539.8	99,808.4	91,505.5	84,185.4
Debt securities in issue	39,115.0	39,586.1	35,594.8	29,111.6	29,482.3
Derivatives	6,187.5	4,482.4	3,677.4	4,552.2	3,463.7
Fair value changes of interest-rate-risk hedged items in portfolio hedge	-	38.1	65.5	164.2	146.9
Other liabilities	376.3	474.9	424.9	373.5	273.4
Accrued expenses and deferred income	595.2	532.2	500.1	566.3	1,226.0
Subordinated liabilities	2,595.2	2,593.1	2,596.5	2,595.4	2,299.7
Equity	12,509.8	11,403.5	10,697.9	10,456.5	10,117.7
<b>Total liabilities and equity</b>	<b>192,027.1</b>	<b>178,405.9</b>	<b>160,396.8</b>	<b>148,007.4</b>	<b>138,215.8</b>
<b>KEY FIGURES</b>					
Return on total assets, %	0.07	-0.02	0.14	0.18	0.11
Common Equity Tier 1 capital ratio, %	27.4	30.2	32.3 <sup>3)</sup>	35.8 <sup>3)</sup>	36.3 <sup>3)</sup>
Capital adequacy ratio, %	34.3	34.2	36.9 <sup>3)</sup>	40.7 <sup>3)</sup>	41.4 <sup>3)</sup>
Tier 1 ratio, %	42.3	42.8	46.8 <sup>3)</sup>	51.6 <sup>3)</sup>	51.2 <sup>3)</sup>

<sup>1</sup> The company has decided from 1 January 2017 to present financial instruments measured at fair value including accrued interest. The change affected comparative figures in the balance sheet as per 31 December 2016. Comparative figures for 2015 have not been restated. <sup>2)</sup> Comparative figures for 2015-2017 have not been restated in the transition to IFRS 9 Financial Instruments. <sup>3)</sup> Risk weight floor for mortgages in Pillar 2.

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## Income statement – Parent Company

SEK M	Note	2019	2018
Interest income	5	1,799.8	1,542.3
Interest expense	5	-516.1	-308.6
<b>Net interest income</b>		<b>1,283.8</b>	<b>1,233.7</b>
Dividends received		4.7	29.9
Commission income	6	611.0	556.5
Commission expense	6	-588.8	-490.5
<b>Net commission</b>		<b>22.2</b>	<b>66.0</b>
Net gains/losses from financial items	7	12.0	15.4
Other operating income	8	125.7	124.9
<b>Total operating income</b>		<b>1,448.3</b>	<b>1,470.0</b>
Staff costs	9	-327.5	-290.3
Other administration expenses	10, 11, 12	-793.6	-840.0
<b>Total administration expenses</b>		<b>-1,121.1</b>	<b>-1,130.3</b>
Depreciation/amortisation and impairment of property and equipment/intangible assets	13	-125.1	-375.4
<b>Total operating expenses</b>		<b>-1,246.2</b>	<b>-1,505.7</b>
<b>Profit/loss before credit losses</b>		<b>202.1</b>	<b>-35.7</b>
Credit losses, net	14	-5.2	15.6
<b>Operating profit/loss</b>		<b>196.9</b>	<b>-20.1</b>
Appropriations	35	-51.1	-70.0
Tax	15	-46.5	2.4
<b>Net profit/loss for the year</b>		<b>99.3</b>	<b>-87.7</b>

## Statement of comprehensive income – Parent Company

SEK M	2019	2018
<b>Net profit for the year</b>	<b>99.3</b>	<b>-87.7</b>
<b>Other comprehensive income</b>		
<b>Items that have been transferred or can be transferred to profit or loss</b>		
Cash-flow hedges		
of which change in value for the period	589.0	214.3
of which reclassification to profit or loss	-592.2	-229.0
Change in fair value of debt instruments measured at FVOCI		
of which change in value for the period	15.0	-36.2
of which reclassification of realised securities to profit or loss	-4.1	-5.7
Tax attributable to items that have been transferred or can be transferred to profit or loss	-1.7	12.5
<b>Total</b>	<b>5.9</b>	<b>-44.1</b>
<b>Items that cannot be transferred to profit or loss</b>		
Change in fair value of equity instruments measured at FVOCI	23.7	-11.0
Tax attributable to items that cannot be reversed to profit or loss	-4.5	0.0
<b>Total</b>	<b>19.2</b>	<b>-11.0</b>
<b>Total other comprehensive income for the year, net after tax</b>	<b>25.1</b>	<b>-55.1</b>
<b>Comprehensive income for the year</b>	<b>124.4</b>	<b>-142.8</b>

## Balance sheet – Parent Company

SEK M	Note	31 Dec 2019	31 Dec 2018
<b>ASSETS</b>			
Cash and balances with central banks		9,831.1	22.2
Treasury bills and other eligible bills	16	9,934.4	10,846.8
Loans to credit institutions	17	78,862.7	79,013.9
Loans to the public	18	42,800.0	45,742.5
Bonds and other interest-bearing securities	19	32,369.3	26,873.7
Shares and participations		90.0	66.3
Shares and participations in Group companies	20	9,764.0	9,764.0
Derivatives	21	6,738.8	4,667.2
Fair value changes of interest-rate risk hedged items in portfolio hedge	22	4.5	21.6
Intangible assets	23	1,173.3	904.7
Property and equipment	24	3.1	4.1
Deferred tax assets	25	48.5	58.8
Other assets	26	326.6	330.9
Prepaid expenses and accrued income	27	80.7	89.1
<b>TOTAL ASSETS</b>		<b>192,027.1</b>	<b>178,405.9</b>
<b>LIABILITIES, PROVISIONS AND EQUITY</b>			
Due to credit institutions	28	10,864.9	10,755.9
Deposits and funding from the public	29	119,783.2	108,539.8
Debt securities in issue	30	39,115.0	39,586.1
Derivatives	21	6,187.5	4,482.4
Fair value changes of interest-rate risk hedged items in portfolio hedge	22	-	38.1
Other liabilities	31	363.0	461.5
Accrued expenses and deferred income	32	595.2	532.2
Provisions	33	13.3	13.4
Subordinated liabilities	34	2,595.2	2,593.1
<b>Total liabilities and provisions</b>		<b>179,517.3</b>	<b>167,002.4</b>
<b>Untaxed reserves</b>	35	<b>373.1</b>	<b>322.0</b>
<b>Equity</b>	36		
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
<b>Net profit/loss for the year</b>		<b>99.3</b>	<b>-87.7</b>
<b>Total equity</b>		<b>12,136.7</b>	<b>11,081.5</b>
<b>TOTAL LIABILITIES, PROVISIONS AND EQUITY</b>		<b>192,027.1</b>	<b>178,405.9</b>
<b>Other notes</b>			
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## Cash-flow statement, indirect method - Parent Company

SEK M	2019	2018
<b>Cash and cash equivalents, 1 January</b>	<b>149.9</b>	<b>131.8</b>
<b>Operating activities</b>		
Operating profit/loss	196.9	-20.1
Adjustment of non-cash items	276.6	342.5 <sup>1)</sup>
<b>Change in assets of operating activities</b>		
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
<b>Change in liabilities of operating activities</b>		
Change in deposits and funding from the public	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
<b>Cash flow from operating activities</b>	<b>9,263.5</b>	<b>-337.6</b>
<b>Investing activities</b>		
Acquisition of intangible assets	-392.6	-405.9
Acquisition of property and equipment	-0.1	-2.4
Change in other financial assets	-	0.0
<b>Cash flow from investing activities</b>	<b>-392.7</b>	<b>-408.3</b>
<b>Financing activities</b>		
Issued Additional Tier 1 capital instruments	1,000.0	-
Change in issued Additional Tier 1 instruments <sup>1)</sup>	-69.2	-33.9
Change in subordinated debt	-	-2.0
Shareholders' contributions received	-	800.0
<b>Cash flow from financing activities</b>	<b>930.8</b>	<b>798.0</b>
<b>NET CASH FLOW FOR THE YEAR</b>	<b>9,801.7</b>	<b>18.1</b>
<b>Cash and cash equivalents, 31 December</b>	<b>9,951.6</b>	<b>149.9</b>
<b>Non-cash items</b>		
Depreciation	125.1	89.3
Impairments	-	286.1
Unrealised portion of net gains/losses from financial items	96.4	-42.4
Credit losses, excluding recoveries	7.2	-45.0
Change in accrued expense/income	71.5	74.0
Other	-24.1	-19.4
<b>Total non-cash items</b>	<b>276.2</b>	<b>342.5</b>
<b>Cash and cash equivalents comprise:</b>		
Cash and balances with central banks	9,831.1	22.2
Loans to credit institutions	120.5	127.7
<b>Total cash and cash equivalents</b>	<b>-9,951.6</b>	<b>149.9</b>
Interest received	1,595.6	1,591.9
Interest paid	-1,755.4	-1,414.7

<sup>1)</sup> 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						Total
	Share capital	Development expenditures fund	Other capital contributed	Additional Tier 1 instruments <sup>1)</sup>	Fair value reserve			Retained earnings	Net profit for the year	
					Fair value reserve	Hedge reserve				
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 policy <sup>2)</sup>					-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	
Bonus issue	1,909.7						-1,909.7			
Unconditional shareholders' contribution received <sup>3)</sup>							800.0		800.0	
Realised gain from sale of shares							12.7		12.7	
Capitalised proprietary development expenditures		102.2					-102.2		-	
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	

<sup>1)</sup> 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.

<sup>2)</sup> 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.

<sup>3)</sup> Länsförsäkringar Bank AB (publ) has during 2018 received an unconditional shareholders' contribution from Länsförsäkringar AB (publ).

# Notes to the Parent Company's financial statements

All figures in SEK M unless otherwise stated.

## Note 1 Company information

The Annual Report for Länsförsäkringar Bank AB (publ) (Corp. Reg. No. 516401-9878) was presented on 31 December, 2019. Länsförsäkringar Bank AB is a bank registered in Sweden, with its registered office in Stockholm. The address of the head office is Tegelluddsvägen 11-13, Stockholm, Sweden. The company is a wholly owned subsidiary of Länsförsäkringar AB (publ) (Corp. Reg. No. 556549-7020) with its registered office in Stockholm. The Parent Company in the largest and smallest Group in which Länsförsäkringar Bank AB (publ) is the subsidiary and in which the consolidated financial statements are prepared is Länsförsäkringar AB (publ), Stockholm. The Annual Report for Länsförsäkringar Bank (publ) was approved by the Board and President for publication on 12 March, 2020. Final approval of the Annual Report will be made by the Parent Company's Annual General Meeting on 4 May, 2020.

## Note 2 Parent company's accounting policies

The accounting policies stated below for the Parent Company have been applied consistently to all periods presented in the Parent Company's financial statements. The Parent Company prepares its accounts in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), the Swedish Financial Supervisory Authority's regulations and general guidelines on annual reports in credit institutions and securities companies (FFFS 2008:25), including amendment regulations and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. The rules in RFR 2 stipulate that the Parent Company, in the annual accounts for the legal entity, is to apply all IFRS and statements adopted by the EU to the extent that this is possible within the framework of the Annual Accounts Act and the Pension Obligations Vesting Act and taking into consideration the connection between accounting and taxation. The recommendation stipulates the permissible exceptions from and supplements to IFRS.

### DIFFERENCES BETWEEN THE GROUP'S AND THE PARENT COMPANY'S ACCOUNTING POLICIES

The deviations arising between the Parent Company's and the Group's accounting policies are due to the limitations on the possibility of applying IFRS in the Parent Company, as a result of the Annual Accounts Act for Credit Institutions and Securities Companies and the Pension Obligations Vesting Act and in certain cases for tax reasons. The main deviations compared with the Group's policies are described below.

### NEW AND AMENDED ACCOUNTING POLICIES

Länsförsäkringar Bank AB applies the following accounting policies from 1 January 2019.

#### IFRS 16 Leases

IFRS 16 replaced IAS 17 Leases on 1 January 2019. The main requirement of the standard is that the lessee is to recognise leases, which were previously classified as operating leases, in the balance sheet. Länsförsäkringar Bank AB has made use of the option in RFR 2 to not apply IFRS 16 in legal entities due to the relationship between accounting and taxation, which is why the lease standard did not have any financial impact.

### DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES

#### Remuneration of employees

##### Defined-benefit pension plans

The Parent Company applies different policies for the taxation of defined-benefit plans to those stipulated in IAS 19. The Parent Company complies with the provisions of the Pension Obligations Vesting Act and the regulations of the Swedish Financial Supervisory Authority, which is a requirement for rights to tax deductions. The most significant differences compared with the IAS 19 regulations are the determination of the discount rate, that the defined-benefit commitment is calculated based on current salary levels without any assumptions concerning future salary increases, and that all actuarial gains and losses are recognised in profit or loss when they arise.

#### Subsidiaries

Shares and participations in subsidiaries are recognised at cost. Transaction costs are included in the carrying amount of holdings in subsidiaries.

#### Shareholders' contributions

Shareholders' contributions are recognised directly against the equity of the recipient and in shares and participations in Group companies of the donor.

### NEW IFRS AND INTERPRETATIONS THAT HAVE NOT YET BEEN APPLIED

The impact on capital adequacy due to new or revised IFRS is described in note 2 for the Group.

<b>Note 3</b>	<b>Risks and capital adequacy</b>
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See note 3 Risks and capital adequacy.

<b>Note 4</b>	<b>Segment reporting</b>
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Segment reporting is only submitted for the Group.

<b>Note 5</b>	<b>Net interest income</b>
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SEK M	2019	2018
<b>Interest income</b>		
Loans to credit institutions	846.8 <sup>1)</sup>	749.8 <sup>1)</sup>
Loans to the public	1,026.3	998.6
Interest-bearing securities	79.0 <sup>1)</sup>	80.6 <sup>1)</sup>
Derivatives	-152.3	-286.7
Other interest income	0.0	0.0
<b>Total interest income</b>	<b>1,799.8</b>	<b>1,542.3</b>
<b>Interest expense</b>		
Due to credit institutions	-46.4 <sup>1)</sup>	-9.8 <sup>1)</sup>
Deposits and funding from the public	-125.4	-113.2
Debt securities in issue	-318.8	-207.3
Subordinated liabilities	-53.3	-50.4
Derivatives	102.2	142.9
Other interest expense, including government deposit insurance	-74.4	-70.8
<b>Total interest expense</b>	<b>-516.1</b>	<b>-308.6</b>
<b>Total net interest income</b>	<b>1,283.8</b>	<b>1,233.7</b>
Average interest rate on loans to the public during the period, including net leasing, %	2.1	2.4
Average interest rate on deposits from the public during the period, %	0.1	0.1

<sup>1)</sup> Of which negative interest on Loans to credit institutions of SEK -9.6 M (-16.6). Interest-bearing securities of SEK -61.1 M (-71.7) and Due to credit institutions of SEK 22.7 M (29.7).

<sup>2)</sup> Interest expenses on non-preferred senior debt amounts to SEK 71 M (-).

Interest income calculated according to the effective interest method amounts to SEK 1,799.8 M (1,542.3) during the year.

<b>Note 6</b>	<b>Net commission</b>
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SEK M	2019	2018
<b>Commission income</b>		
Payment mediation	118.6	93.6
Loans	13.2	32.6
Deposits	8.0	13.5
Securities	128.1	102.7
Cards	273.0	248.3
Remuneration from the regional insurance companies	70.6	65.5
Other commission	-0.5	0.3
<b>Total commission income <sup>1)</sup></b>	<b>611.0</b>	<b>556.5</b>
<b>Commission expense</b>		
Payment mediation	-89.1	-82.0
Securities	-28.3	-26.0
Cards	-150.5	-135.0
Remuneration to regional insurance companies	-306.2	-233.9
Other commission	-14.7	-13.6
<b>Total commission expense</b>	<b>-588.8</b>	<b>-490.5</b>
<b>Total net commission</b>	<b>22.2</b>	<b>66.0</b>

<sup>1)</sup> Refers to revenue from contracts with customers.

<b>Note 7</b>	<b>Net gains/losses from financial items</b>
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SEK M	2019	2018
Interest-bearing assets and liabilities and related derivatives	8.6	10.5
Other financial assets and liabilities	0.2	0.7
Interest compensation (refers to items measured at amortised cost)	3.2	4.2
<b>Total net gains/losses from financial items</b>	<b>12.0</b>	<b>15.4</b>
<b>SEK M</b>	<b>2019</b>	<b>2018</b>
<b>Profit/loss by measurement category</b>		
Financial assets measured at FVPL	-0.1	0.4
Financial assets measured at amortised cost	2.7	3.6
Financial liabilities measured at amortised cost	-2.0	-2.4
Financial assets measured at FVOCI	4.0	5.7
Hedge accounting at fair value	3.4	5.9
Ineffectiveness of cash-flow hedges	0.0	0.0
Exchange-rate effect	3.9	2.2
<b>Total</b>	<b>12.0</b>	<b>15.4</b>

<b>Note 8</b>	<b>Other operating income</b>
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SEK M	2019	2018
Remuneration from the regional insurance companies	125.4	119.8
Other income <sup>1)</sup>	0.2	5.1
<b>Total other operating income</b>	<b>125.7</b>	<b>124.9</b>

<sup>1)</sup> Refers to revenue from contracts with customers.



<b>Note 9</b>	<b>Employees, staff costs and remuneration of senior executives</b>	
<b>Average number of employees, Sweden</b>	<b>2019</b>	<b>2018</b>
Men	139	132
Women	183	173
<b>Total number of employees</b>	<b>322</b>	<b>305</b>
<b>Salaries, other remuneration and social security expenses, other employees SEK M</b>	<b>2019</b>	<b>2018</b>
Salaries and remuneration	-187.0	-170.5
of which, variable remuneration	-	-
Social security expenses	-105.7	-95.9
of which, pension costs	-36.8	-33.2
<b>Total</b>	<b>-292.7</b>	<b>-266.4</b>
<b>Board of Directors and other senior executives, 13 (15) SEK M</b>	<b>2019</b>	<b>2018</b>
Salaries and remuneration	-16.3	-15.8
of which, fixed salary to the President	-4.5	-3.3
of which, variable remuneration to the President	-	-
of which, fixed salary to other senior executives	-9.2	-8.6
of which, variable salary to other senior executives	-	-
Social security expenses	-11.4	-11.2
of which, pension costs	-5.0	-4.9
<b>Total</b>	<b>-27.7</b>	<b>-27.0</b>
<b>Total salaries, other remuneration and social security expenses SEK M</b>	<b>2019</b>	<b>2018</b>
Salaries and remuneration	-203.3	-186.3
of which, variable remuneration	-	-
Social security expenses	-117.1	-107.1
of which, pension costs	-41.8	-38.1
<b>Total</b>	<b>-320.4</b>	<b>-293.4</b>

Länsförsäkringar Bank has about 1,400 individuals who are also employed at Länsförsäkringar Bank and the regional insurance companies. They receive their entire remuneration from their respective regional insurance company.

#### Remuneration of the Board

Directors' fees are payable to the Chairman and members of the Board in accordance with a decision of the Annual General Meeting. No fee is payable to employee representatives.

#### Remuneration of senior executives

Remuneration of the President and other senior executives comprises basic salary and other benefits. Pension benefits and other benefits paid to the President and other senior executives are included as part of total remuneration. Senior executives are the individuals who, together with the President, comprise corporate management.

## Note 9 Employees, staff costs and remuneration of senior executives, cont.

### Remuneration and other benefits for senior executives

2019, SEK M	Basic salary	Variable remuneration	Other remuneration	Pension costs	Total	Pension costs as a percentage of pensionable salary, % Defined-contribution
Sven Eggefalk, President	4.5	–	0.0	1.6	6.1	35
Anders Borgcrantz, Executive Vice President	3.1	–	–	1.1	4.2	35
Bengt Erik Lindgren, Board member	0.5	–	–	–	0.5	
Ingrid Jansson, Board member	0.4	–	–	–	0.4	
Per-Ove Bäckström, Board member	0.3	–	–	–	0.3	
Anna-Greta Lundh, Board member	0.4	–	–	–	0.4	
Peter Lindgren, Board member	0.4	–	–	–	0.4	
Anders Grånäs, Board member	0.3	–	–	–	0.3	
Beatrice Kämpe Nikolausson, Board member	0.3	–	–	–	0.3	
<b>Other senior executives</b>						
Parent Company (5)	9.2	–	0.0	3.4	12.6	37
Subsidiaries (2)	5.0	–	0.1	2.2	7.3	44
<b>Total 2019</b>	<b>24.4</b>	<b>–</b>	<b>0.1</b>	<b>8.3</b>	<b>32.8</b>	
Total remuneration from Parent Company	14.9	–	0.0	4.5	19.4	
Total remuneration from subsidiaries	9.5	–	0.1	3.8	13.4	

2018, SEK M	Basic salary	Variable remuneration	Other remuneration	Pension costs	Total	Pension costs as a percentage of pensionable salary, % Defined-contribution
Sven Eggefalk, President	3.3	–	0.0	1.2	4.5	35
Anders Borgcrantz, Executive Vice President	3.0	–	0.3	1.1	4.4	35
Bengt Erik Lindgren, Board member	0.4	–	–	–	0.4	
Ingrid Jansson, Board member	0.4	–	–	–	0.4	
Per-Ove Bäckström, Board member	0.3	–	–	–	0.3	
Anna-Greta Lundh, Board member	0.4	–	–	–	0.4	
Peter Lindgren, Board member	0.4	–	–	–	0.4	
Anders Grånäs, Board member	0.3	–	–	–	0.3	
Beatrice Kämpe Nikolausson, Board member	0.3	–	–	–	0.3	
<b>Other senior executives</b>						
Parent Company (6)	9.9	–	0.1	3.8	13.8	37
Subsidiaries (3)	4.7	–	0.2	2.1	7.0	44
<b>Total 2018</b>	<b>23.4</b>	<b>–</b>	<b>0.6</b>	<b>8.2</b>	<b>32.2</b>	
Total remuneration from Parent Company	15.4	–	0.4	4.9	20.7	
Total remuneration from subsidiaries	8.0	–	0.2	3.3	11.5	

Pension costs pertain to the impact on net profit for the year.

#### Pensions

The retirement age for the President is 65. The pension is a defined-contribution plan and pension premium is to amount to 35 percent of monthly salary. The retirement age for the Executive Vice President is 65. The pension is a defined-contribution plan and pension premium is to amount to 35 percent of monthly salary. One senior executive has an agreement for an additional pension provision corresponding to 12 percent of the executive's monthly salary. The retirement age for other senior executives is 65. The terms comply with pension agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (Forena) and the Swedish Confederation of Professional Associations (SACO). Furthermore, an additional pension premium corresponding to one price base amount per year is paid every year.

#### Severance pay

A mutual period of notice of 6 months applies to the President and the Executive Vice President. If termination of employment is issued by the company, severance pay corresponding to 12 months' salary will be paid to the President and 18 months' salary will be paid to the Executive Vice President, in addition to the period of notice. For other senior executives, the period of notice follows applicable agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (Forena) and the Swedish Confederation of Professional Associations (SACO).

#### Preparation and decision-making process applied in relation to the issue of remuneration of senior executives

A Remuneration Policy for the Länsförsäkringar AB Group regulates the preparation and decision-making process for remuneration of senior executives. The Remuneration Committee prepares important remuneration decisions and decisions on measures for following up the application of the Remuneration Policy. The Board decides on remunera-

tion and other terms of employment for corporate management and employees with overall responsibility for one of the company's control functions.

#### Composition of Remuneration Committee

The composition and duties of the Remuneration Committee are regulated in the Board's formal work plan. The Remuneration Committee comprises the Chairman and one Board member.

#### Policies for remuneration of senior executives

Senior executives in the Länsförsäkringar AB Group are to have market-based employment terms and conditions. Total remuneration is to be in line with the industry standard. The structure and level of remuneration should correspond to the company's values, meaning that it should be reasonable, moderate and well-balanced, and also contribute to good ethics and organisational culture, characterised by openness and transparency.

#### Fixed remuneration

Fixed remuneration is paid according to the general policy above.

#### Pensions

Pensions should comply with the terms of the pension agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (Forena) and the Swedish Confederation of Professional Associations (SACO).

#### Other benefits

In addition to the above benefits, a company car is offered in accordance with applicable conditions, individual health care insurance and other benefits offered to all employees.

## Note 9 Employees, staff costs and remuneration of senior executives, cont.

Number of women among senior executives, %	31 Dec 2019	31 Dec 2018
Board members	40	40
Other senior executives	33	30

### Loans to the Board of Directors, Presidents/Executive Vice Presidents and other senior executives

	Bank Group		Parent Company		Parent Company Group	
	2019	2018	2019	2018	2019	2018
<b>Board members</b>	<b>20.5</b>	<b>21.6</b>	<b>12.8</b>	<b>10.0</b>	<b>63.4</b>	<b>64.7</b>
Of which, loans from Bank	4.6	3.9	6.9	1.5	21.3	8.8
Of which, loans from Hypotek	15.9	17.7	5.9	8.6	42.1	55.9
Of which, loans from Wasa Kredit	0.0	-	-	-	0.0	0.0
<b>President and Executive Vice Presidents</b>	<b>2.0</b>	<b>2.4</b>	<b>6.0</b>	<b>7.7</b>	<b>20.2</b>	<b>22.0</b>
Of which, loans from Bank	0.5	0.5	1.0	1.0	2.2	2.0
Of which, loans from Hypotek	1.5	1.9	5.0	6.7	18.0	20.0
Of which, loans from Wasa Kredit	0.0	-	-	-	0.0	-
<b>Senior executives</b>	<b>6.9</b>	<b>26.5</b>	<b>9.0</b>	<b>21.5</b>	<b>44.8</b>	<b>94.3</b>
Of which, loans from Bank	1.2	2.4	0.6	2.5	5.4	10.6
Of which, loans from Hypotek	5.7	24.1	8.4	19.0	39.3	83.7
Of which, loans from Wasa Kredit	-	-	-	-	0.1	-

Loans granted comprise personnel loans and other loans. Personnel loans carry loan terms comparable to what applies to other employees in the Group. The interest rate for personnel loans is the repo rate less 0.5 percentage points, but can never be lower than 0.5 percentage points. The interest benefit is calculated in accordance with the Swedish National Tax Board's rules and is included in other benefits as above. Personnel loans are restricted to 0.5 SEK M. The terms and conditions of other loans are market-based.

The Group has not pledged assets, other collateral or assumed any liability undertaking for the benefit of any senior executive.

### Remuneration Policy

In accordance with the regulations and general advice of the Swedish Financial Supervisory Authority (FFFS 2011:1) regarding remuneration policies in credit institutions, investment firms and fund management companies, the Board of Directors is to adopt a Remuneration Policy. It is intended that a statement of remuneration in the company is to be published on the website when the Annual Report is published.

## Note 10 Other administration expenses

SEK M	2019	2018
Costs for premises	-45.7	-30.2
IT costs	-392.2	-343.3
Consultant costs	-107.1	-172.9
Marketing	-33.8	-25.9
Management costs	-11.3	-11.2
Other administration expenses	-203.4	-256.6
<b>Total administration expenses</b>	<b>-793.6</b>	<b>-840.0</b>

## Note 11 Remuneration of auditors

SEK M	2019	2018
<b>Audit fees, KPMG</b>		
- Audit assignment	-2.4	-2.5
- Audit activities other than audit assignment	-1.2	-1.0
- Tax advice	-	-0.1
- Other assignments	-	-

Audit assignment pertains to a review of the Annual Report and accounting, as well as the Board's and President's administration. Audit activities other than audit assignment pertain to various types of quality-assurance services, such as reviews of the administration, Articles of Association, regulations or agreements that result in reports or certificates. Other assignments pertain to activities that are not included in the abovementioned items, for example, legal consultations alongside audit activities and that are not attributable to tax consultancy services.

## Note 12 Operational leasing

These agreements pertain to internal and external lease contracts where the Parent Company is the lessee.

SEK M	2019	2018
<b>Lease expenses paid</b>		
Rent for premises	-20.8	-29.7
of which, variable fees	-18.9	-18.9
Leasing fees, company cars	-	-0.1
Other leasing fees	-24.4	-12.3
<b>Future basic rents for irrevocable leasing contracts</b>		
Within 1 year	-26.4	-14.6
Between 1 and 5 years	-50.8	-28.0
<b>Total</b>	<b>-77.1</b>	<b>-42.6</b>

## Note 13 Depreciation/amortisation and impairment of property and equipment/intangible assets

SEK M	2019	2018
Depreciation of property and equipment	-1.1	-1.0
Amortisation of intangible assets	-124.0	-88.3
<b>Total depreciation/amortisation</b>	<b>-125.1</b>	<b>-89.3</b>
Impairment of intangible assets	0.0	-286.1
<b>Total depreciation/amortisation and impairment of assets</b>	<b>-125.1</b>	<b>-375.4</b>

More information on impairment is available in note 23 Intangible assets.

<b>Note 14</b>	<b>Credit losses, net</b>	
SEK M	2019	2018
<b>Change in loss allowance for loan receivables</b>		
Stage 1 (not credit-impaired)	-0.7	-1.9
Stage 2 (not credit-impaired)	-1.7	0.9
Stage 3 (credit-impaired)	-4.7	10.0
<b>Total change in loss allowance for loan receivables</b>	<b>-7.1</b>	<b>9.0</b>
Expense for confirmed credit losses	0.0	-8.8
Payment received for prior confirmed credit losses	4.3	5.0
<b>Net expense for the period for credit losses for loan receivables</b>	<b>-2.8</b>	<b>5.2</b>
Change in loss allowance for commitments	0.3	1.6
Net expense for other credit losses	-2.6	8.7
Net expense of the modification result	-0.1	0.0
<b>Net expense for credit losses</b>	<b>-5.2</b>	<b>15.6</b>

A condition for full payment of the regional insurance companies distribution remuneration by the Bank Group is that the loans generated by each regional insurance company for the Bank Group (excluding Wasa Kredit AB) are of high quality. If this is not the case, up to 80% of any credit losses are off-set against the accrued remuneration to the regional insurance companies. This model for settlement of credit losses is kept separate and is taken into consideration when the provisions are established. In 2019, total credit losses amounted to SEK 32.0 M (30.4), of which the company's recognised credit losses amounted to SEK 5.2 M (15.6) and the remainder of SEK 26.8 M (14.8) was settled against remuneration to the regional insurance companies.

#### Loss allowance

SEK M	31 Dec 2019	31 Dec 2018
<b>Financial assets measured at amortised cost</b>		
Cash and balances at central banks	0.0	0.0
Loans to credit institutions	20.1	20.2
Loans to the public	20.0	12.8
Other assets	0.0	0.0
<b>Financial assets measured at FVOCI</b>		
Treasury bills and other eligible bills	0.3	0.2
Bonds and other interest-bearing securities	0.6	0.5
<b>Provisions</b>		
Commitments	7.0	7.5
Guarantees	0.1	0.0
<b>Total loss allowance</b>	<b>48.1</b>	<b>41.1</b>

All exposures are in stage 1 except for loans to the public and commitments which have exposure in all three stages. For more information about the change in loss allowance for loans to the public and commitments, see notes 18 and 37.

<b>Note 15</b>	<b>Tax on net profit for the year</b>	
SEK M	2019	2018
<b>Current tax</b>		
Tax expense/tax income for the year	-34.0	-48.5
Adjustment of tax expense pertaining to prior years	-1.7	-2.3
<b>Total current tax</b>	<b>-35.7</b>	<b>-50.8</b>
<b>Deferred tax</b>		
Change in deferred tax expense on temporary differences	-10.8	53.2
<b>Total deferred tax</b>	<b>-10.8</b>	<b>53.2</b>
<b>Total recognised tax expense</b>	<b>-46.5</b>	<b>2.4</b>
<b>Reconciliation of effective tax rate</b>		
Profit before tax	145.8	-90.1
Tax in accordance with applicable tax rate	-31.2	19.8
Tax on non-deductible costs	-20.5	-79.9
Tax on non-taxable income	7.0	11.6
Deferred tax pertaining to temporary differences	-0.1	53.2
Tax attributable to earlier years	-1.7	-2.3
<b>Total tax on net profit for the year</b>	<b>-46.5</b>	<b>2.4</b>
Applicable tax rate	21.4%	22.0%
Effective tax rate	31.9%	2.7%
<b>Tax items recognised in other comprehensive income</b>		
Tax on financial assets measured at fair value through other comprehensive income	-6.7	9.2
Tax on cash flow hedges	0.5	3.2
<b>Total tax attributable to other comprehensive income</b>	<b>-6.2</b>	<b>12.5</b>

<b>Note 16</b>	<b>Treasury bills and other eligible bills</b>	
SEK M	31 Dec 2019	31 Dec 2018
Swedish government	9,466.6	10,794.3
German government	277.9	-
Finnish government	189.9	52.5
<b>Total treasury bills and other eligible bills</b>	<b>9,934.4</b>	<b>10,846.8</b>
Fair value	9,934.4	10,846.8
Amortised cost	9,820.7	10,745.5
Nominal value	9,444.9	10,255.8

For loss allowance, see note 14.

<b>Note 17</b>	<b>Loans to credit institutions</b>	
SEK M	31 Dec 2019	31 Dec 2018
Loans to subsidiaries	78,681.2	74,707.3
Other loans to credit institutions	181.5	4,306.5
<b>Total loans to credit institutions</b>	<b>78,862.7</b>	<b>79,013.9</b>

For loss allowance, see note 14.

**Note 18** Loans to the public

Loan receivables are geographically attributable in their entirety to Sweden.

SEK M	31 Dec 2019	31 Dec 2018
Public sector	–	4,014.5
Corporate sector	1,513.6	1,479.3
Retail sector	41,306.0	40,261.1
Other	0.4	0.4
<b>Total</b>	<b>42,820.1</b>	<b>45,755.3</b>
Reserves	–20.0	–12.8
<b>Loans to the public</b>	<b>42,800.0</b>	<b>45,742.5</b>
<b>Fixed-interest period</b>		
Remaining term of not more than 3 months	35,720.9	40,092.3
Remaining term of more than 3 months but not more than 1 year	1,662.7	1,722.0
Remaining term of more than 1 year but not more than 5 years	5,091.1	3,751.3
Remaining term of more than 5 years	325.3	176.9
<b>Total</b>	<b>42,800.0</b>	<b>45,742.5</b>

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

**Reconciliation of gross carrying amount and loss allowance**

SEK M	Not credit-impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
<b>Opening balance 1 Jan 2018</b>	<b>40,078.0</b>	<b>-2.5</b>	<b>1,898.4</b>	<b>-5.0</b>	<b>284.7</b>	<b>-16.5</b>	<b>42,261.1</b>	<b>-24.0</b>
New loans <sup>1)</sup>	17,274.4	-1.6	2.8	0.0	26.3	-1.5	17,303.5	-3.1
<b>Changes:</b>								
Change in loss allowance model or method	–	0.0	–	-0.2	–	-0.1	–	-0.4
Repayment <sup>1)</sup>	-13,545.8	0.8	-283.5	0.8	-87.3	5.8	-13,916.5	7.4
Change in risk parameters	–	-0.4	–	0.5	–	-0.4	–	-0.3
Other <sup>1)</sup>	176.0	0.0	-10.6	0.0	-5.2	0.4	160.2	0.4
<b>Transfer between stages:</b>								
Transfer from stage 1 to stage 2	-862.8	0.9	862.8	-1.9	–	–	–	-1.0
Transfer from stage 2 to stage 1	864.8	-0.1	-864.8	0.5	–	–	–	0.4
Transfer to stage 3	-17.2	0.7	-74.6	1.2	91.8	-3.6	–	-1.7
Transfer from stage 3	41.3	0.0	9.7	-0.1	-51.1	1.3	–	1.2
Write-off	–	–	–	–	-52.9	8.1	-52.9	8.1
<b>Closing balance 31 Dec 2018</b>	<b>44,008.8</b>	<b>-2.2</b>	<b>1,540.2</b>	<b>-4.1</b>	<b>206.2</b>	<b>-6.5</b>	<b>45,755.3</b>	<b>-12.8</b>
<b>Opening balance 1 Jan 2019</b>	<b>44,008.8</b>	<b>-2.2</b>	<b>1,540.2</b>	<b>-4.1</b>	<b>206.2</b>	<b>-6.5</b>	<b>45,755.3</b>	<b>-12.8</b>
New loans	14,894.9	-1.7	6.2	0.0	9.6	-0.5	14,910.6	-2.2
<b>Changes:</b>								
Change in loss allowance model or method	–	0.0	–	0.0	–	-0.2	–	-0.2
Repayment	-17,497.2	0.9	-325.0	0.7	-66.5	2.2	-17,888.7	3.8
Change in risk parameters	–	-2.7	–	-2.7	–	-0.2	–	-5.6
Other	54.6	0.0	-1.5	0.0	-0.7	0.1	52.4	0.1
<b>Transfer between stages:</b>								
Transfer from stage 1 to stage 2	-1,100.1	1.2	1,100.1	-3.0	–	–	–	-1.8
Transfer from stage 2 to stage 1	468.2	-0.1	-468.2	0.4	–	–	–	0.3
Transfer to stage 3	-56.9	1.6	-113.0	3.0	169.9	-7.9	–	-3.3
Transfer from stage 3	3.3	0.0	15.3	-0.1	-18.6	0.5	–	0.4
Write-off	–	–	–	–	-9.6	1.3	-9.6	1.3
<b>Closing balance 31 Dec 2019</b>	<b>40,775.6</b>	<b>-3.0</b>	<b>1,754.2</b>	<b>-5.7</b>	<b>290.3</b>	<b>-11.2</b>	<b>42,820.1</b>	<b>-20.0</b>

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

## Note 18, Loans to the public, cont.

	Not credit-impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
<b>Loans to the public before loss allowances 2018</b>	<b>44,008.8</b>	<b>1,540.2</b>	<b>206.2</b>	<b>45,755.3</b>
Credit reserve requirement	-11.1	-20.4	-32.6	-64.1
Withheld remuneration to the regional insurance companies	8.9	16.3	26.1	51.3
Recognised loss allowance	-2.2	-4.1	-6.5	-12.8
<b>Loans to the public 2018</b>	<b>44,006.6</b>	<b>1,536.2</b>	<b>199.7</b>	<b>45,742.5</b>
<b>Loans to the public before loss allowances 2019</b>	<b>40,775.6</b>	<b>1,754.2</b>	<b>290.3</b>	<b>42,820.1</b>
Credit reserve requirement	-15.2	-28.6	-56.2	-100.1
Withheld remuneration to the regional insurance companies	12.1	22.9	45.0	80.0
Recognised loss allowance	-3.0	-5.7	-11.2	-20.0
<b>Loans to the public 2019</b>	<b>40,772.5</b>	<b>1,748.5</b>	<b>279.0</b>	<b>42,800.0</b>

A condition for full payment of the regional insurance companies' distribution remuneration by the Bank Group is that the loans generated by each regional insurance company for the Bank Group (excluding Wasa Kredit AB) are of high quality. If this is not the case, up to 80% of any credit losses are off-set against the accrued remuneration to the regional insurance companies. This model for settlement of credit losses is kept separate and is taken into consideration when the provisions are established. On 31 December 2019, the total credit reserve requirement for loan receivables amounted to SEK 100.1 M (64.1) of which the company'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.

On 31 December 2019, the contractual amounts outstanding for financial assets that were written off during the period and that are still encompassed by compliance measured amount to SEK 8.1 M (42.6).

The loss allowance increased by SEK 7.2 M (-11.2) during the year. This was primarily the result of a negative change in risk parameters and the transfer of loans between stage 2 and stage 3.

Modified loan receivables in loans to the public, SEK M	31 Dec 2019	31 Dec 2018
Loan receivables modified during the period that were in stages 2 and 3 when they were modified		
Amortised cost before modification	46.9	82.7 <sup>1)</sup>
Modification gain/loss	0.0	0.0
Gross carrying amount for loan receivables that have been modified since initial recognition and on the modification date were in stage 2 or 3 and that were transferred to stage 1 during the period	22.9	62.4

<sup>1)</sup> Comparative figures have been adjusted.

## Note 19 Bonds and other interest-bearing securities

### Issued by organisations other than public bodies

SEK M	31 Dec 2019	31 Dec 2018
<b>Carrying amount</b>		
Swedish mortgage institutions (not guaranteed)	20,888.3	17,981.3
Other Swedish issuers (not guaranteed)	4,961.2	4,270.8
Other foreign issuers (guaranteed by German government)	1,486.9	1,251.6
Other foreign issuers (not guaranteed)	5,032.9	3,370.0
<b>Total bonds and other interest-bearing securities</b>	<b>32,369.3</b>	<b>26,873.7</b>
Fair value	32,369.3	26,873.7
Amortised cost	31,985.8	26,459.4
Nominal value	31,663.7	26,006.5
<b>Market status</b>		
Securities listed	32,369.3	26,873.7

For loss allowance, see note 14.

## Note 20 Shares and participations in group companies

The bank has a total of three wholly-owned subsidiaries with registered offices in Stockholm.

SEK M	31 Dec 2019			31 Dec 2018		
	Number of shares	Nominal value	Carrying amount	Number of shares	Nominal value	Carrying amount
Wasa Kredit AB (556311-9204)	875,000	100 kr/Share	1,039.8	875,000	100 SEK/Share	1,039.8
Länsförsäkringar Hypotek AB (556244-1781)	70,335	44,500 kr/Share	8,559.2	70,335	44,500 SEK/Share	8,559.2
Länsförsäkringar Fondförvaltning AB (556364-2783)	15,000	100 kr/Share	165.0	15,000	100 SEK/Share	165.0
<b>Total shares and participations in Group companies</b>			<b>9,764.0</b>			<b>9,764.0</b>

SEK M	2019				2018			
	Wasa Kredit AB	Länsförsäkringar Hypotek AB	Länsförsäkringar Fondförvaltning AB	Total	Wasa Kredit AB	Länsförsäkringar Hypotek AB	Länsförsäkringar Fondförvaltning AB	Total
Carrying amount at beginning of year	1,039.8	8,559.2	165.0	9,764.0	1,039.8	8,559.2	165.0	9,764.0
Unconditional shareholders' contribution	-	-	-	-	-	-	-	-
<b>Carrying amount at year-end</b>	<b>1,039.8</b>	<b>8,559.2</b>	<b>165.0</b>	<b>9,764.0</b>	<b>1,039.8</b>	<b>8,559.2</b>	<b>165.0</b>	<b>9,764.0</b>



<b>Note 21</b>	<b>Derivatives</b>
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SEK M	31 Dec 2019		31 Dec 2018	
	Nominal value	Fair value	Nominal value	Fair value
<b>Derivatives with positive values</b>				
<i>Derivatives in hedge accounting</i>				
Interest-related	21,283.0	135.2	19,823.8	162.5
Currency-related	12,068.1	760.9	7,888.6	446.6
<i>Other derivatives</i>				
Interest-related	116,955.0	1,414.3	108,180.0	1,029.4
Currency-related	33,427.9	4,713.5	29,456.4	3,142.2
<b>Total derivatives with positive values</b>	<b>183,734.0</b>	<b>7,023.9</b>	<b>165,348.8</b>	<b>4,780.7</b>
Offset derivatives with positive values	-35,259.0	-285.1	-31,739.0	-113.5
<b>Net amount after offset</b>	<b>148,475.0</b>	<b>6,738.8</b>	<b>133,609.8</b>	<b>4,667.2</b>
<b>Derivatives with negative values</b>				
<i>Derivatives in hedge accounting</i>				
Interest-related	24,868.0	153.0	26,775.0	158.1
Currency-related	3,234.8	151.7	7,725.1	264.3
<i>Other derivatives</i>				
Interest-related	116,955.0	1,415.0	108,180.0	1,030.0
Currency-related	34,584.2	4,752.9	29,781.7	3,143.5
<b>Total derivatives with negative values</b>	<b>179,642.0</b>	<b>6,472.6</b>	<b>172,461.8</b>	<b>4,595.9</b>
Offset derivatives with negative values	-35,259.0	-285.1	-31,739.0	-113.5
<b>Net amount after offset</b>	<b>144,383.0</b>	<b>6,187.5</b>	<b>140,722.8</b>	<b>4,482.4</b>

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.

<b>Note 22</b>	<b>Fair value changes of interest-rate risk hedged items in portfolio hedge</b>	
<b>SEK M</b>	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
<b>Assets</b>		
Carrying amount at beginning of year	21.6	40.4
Changes during the year pertaining to lending	-21.0	-18.8
Changes during the year pertaining to borrowing	3.4	-
Changes during the year pertaining to deposits	0.5	-
<b>Carrying amount at year-end</b>	<b>4.5</b>	<b>21.6</b>
<b>Liabilities</b>		
Carrying amount at beginning of year	38.1	65.5
Changes during the year pertaining to deposits	0.3	-1.9
Changes during the year pertaining to funding	-38.4	-25.5
<b>Carrying amount at year-end</b>	<b>-</b>	<b>38.1</b>

<b>Note 23</b>	<b>Intangible assets</b>					
	<b>Internally developed IT systems</b>		<b>Acquired IT systems</b>		<b>Total</b>	
<b>SEK M</b>	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
<b>Cost</b>						
Opening cost	2,234.6	1,828.7	27.9	27.9	2,262.5	1,856.6
Acquisitions during the year	392.6	405.9	-	-	392.6	405.9
<b>Closing cost</b>	<b>2,627.2</b>	<b>2,234.6</b>	<b>27.9</b>	<b>27.9</b>	<b>2,655.1</b>	<b>2,262.5</b>
<b>Amortisation</b>						
Opening accumulated amortisation	-864.7	-776.4	-27.9	-27.9	-892.6	-804.3
Amortisation for the year	-124.0	-88.3	-	-	-124.0	-88.3
<b>Closing accumulated amortisation</b>	<b>-988.7</b>	<b>-864.7</b>	<b>-27.9</b>	<b>-27.9</b>	<b>-1,016.6</b>	<b>-892.6</b>
<b>Impairments</b>						
Opening accumulated impairments	-465.2	-179.1	-	-	-465.2	-179.1
Impairments for the year <sup>1)</sup>	0.0	-286.1	-	-	0.0	-286.1
<b>Closing accumulated impairments</b>	<b>-465.2</b>	<b>-465.2</b>	<b>-</b>	<b>-</b>	<b>-465.2</b>	<b>-465.2</b>
<b>Total intangible assets</b>	<b>1,173.3</b>	<b>904.7</b>	<b>-</b>	<b>-</b>	<b>1,173.3</b>	<b>-904.7</b>

<sup>1)</sup> Impairment in 2018 mainly refers to the bank's new platform for deposits, lending and payments. The carrying amount on 31 December 2019 was SEK 781.3 M (547.7).

<b>Note 24</b>	<b>Property and equipment</b>	
<b>SEK M</b>	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
<b>Equipment</b>		
Opening cost	25.0	23.9
Sales/Disposals for the year	-18.7	-2.2
Purchases for the year	0.4	3.2
<b>Closing cost</b>	<b>6.7</b>	<b>25.0</b>
Opening depreciation	-20.9	-21.2
Reversed depreciation, sales/scrapping	18.4	1.3
Depreciation for the year	-1.1	-1.0
<b>Closing accumulated depreciation</b>	<b>-3.6</b>	<b>-20.9</b>
<b>Total property and equipment</b>	<b>3.1</b>	<b>4.1</b>

<b>Note 25</b>	<b>Deferred tax assets and tax liabilities</b>
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Recognised deferred tax assets and tax liabilities are attributable to the following:

SEK M	Deferred tax assets		Deferred tax liabilities		Net	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Intangible assets	-42.3	-53.1	-	-	-42.3	-53.1
Cash flow hedges	-6.0	-5.4	-	-	-6.0	-5.4
Liabilities, provisions	-0.3	-0.3	-	-	-0.3	-0.3
<b>Deferred tax assets(-)/deferred tax liabilities (+)</b>	<b>-48.5</b>	<b>-58.8</b>	<b>-</b>	<b>-</b>	<b>-48.5</b>	<b>-58.8</b>
<b>Net deferred tax assets (-)/deferred tax liabilities (+)</b>	<b>-48.5</b>	<b>-58.8</b>	<b>-</b>	<b>-</b>	<b>-48.5</b>	<b>-58.8</b>

The Parent Company has no temporary differences with tax effects in Group companies.

#### Change in deferred tax in temporary differences

SEK M	Amount at 1 Jan	Recognised in profit or loss	Recognised in other comprehensive income	Amount at 31 Dec
<b>2019</b>				
Intangible assets	-53.1	10.9	-	-42.3
Cash flow hedges	-5.4	-	-0.5	-6.0
Liabilities, provisions	-0.3	-0.1	-	-0.3
<b>Deferred tax assets(-)/deferred tax liabilities (+)</b>	<b>-58.8</b>	<b>10.8</b>	<b>-0.5</b>	<b>-48.5</b>
<b>2018</b>				
Intangible assets	-	-53.1	-	-53.1
Cash flow hedges	-2.2	-	-3.2	-5.4
Liabilities, provisions	-0.2	-0.1	-	-0.3
<b>Deferred tax assets(-)/deferred tax liabilities (+)</b>	<b>-2.4</b>	<b>-53.2</b>	<b>-3.2</b>	<b>-58.8</b>

<b>Note 26</b>	<b>Other assets</b>
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SEK M	31 Dec 2019	31 Dec 2018
Accounts receivable <sup>1)</sup>	79.9	8.4
Other assets	246.7	322.6
<b>Total other assets</b>	<b>326.6</b>	<b>330.9</b>

<sup>1)</sup> Refers to revenue from contracts with customers.

In its calculation of loss allowance for other financial assets, the company uses the simplified method that is described in more detail in the Group's note 2 Accounting policies. For loss allowance, see note 14.

<b>Note 27</b>	<b>Prepaid expenses and accrued income</b>
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SEK M	31 Dec 2019	31 Dec 2018
Accrued interest income	20.3	22.8
Other accrued income <sup>1)</sup>	15.6	24.0
Prepaid expenses	44.8	42.3
<b>Total prepaid expenses and accrued income</b>	<b>80.7</b>	<b>89.1</b>

<sup>1)</sup> Refers to revenue from contracts with customers.

<b>Note 28</b>	<b>Due to credit institutions</b>
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SEK M	31 Dec 2019	31 Dec 2018
Swedish banks	6,331.9	5,816.9
Other Swedish credit institutions	4,533.0	4,939.1
<b>Total due to credit institutions</b>	<b>10,864.9</b>	<b>10,755.9</b>

<b>Note 29</b>	<b>Deposits and funding from the public</b>
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SEK M	31 Dec 2019	31 Dec 2018
Deposits from insurance companies	4,342.6	3,840.6
Deposits from households	101,528.2	92,220.9
Deposits from other Swedish public	13,912.3	12,478.2
<b>Total deposits from the public</b>	<b>119,783.2</b>	<b>108,539.8</b>

Fixed-term deposits amount to SEK 9,379.2 M (12,992.6). Interest compensation is paid on premature redemption.

<b>Note 30</b>	<b>Debt securities in issue</b>
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SEK M	31 Dec 2019	31 Dec 2018
Commercial papers	1,451.3	324.3
Bond loans	34,628.8	39,209.2
Senior non-preferred debt	2,992.8	-
Cashier's cheques issued	42.1	52.6
<b>Total debt securities in issue</b>	<b>39,115.0</b>	<b>39,586.1</b>

<b>Note 31</b>	<b>Other liabilities</b>
----------------	--------------------------

SEK M	31 Dec 2019	31 Dec 2018
Accounts payable	51.9	46.8
Withheld preliminary tax, customers	36.2	30.1
Other liabilities	275.0	384.6
Current tax liability	-	-
<b>Total other liabilities</b>	<b>363.0</b>	<b>461.5</b>

<b>Note 32</b>	<b>Accrued expenses and deferred income</b>	
SEK M	31 Dec 2019	31 Dec 2018
Accrued interest expense	129.8	151.2
Accrued remuneration of regional insurance companies	251.2	199.9
Other accrued expenses	214.2	181.1
<b>Total accrued expenses and deferred income</b>	<b>595.2</b>	<b>532.2</b>

<b>Note 33</b>	<b>Provisions</b>	
SEK M	31 Dec 2019	31 Dec 2018
Loss allowance for commitments	7.0	7.5
Other provisions	6.3	5.9
<b>Total provisions</b>	<b>13.3</b>	<b>13.4</b>

For the change in loss allowance for commitments, see note 37.

#### Defined-contribution pension plans

The company pays fixed contributions to a separate legal entity and does not have a legal or informal obligation to pay additional contributions. The company's payments to defined-contribution plans are recognised as expenses during the period in which the employee performed the services to which the contributions refer. Primarily, contributions to the Insurance Industry's Pension Fund (FPK) are recognised here. This plan encompasses all employees except for a few employees who have individual solutions. The pension agreement for the insurance industry, the FTP plan, through insurance with the FPK, is a multi-employer defined-benefit pension plan. According to IAS 19 Employee Benefits, this pension plan entails that, as a rule, a company is to recognise its proportional share of the defined-benefit pension commitment and the plan assets and expenses associated with the pension commitment. Disclosure is also to be presented in the accounts according to the requirements for defined-benefit pension plans. FPK is unable to provide the necessary information on this, which is why the pension plans above are recognised as a defined-contribution plan in accordance with item 34 of IAS 19. Nor is any information available on surpluses and deficits in the plan or whether these surpluses and deficits would then affect the contributions for the plan in future years. The company's expected fees in 2020 for the FTP plan amount to SEK 15.9 M.

	2019	2018
Expenses for defined-contribution plans	39.3	36.0

<b>Note 34</b>	<b>Subordinated liabilities</b>	
SEK M	31 Dec 2019	31 Dec 2018
External subordinated debt with three-month floating interest rate	1,697.6	1,696.4
External subordinated debt, listed	897.6	896.7
<b>Total subordinated liabilities</b>	<b>2,595.2</b>	<b>2,593.1</b>

The subordinated loans listed and can be redeemed on 26 April 2021 and 1 March 2023 at the earliest. These loans fall due on 26 April 2026 and 1 March 2028. During 2019-12-31 the interest on the variable loans were 2.3 (1.9) percent and 1.3 (0.8) percent. The interest rate on fixed loans is 2.7 percent and 1.8 percent. For more information, see note 3 Risks and capital adequacy.

<b>Note 35</b>	<b>Untaxed reserves</b>	
SEK M	31 Dec 2019	31 Dec 2018
Tax allocation reserve	373.1	322.0
<b>Total</b>	<b>373.1</b>	<b>322.0</b>

<b>Note 36</b>	<b>Equity</b>	
SEK M	31 Dec 2019	31 Dec 2018
<b>Restricted equity</b>		
Share capital	2,864.6	2,864.6
Development Expenditures Fund	1,141.3	833.1
Statutory reserve	18.4	18.4
<b>Total restricted equity</b>	<b>4,024.3</b>	<b>3,716.1</b>
<b>Non-restricted equity</b>		
Fair value reserve	56.0	30.9
Additional Tier 1 instruments	2,200.0	1,200.0
Retained earnings	5,757.1	6,222.2
Net profit for the year	99.3	-87.7
<b>Total non-restricted equity</b>	<b>8,112.4</b>	<b>7,365.4</b>
<b>Total equity</b>	<b>12,136.7</b>	<b>11,081.5</b>

The other changes in equity for the year and division according to IFRS are contained in the Statement of changes in shareholders' equity.

The company implemented a bonus issue during the year. Share capital comprises 9,548,708 (9,548,708) shares with a quotient value of SEK 300 (300).

#### Proposed appropriation of profit

The following profit is at the disposal of the Annual General Meeting:

SEK M	31 Dec 2019	31 Dec 2018
Other reserves	55,952,246	30,900,641
Retained earnings	5,757,091,885	6,222,223,251
Net profit for the year	99,311,246	-87,746,819
Profit to be appropriated	5,912,355,377	6,165,377,073

The Board proposes that the following be carried forward SEK 5,912,355,377 (6,165,377,073).

<b>Note 37</b>	<b>Pledged assets, contingent liabilities and other commitments</b>	
SEK M	31 Dec 2019	31 Dec 2018
<b>For own liabilities, pledged assets</b>		
Pledged securities in the central bank	2,549.1	2,596.5
Pledged securities in Euroclear	2,089.7	1,966.2
Cash collateral paid, derivatives	27.2	4.7
Securities collateral paid, derivatives	2,048.7	1,541.6
Other collateral for securities	15.3	15.4
<b>Total pledged assets for own liabilities</b>	<b>6,730.1</b>	<b>6,124.4</b>
<b>Contingent liabilities</b>		
Financial guarantees	27.8	34.7
<b>Total contingent liabilities</b>	<b>27.8</b>	<b>34.7</b>
<b>Other commitments</b>		
Loans approved but not disbursed	1,115.0	1,162.0
Unutilised portion of overdraft facilities	26,616.5	27,696.2
Unutilised portion of credit card facilities	1,852.7	1,719.1
<b>Total other commitments</b>	<b>29,584.2</b>	<b>30,577.3</b>

Loans to the public were provided as collateral for issuance of covered bonds and mortgage bonds. In the event of the company's insolvency, bond holders have preferential rights to the assets that are registered as cover pool. Other pledged securities will be transferred to the pledgee in the event of bankruptcy.

For loss allowance for financial guarantees, see note 14.

## Note 37, Pledged assets, contingent liabilities and commitments cont.

### Reconciliation of gross carrying amount and loss allowance for commitments

SEK M	Not credit-impaired				Credit impaired		Total	
	Stage 1		Stage 2		Stage 3		Credit risk exposure	Loss allowance
	Credit risk exposure	Loss allowance	Credit risk exposure	Loss allowance	Credit risk exposure	Loss allowance		
<b>Opening balance, 1 Jan 2018</b>	<b>35,621.0</b>	<b>-8.5</b>	<b>64.9</b>	<b>-0.1</b>	<b>7.1</b>	<b>-0.4</b>	<b>35,693.0</b>	<b>-8.9</b>
New loan commitments and increase in existing loan commitments	9,400.0	-0.8	21.1	-0.1	26.5	-0.9	9,447.6	-1.8
<b>Changes:</b>								
Change in loss allowance model or method	-	0.0	-	0.0	-	-	-	0.0
Net change in existing loan commitments and credit commitments (utilised and repaid)	-11,005.8	1.4	-15.5	0.0	-12.9	0.1	-11,034.1	1.6
Change in risk parameters	-	0.0	-	0.1	-	-0.1	-	0.0
<b>Transfer of loan commitments and credit commitments:</b>								
Transfer from stage 1 to stage 2	-94.2	0.1	94.2	-0.1	-	-	-	-0.1
Transfer from stage 2 to stage 1	49.3	0.0	-49.3	0.0	-	-	-	0.0
Transfer to stage 3	-3.0	0.1	-0.4	0.0	3.4	-0.1	-	0.0
Transfer from stage 3	1.4	0.0	1.2	0.0	-2.6	0.1	-	0.1
<b>Expired loan commitments</b>	<b>-3,468.1</b>	<b>0.6</b>	<b>-44.0</b>	<b>0.0</b>	<b>-17.1</b>	<b>1.1</b>	<b>-3,529.2</b>	<b>1.7</b>
<b>Closing balance 31 Dec 2018</b>	<b>30,500.5</b>	<b>-7.2</b>	<b>72.3</b>	<b>-0.1</b>	<b>4.5</b>	<b>-0.2</b>	<b>30,577.3</b>	<b>-7.5</b>
<b>Opening balance, 1 Jan 2019</b>	<b>30,500.5</b>	<b>-7.2</b>	<b>72.3</b>	<b>-0.1</b>	<b>4.5</b>	<b>-0.2</b>	<b>30,577.3</b>	<b>-7.5</b>
New loan commitments and increase in existing loan commitments	6,641.3	-0.9	19.0	-0.1	2.6	-0.1	6,663.0	-1.0
<b>Changes:</b>								
Change in loss allowance model or method	-	0.0	-	0.0	-	-	-	0.0
Net change in existing loan commitments and credit commitments (utilised and repaid)	-4,442.0	0.8	-22.0	0.0	-2.4	0.0	-4,466.3	0.8
Change in risk parameters	-	-0.1	-	0.0	-	-0.1	-	-0.1
<b>Transfer of loan commitments and credit commitments:</b>								
Transfer from stage 1 to stage 2	-94.4	0.1	94.4	-0.2	-	-	-	-0.1
Transfer from stage 2 to stage 1	41.9	0.0	-41.9	0.1	-	-	-	0.0
Transfer to stage 3	-3.5	0.1	-0.9	0.0	4.4	-0.1	-	0.0
Transfer from stage 3	0.5	0.0	1.2	0.0	-1.7	0.1	-	0.0
<b>Expired loan commitments</b>	<b>-3,139.2</b>	<b>0.5</b>	<b>-45.9</b>	<b>0.1</b>	<b>-4.6</b>	<b>0.2</b>	<b>-3,189.7</b>	<b>0.7</b>
<b>Closing balance 31 Dec 2019</b>	<b>29,505.1</b>	<b>-6.6</b>	<b>76.3</b>	<b>-0.2</b>	<b>2.8</b>	<b>-0.2</b>	<b>29,584.2</b>	<b>-7.0</b>

Loss allowance reduced by SEK 0.4 M (1.5) during the year due to the higher degree of utilisation of existing loan commitments and credit commitments and loan commitments that expired during the period.

On 31 December 2019, the total loss allowance for commitments amounted to SEK 10.5 M (10.1), of which the company's recognised loss allowance amounted to SEK 7.0 M (7.5) and the remainder of SEK 3.5 M (2.6) was settled against remuneration to the regional insurance companies. For more information on the distribution remuneration model, refer to note 18 Loans to the public.

**Note 38** Classification of financial assets and liabilities

31 Dec 2019, SEK M	Financial assets measured at FVPL		Financial assets measured at amortised cost	Financial assets measured at FVOCI		Total carrying amount	Fair value
	Measured at FVPL	Derivatives used in hedge accounting		Debt instruments measured at FVOCI	Equity instruments		
Assets							
Cash and balances with central banks			9,831.1			9,831.1	9,831.1
Treasury bills and other eligible bills				9,934.4		9,934.4	9,934.4
Loans to credit institutions			78,862.7			78,862.7	78,862.7
Loans to the public			42,800.0			42,800.0	43,011.5
Bonds and other interest-bearing securities				32,369.3		32,369.3	32,369.3
Shares and participations					90.0	90.0	90.0
Derivatives	5,842.7	896.1				6,738.8	6,738.8
Other assets			23.4			23.4	23.4
Prepaid expenses and accrued income			21.5			21.5	21.5
Total assets	5,842.7	896.1	131,538.7	42,303.7	90.0	180,671.2	180,882.7

	Financial liabilities measured FVPL		Financial liabilities measured at amortised cost	Total carrying amount	Fair value
31 dec 2019, SEK M	Measured at FVPL	Derivatives used in hedge accounting			
Liabilities					
Due to credit institutions			10,864.9	10,864.9	10,864.9
Deposits and funding from the public			119,783.2	119,783.2	119,858.5
Debt securities in issue			39,115.0	39,115.0	39,361.9
Derivatives	5,882.8	304.7		6,187.5	6,187.5
Other liabilities			57.2	57.2	57.2
Subordinated liabilities			2,595.2	2,595.2	2,653.2
Accrued expenses and deferred income			131.0	131.0	131.0
Total liabilities	5,882.8	304.7	172,546.5	178,730.0	179,114.2

31 Dec 2018, SEK M	Financial assets measured at FVPL		Financial assets measured at amortised cost	Financial assets measured at FVOCI		Total carrying amount	Fair value
	Measured at FVPL	Derivatives used in hedge accounting		Debt instruments measured at FVOCI	Equity instruments		
Assets							
Cash and balances with central banks			22.2			22.2	22.2
Treasury bills and other eligible bills				10,846.8		10,846.8	10,846.8
Loans to credit institutions			79,013.9			79,013.9	79,013.9
Loans to the public			45,742.5			45,742.5	46,070.9
Bonds and other interest-bearing securities				26,873.7		26,873.7	26,873.7
Shares and participations					66.3	66.3	66.3
Derivatives	4,058.1 <sup>1)</sup>	609.11 <sup>1)</sup>				4,667.2	4,667.2
Other assets			8.4			8.4	8.4
Prepaid expenses and accrued income			22.8			22.8	22.8
Total Assets	4,058.1	609.1	124,809.8	37,720.5	66.3	167,263.8	167,592.2



## Note 38 Classification of financial assets and liabilities, cont.

	Financial liabilities measured FVPL		Financial liabilities measured at amortised cost	Total carrying amount	Fair value
31 Dec 2018 SEK M	Measured at FVPL	Derivatives used in hedge accounting			
Liabilities					
Due to credit institutions			10,755.9	10,755.9	10,755.9
Deposits and funding from the public			108,539.8	108,539.8	108,677.4
Debt securities in issue			39,586.1	39,586.1	39,913.5
Derivatives	4,060.0 <sup>1)</sup>	422.4 <sup>1)</sup>		4,482.4	4,482.4
Other liabilities			57.5	57.5	57.5
Subordinated liabilities			2,593.1	2,593.1	2,631.7
Accrued expenses and deferred income			151.2	151.2	151.2
Total liabilities	4,060.0	422.4	161,683.6	166,166.0	166,669.6

<sup>1)</sup> Comparative figures have been adjusted

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. Gains and losses are recognised in profit or loss under "net gains/losses from financial items". The only result arising on the derecognition of assets recognised at amortised cost is interest compensation received. For more information, refer to note 7.

## Note 39 Fair value valuation techniques

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 Dec 2019 SEK M	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Treasury bills and other eligible bills	9,934.4			9,934.4
Bonds and other interest-bearing securities	32,369.3			32,369.3
Shares and participations	10.9	58.3	20.7	90.0
Derivatives		6,738.8		6,738.8
<b>Liabilities</b>				
Derivatives		6,187.5		6,187.5

31 Dec 2018 SEK M	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Treasury bills and other eligible bills	10,846.8			10,846.8
Bonds and other interest-bearing securities	26,873.7			26,873.7
Shares and participations	8.2	37.6	20.5	66.3
Derivatives		4,667.2		4,667.2
<b>Liabilities</b>				
Derivatives		4,482.4		4,482.4

Länsförsäkringar Bank AB holds shares and participations that cannot be reliably measured based on listing in an active market. Instead, regular valuations are performed based on, for example, recent company reports and forecast results. The fair value of Level 2 shares and participations that pertain to unquoted Series B and Series 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 has been calculated by discounting expected future cash flows.

In the third quarter of 2018, a transfer of SEK M 9.2 took place from Level 2 to Level 1 since the holding became listed. No other significant transfers took place in 2019 or 2018.

No transfers were made from Level 3 in these years.

### Change in holdings in Level 3

SEK M	Shares and participations
<b>Opening balance, 1 January 2018</b>	<b>30.1</b>
Acquisition	0.3
Recognised in profit for the year	0.2
Change in value of shares and participations	-10.0
<b>Closing balance, 31 December 2018</b>	<b>20.5</b>
<b>Opening balance, 1 January 2019</b>	<b>20.5</b>
Recognised in profit for the year	0.2
<b>Closing balance, 31 December 2019</b>	<b>20.7</b>

## Note 39 Fair value valuation techniques, cont.

### Financial instruments measured at amortised cost in the balance sheet

31 Dec 2019 SEK M	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Loans to the public			43,011.5	43,011.5
<b>Liabilities</b>				
Deposits and borrowing from the public		119,858.5		119,858.5
Debt securities in issue		39,361.9		39,361.9
Subordinated liabilities		2,653.2		2,653.2
<b>31 Dec 2018 SEK M</b>				
<b>Assets</b>				
Loans to the public			46,070.9	46,070.9
<b>Liabilities</b>				
Deposits and borrowing from the public		108,677.4		108,677.4
Debt securities in issue		39,913.5		39,913.5
Subordinated liabilities		2,631.7		2,631.7

Fair values of deposits from the public (Level 2) and loans to the public (Level 3) have been calculated using discounted expected cash flows where the discount rates applied are the current deposit and lending rates (including discounts). No other significant transfers took place in 2019 or 2018.

Fair value for debt securities in issue and subordinated liabilities (Level 2) is determined based on quoted prices. Parts of debt securities in issue that are considered to be illiquid are adjusted based on expected current issue prices. Commercial papers do not have external market prices and the fair value is determined based on the yield curve of each currency.

For further information about how the fair value was determined for financial instruments measured at fair value, and about valuation techniques and inputs, see also the note 2 on Accounting policies.

## Note 40 Information about offsetting

The table below contains financial assets and liabilities covered by a legally binding framework netting agreement or a similar agreement but that is not offset in the balance sheet. The Bank Group has ISDA and CSA agreements with all derivative counterparties and corresponding netting agreements for repurchase agreements, which means that all exposures are covered by both types of agreements. The framework netting agreement entails that parties are to settle their exposures net (meaning that receivables are offset against liabilities) in the event of a serious credit incident.

31 Dec 2019 SEK M	Financial assets and liabilities that are offset or subject to netting agreements					
	Gross amount	Offset in balance sheet	Net amount in balance sheet	Related amounts not offset in the balance sheet		
				Netting framework agreement	Collateral Received (-) / Pledged (+)	Net amount
Assets						
Derivatives	7,023.8	-285.1	6,738.8	-127.9	-6,196.4	414.4
Liabilities						
Derivatives	-6,472.6	285.1	-6,187.5	127.9	27.2	-6,032.4
Total	551.2	-	551.2	-	-6,169.2	-5,618.0
31 Dec 2018 SEK M						
Assets						
Derivatives	4,780.7	-113.5	4,667.2	-70.0	-4,597.1	0.0
Liabilities						
Derivatives	-4,595.9	113.5	-4,482.4	70.0	4.7	-4,407.7
Total	184.8	-	184.8	-	-4,592.4	-4,407.7

**Note 41 Capital adequacy**

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.

Own funds and capital requirements		Länsförsäkringar Bank AB	
SEK M		31 Dec 2019	31 Dec 2018
<b>Common Equity Tier 1 capital: instruments and reserves</b>			
Capital instruments and associated share premium accounts		2,864.6	2,864.6
<i>Of which: share capital</i>		2,864.6	2,864.6
Retained earnings		5,757.1	6,222.2
Accumulated Other comprehensive income		1,507.5	1,134.0
Independently reviewed interim profits net after any foreseeable charge or dividend		87.5	-89.9
<b>Common Equity Tier 1 capital before legislative adjustments</b>		<b>10,216.7</b>	<b>10,130.9</b>
<b>Common Equity Tier 1 capital: legislative adjustments</b>			
Additional value adjustments		-54.4	-45.9
Intangible assets (net of related tax liability)		-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
<b>Total legislative adjustments of Common Equity Tier 1 capital</b>		<b>-1,390.2</b>	<b>-1,104.4</b>
<b>Common Equity Tier 1 capital</b>		<b>8,826.5</b>	<b>9,116.5</b>
<b>Additional Tier 1 capital: instruments</b>			
Capital instruments and associated share premium accounts		2,200.0	1,200.0
<i>Of which: classified as equity under applicable accounting standards</i>		2,200.0	1,200.0
<b>Additional Tier 1 capital</b>		<b>2,200.0</b>	<b>1,200.0</b>
<b>Tier 1 capital (Tier 1 capital = Common Equity Tier 1 capital + Additional Tier 1 instruments)</b>		<b>11,026.5</b>	<b>10,316.5</b>
<b>Tier 2 capital: instruments and provisions</b>			
Capital instruments and associated share premium accounts		2,589.7	2,589.7
Credit risk adjustment		-	0.3
<b>Tier 2 capital</b>		<b>2,589.7</b>	<b>2,589.9</b>
<b>Total capital (total capital = Tier 1 capital + Tier 2 capital)</b>		<b>13,616.1</b>	<b>12,906.7</b>
<b>Total risk-weighted assets</b>		<b>32,178.6</b>	<b>30,144.7</b>
<b>Capital ratios and buffers</b>			
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%
<i>Of which: capital conservation buffer requirement</i>		2.5%	2.5%
<i>Of which: countercyclical capital buffer requirement</i>		2.5%	2.0%
<i>Of which: systemic risk buffer requirement</i>		-	-
<i>Of which: buffer for globally systemically important institution or for another systemically important institution</i>		-	-
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 41 Capital adequacy, cont.

SEK M	31 Dec 2019		31 Dec 2018	
	Risk Exposure Amount	Capital requirement	Risk Exposure Amount	Capital requirement
<b>Credit risk according to Standardised Approach</b>				
Exposures to institutions	1,367.0	109.4	879.9	70.4
Defaulted exposures	0.2	0.0	0.0	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
<b>Total capital requirement and Risk Exposure Amount</b>	<b>14,798.7</b>	<b>1,183.9</b>	<b>14,098.4</b>	<b>1,127.9</b>
<b>Credit risk according to IRB Approach</b>				
<i>Retail exposures</i>				
Secured by immovable property, small and medium-sized businesses	2,175.7	174.1	1,590.6	127.3
Secured by immovable property, other	1,402.3	112.2	1,454.4	116.3
Other retail exposures, small and medium-sized businesses	546.5	43.7	457.0	36.6
Other retail exposures	1,625.1	130.0	1,814.1	145.1
<b>Total retail exposures</b>	<b>5,749.7</b>	<b>460.0</b>	<b>5,316.1</b>	<b>425.3</b>
Exposures to corporates	4,837.3	387.0	4,067.5	325.4
<b>Total capital requirement and Risk Exposure Amount</b>	<b>10,586.9</b>	<b>847.0</b>	<b>9,383.6</b>	<b>750.7</b>
<b>Operational risk</b>				
Standardised Approach	2,077.7	166.2	1,925.7	154.1
<b>Total capital requirement for operational risk</b>	<b>2,077.7</b>	<b>166.2</b>	<b>1,925.7</b>	<b>154.1</b>
<b>Credit valuation adjustment, Standardised Approach</b>	<b>1,101.7</b>	<b>88.1</b>	<b>943.1</b>	<b>75.5</b>
<b>Additional Risk Exposure Amounts according to Article 458 CRR</b>	<b>3,613.5</b>	<b>289.1</b>	<b>3,793.9</b>	<b>303.5</b>
<b>Total capital requirement and Risk Exposure Amount</b>	<b>32,178.6</b>	<b>2,574.3</b>	<b>30,144.7</b>	<b>2,411.6</b>

## Note 42 Disclosures on related parties, pricing and agreements

### Related parties

Related legal entities include companies within the Länsförsäkringar AB Group, companies within the Länsförsäkringar Liv Group, the regional insurance companies, associated companies of the Länsförsäkringar AB Group and other related parties, comprising Länsförsäkringar Mäklarservice AB, Länsförsäkringar Fastighetsförmedling AB and Humlegården Fastigheter AB. These companies are wholly owned within the Länsförsäkringar Alliance. Related key persons are Board members, senior executives and their close family members.

### Agreements

Significant agreements for the Parent Company are primarily assignment agreements with the 23 regional insurance companies and assignment agreements regarding development, service, finance and IT. The Parent Company has agreements with its subsidiaries for Group-wide services.

Commission income from outsourcing agreements with the regional insurance companies refers to support and back office services performed by the Bank Group. Income is recognised on an ongoing basis according to managed volumes and is adjusted to actual volumes every quarter.

### Pricing

The price level of the goods and services that Länsförsäkringar Bank AB purchases and sells within the Länsförsäkringar Alliance is determined by Länsförsäkringar AB's corporate management once a year in conjunction with the adoption of the business plan.

### Transactions

SEK M	Income		Expenses		Receivables		Liabilities		Commitments	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	2019	2018	2019	2018	2019	2018
Companies in the Bank Group	1,087.3	865.6	1,224.8	1,423.8	78,826.8	74,797.4	10,976.3	9,419.1	23,993.0	25,132.7
Other companies in the Länsförsäkringar AB Group	1.5	2.8	503.8	487.6	13.5	26.0	1,024.9	1,292.0	-	-
Länsförsäkringar Liv Group	-	-	-	-	-	-	800.3	956.8	-	-
Regional insurance companies	90.3	89.4	306.5	234.1	5.2	5.2	3,866.4	3,091.9	51.0	51.0
Other related parties	-	-	-	-	-	-	34.7	36.6	5.0	5.0

For information regarding remuneration of related key persons such as members of the Board of Directors and senior executives, see note 9, Employees, staff costs and remuneration of senior executives. In all other respects, no transactions took place between these individuals and their family members apart from normal customer transactions.

## Note 43 Events after balance-sheet date

On February 6, 2020, Bengt-Erik Lindgren left the board of Länsförsäkringar Bank.

# Statement from the Board

The Board and President affirm that this Annual Report was prepared in accordance with generally accepted accounting policies in Sweden and that the consolidated financial statements were prepared in accordance with the international accounting standards referred to in Regulation (EC) No 1606/2002 of the European Parliament and the Council issued on 19 July 2002 on the application of international accounting standards. The Annual Report and consolidated financial statements provide a true and fair view of the Parent Company's and the Group's financial position and earnings. The Board of Directors' Report provides a true and fair overview of the Group's and the Parent Company's operations, financial position and earnings, and describes the significant risks and uncertainties to which the Parent Company and the companies included in the Group are exposed.

Stockholm, 12 March 2020

Fredrik Bergström  
*Chairman*

Per-Ove Bäckström  
*Board Member*

Anders Grånäs  
*Board Member*

Ingrid Jansson  
*Board Member*

Beatrice Kämpe Nikolausson  
*Board Member*

Peter Lindgren  
*Board Member*

Anna-Greta Lundh  
*Board Member*

Ellinoora Hoppe  
*Employee Representative*

Mirek Swartz  
*Employee Representative*

Sven Eggefalk  
*President*

Our audit report was submitted on 12 March 2020

KPMG AB

Dan Beitner  
*Authorised Public Accountant*

Translation from the Swedish original

## REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

### Opinions

We have audited the annual accounts and consolidated accounts of Länsförsäkringar Bank AB (publ) for the year 2019, except for the corporate governance statement on pages 25–30. The annual accounts and consolidated accounts of the company are included on pages 19–109 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies, and present fairly, in all material respects, the financial position of the parent company as of 31 December 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The consolidated accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the group as of 31 December 2019 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies. Our opinions do not cover the corporate governance statement on pages 25–30. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

### Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

## Loan origination and provisions for loan losses

See disclosure in notes 3, 12, 17, 18 and accounting policies in note 2 in the annual account and the consolidated accounts for detailed disclosures and a description of the matter for the Group. The corresponding notes for the Parent Company are notes 14 and 18.

Description of key audit matter	Response in the audit
Länsförsäkringar Bank's lending primarily comprises mortgages to private individuals. Loans are granted locally in Sweden, via the regional insurance companies, based on standardised, centrally established credit regulations at Länsförsäkringar Bank.	We have tested the bank's and its subsidiaries' key controls in the lending process, including credit decisions, credit examinations, rating classifications and loan loss provisions.
The bank's loans to the public amounted to SEK 42 800 (45,743) M on 31 December 2019, corresponding to 22 (26) % of the bank's total assets. The bank's reserves for loan losses in the loan portfolio amounted to SEK 20 (13) M after taking into consideration that the regional insurance companies cover 80% of the provision requirement on the date when an impairment is identified, by off-setting this against a buffer of accrued commission. The Group in which Länsförsäkringar Bank AB is the Parent Company and in which Länsförsäkringar Hypotek AB and Wasa Kredit AB are subsidiaries had loans to the public amounting to SEK 307,099 (289,426) M on 31 December 2019, corresponding to 81 (83) % of the Group's total assets. The Bank Group's reserves for loan losses in relation to lending amounted to SEK 569 (425) M after taking into consideration that the regional insurance companies cover 80% of the provision requirement on the date when an impairment is identified, by off-setting this against a buffer of accrued commission and SEK 672 (499) M if not taking that into account.	Controls tested included both manual controls and automatic controls in the Application system. We also tested general IT controls including authorisation Management for the relevant systems.
The reserves for loan losses in the bank's loan portfolio and its subsidiaries Länsförsäkringar Hypotek AB and Wasa Kredit AB correspond to corporate management's best estimate of potentially occurring losses in the loan portfolio as per the balance-sheet date. For the bank and its subsidiaries, there are complex calculations including critical judgements and estimates that are being made by management regarding the provisions for loan losses. This is the reason to why we believe that this is a key audit matter.	During the year a special focus has been on the entity's use of IFRS 9 regarding expected credit losses. We have therefore assessed the entity's interpretation of the IFRS 9 accounting standard in order to see that they have interpreted it in a reasonable way. We have tested the entity's key controls related to the loan loss provision process. We have also tested samples of the indata that goes into the entity's models and the reasonableness of the calculations that are being made in the expected credit loss computations. We have reviewed and assessed the validation of the expected credit loss models that have been performed. In our audit we have used our own credit modelling experts to assist us in the various audit procedures that we have performed.
	In addition we have assessed the information presented in the annual report regarding the information presented regarding the provisions for loan losses.



## Measurement of financial instruments

See disclosure in notes 20, 36, 37 and accounting policies in note 2, in the annual account and the consolidated accounts for detailed disclosures and a description of the matter for the Group. The corresponding notes for the Parent Company are notes 21 and 39.

Description of key audit matter	Response in the audit
Länsförsäkringar Bank AB has financial instruments measured at fair value in the balance sheet. Some of these financial instruments do not have current market prices, which means that the fair value is determined using valuation techniques based on market data. These financial instruments are classed as Level 2 in the IFRS valuation hierarchy and correspond to assets of a value of SEK 8,224 (6,056) M and liabilities of SEK 479 (761) M for the group. The corresponding amounts in the Bank are SEK 6,739 (4,705) M for assets and SEK 6,188 (4,667) M for liabilities.	We tested key controls in the valuation process, including confirmation and approval of assumptions and methods used in model-based calculations, controls of data quality and change management for internal valuation techniques.
Most of the Group's derivatives contracts, including interest-rate and cross-currency swaps, comprise Level 2 financial instruments. Level 2 derivatives contracts are measured using valuation techniques based on market interest rates and other market prices.	Controls tested included both manual controls and automatic controls in the application system. We also tested general IT controls including authorisation management for the relevant systems.
The valuation of Level 2 financial instruments includes assessments by the company, since these instruments are measured using models. In light of this, these financial instruments have been deemed to be a particularly significant audit matter.	With the assistance of our internal valuation specialists, we challenged the methods and assumptions used in measuring unquoted/illiquid financial instruments.
Länsförsäkringar Bank AB and the group has very few financial instruments that are valued as fair value based on models that are not observable by third parties.	We assessed the methods of the valuation techniques against industry practice and valuation guidelines.
	We have verified the values of the financial instruments by comparing the assumptions applied by the bank for the entire portfolio with suitable benchmark values and pricing sources, and have investigated significant deviations in one of the monthly accounts during the year.
	The result of this examination was also randomly tested in the annual accounts as part of roll-forward procedures.
	We have assessed the circumstances presented in the disclosures in the Annual Report and in the consolidated financial statements and whether the information is sufficiently extensive as a description of corporate management's assessments.

## The banks new platform for deposits, lending and payments

See page 2, note 21 in the consolidated accounts and note 23 for the Parent Company as well as the accounting principles on pages 42–43 in the annual accounts for detailed information and description of the matter.

Description of key audit matter	Response in the audit
Länsförsäkringar Bank AB finalised its development of a new Core Banking system for deposits, lending and payments called BaNCS. The system handles a substantial amount of Länsförsäkringar Banks transactions internally and with its customers, which is the reason to why this system is of great importance to the Financial Reporting.	Our audit procedures have constituted of, but not only, us understanding the key controls such as access, identification, granting access and removal regarding the system and whether those controls were efficient and if they were implemented during the year. We have further ensured that there are back-up routines including re-reading of lost data. We have also audited the processes of steering and controlling the system configurations in order to protect the system and information from un-authorized access, including routines to log issues and routines to identify weaknesses. Regarding development of BaNCS we have verified that there is a segregation of duties between those who develop and those who implement program changes to it. During the implementation of BaNCS in April we went through Länsförsäkringar Banks analysis of the implementation without noticing any substantial errors. We have also tested that data transfer from BaNCS to the GL and that the reports being produced by BaNCS are complete.
In order to assure a complete and accurate accounting it is important to have controls covering the access to the system, program development and program changes are properly developed and are effectively implemented.	
Due to the implementation of a new Core Banking System this year, this area has been decided to be a significant audit matter.	

### **Other Information than the annual accounts and consolidated accounts**

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–18 and 110–114. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of the Board of Directors and the Managing Director**

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

### **Auditor's responsibility**

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.

- Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### *Opinions*

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Länsförsäkringar Bank AB (publ) for the year 2019 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

### *Basis for Opinions*

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### *Responsibilities of the Board of Directors and the Managing Director*

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

### *Auditor's responsibility*

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken

and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

### *The auditor's examination of the corporate governance statement*

The Board of Directors is responsible for that the corporate governance statement on pages 25–30 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

KPMG AB, Box 382, 101 27, Stockholm, was appointed auditor of Länsförsäkringar Bank AB (publ) by the general meeting of the shareholders on May 13, 2019. KPMG AB or auditors operating at KPMG AB have been the company's auditor since 2000.

Stockholm 12 March 2020

KPMG AB

Dan Beitner  
Authorized Public Accountant

## Boards of Directors\*



### 1 Fredrik Bergström

Born 1970. President and CEO of Länsförsäkringar AB. Elected 2018.

**Education:** M.Sc. in Business and Economics, Uppsala University. **Other Board appointments:** Chairman of Länsförsäkringar Fondliv and Länsförsäkringar Sak. Board member of Länsförsäkringar Liv, Deputy Chairman of Insurance Sweden, Board member of Swedish Insurance Employers' Association (FAO), European Alliance Partners Company AG and Enebybergs Tennishall AB. **Previous experience:** President of Länsförsäkringar Stockholm, Head of Retail at SBAB, Head of Distribution, Private Sweden at If and other positions at If Skadeförsäkring AB and Dial Försäkrings AB.

### 2 Per-Ove Bäckström

Born 1959. President of Länsförsäkringar Gävleborg Elected 2015.

**Education:** B.A., Uppsala University. **Other Board appointments:** Board member of Länsförsäkringar Gävleborg. **Previous experience:** Deputy Regional Manager at Swedbank, Head of Operations at SEB.

### 3 Anders Grånäs

Born 1966. President of Dalarnas Försäkringsbolag Elected 2016. **Education:** M.Sc. in Engineering Physics, Uppsala University, MBA Stanford University. **Other Board appointments:** Board member of Länsförsäkringar Secondary PE Investments S.A, Humlegården Fastigheter AB and Lansa Fastigheter AB. **Previous experience:** Background as a venture capitalist specialising in technology investments and has served as Investment manager for 15 years at Investor Growth Capital, Industrifonden and Via Venture Partners (ATP, Denmark).

### 4 Ingrid Jansson

Born 1950. Consultant specialising in financial services and leadership. Elected 2013. **Education:** M.Sc. in Business and Economics. **Other Board appointments:** Chairman of MUM Consulting Group AB. **Previous experience:** Many years of experience in banking, asset management, marketing and business development, and has held senior positions.

### 5 Beatrice Kämpe Nikolausson

Born 1972. President of Länsförsäkring Kronoberg Elected 2016. **Education:** M.Sc. in Business Administration, Linnaeus University and Cardiff Business School, Bachelor Majors: Accounting and Finance, Bachelor Minors: Banking and Finance (Cardiff), Master: Majors: Accounting, Behaviour and Organisation. **Other Board appointments:** Board member of Länsförsäkring Kronoberg AB, Länsförsäkringar Grupplivförsäkringsaktiebolag, Chairman of Länsgården AB and Hjalmar Petri, Board member of LF Affärsservice Sydost AB, Bergvik Skog AB, Micki Leksaker, and AXB Education AB. **Previous experience:** Accounting Manager, Financial Director and Productivity Manager at Södra Cell, Director of Supply Chain and Logistics at Södra Skogsägarna, President of Alstom AQCS and President of Munksjö Aspa Bruk.

\* Bengt-Erik Lindgren was a member of the Board until 6 February 2020.

**Secretary of the Board:** Anna Rygaard. Born 1966.

Company Lawyer at Länsförsäkringar AB.

**Auditor:** KPMG AB, with Dan Beitner as auditor in charge.



## 6 Peter Lindgren

Born 1959. President. Elected 2016. **Education:** M.Sc. in Business and Economics. **Other Board appointments:** Chairman of Länsförsäkringar Östgöta and HSB Östra ek. för. (incl. subsidiaries). Board member of Pirre & Ludvig Byggställningar AB, Ryssnäs AB, HSB Affärsstöd AB and FemSju AB. **Previous experience:** Auditor, CFO, President.



## 7 Anna-Greta Lundh

Born 1955. President of Länsförsäkringar Södermanland. Elected 2016. **Education:** M.Sc. in Business and Economics. **Other Board appointments:** Board member of Länsförsäkringar Södermanland, Eskilstuna-Kuriren and Almi Invest Östra Mellansverige. **Previous experience:** Business Area Manager, Marketing Director.



## Employee representatives

## 8 Ellinoora Hoppe

Born 1985. Compliance officer. Employee representative Elected 2017. **Education:** LL.M. **Other Board appointments:** None. **Previous experience:** Bank lawyer at the Swedish Financial Supervisory Authority



## 9 Mirek Swartz

Born 1962. Service owner Service Desk. Employee representative Elected 2015. **Education:** IT-related educational courses. **Other Board appointments:** Board member of Wasa Kredit and Länsförsäkringar Fondförvaltning. Deputy Board member of Länsförsäkringar AB. **Previous experience:** Head of IT at Länsförsäkringar Stockholm.

**Deputy:** Camilla Lahger.



# Management



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## 1 Sven Eggefalk

Born 1969. President of Länsförsäkringar Bank AB. Employed 2018.

**Education:** B.A. in Economics, North Park University Chicago.

**Previous experience:** President of Länsförsäkringar Östgöta, President of Wasa Kredit AB, 15 years at SEB in various senior positions.

## 2 Anders Borgcrantz

Born 1961. CFO of Länsförsäkringar Bank. Employed since 2003.

**Education:** M.Sc. in Business and Economics. **Previous experience:**

Executive Vice President FöreningsSparbanken, President of SPINTAB, Regional Manager at FöreningsSparbanken.



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## 3 Gert Andersson

Born 1959. Head of Product, Process & Operations. Employed since

2013. **Education:** M.Sc. in Business and Economics. **Previous experience:**

Head of Sales Area Direct, Head of Sales and Marketing at Wasa Kredit and 25 years of experience in various senior positions at SEB.

## 4 Susanne Calner

Born 1969. Head of President's Office. Employed since 2012. **Education:**

M.Sc. in Business and Economics. **Previous experience:** Office Manager

at SEB, auditor and management consultant at Andersen.



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## 5 Bengt Clemedtson

Born 1964. Head of Business. Employed since 2006. **Education:** M.Sc. in

Business and Economics. **Previous experience:** President of Skandia-banken Bolån AB.

## 6 Eva Gottfridsdotter Nilsson

Born 1960. President of Länsförsäkringar Fondförvaltning. Employed

since 2000. **Education:** M.Sc. in Business and Economics. **Previous**

**experience:** President of Fondbolaget, CFO of Länsförsäkringar Asset Management, asset management Skandia, fixed-income fund manager Agria.

## 7 Louise Lindgren

Born 1959. CRO. Employed since 2014. **Education:** M.Sc. in Business and

Economics. **Previous experience:** 17 years at Nordea, most recently as

Head of Group Capital, Head of Financial Risk Management at PWC,

Head of Fixed Income Trading at Citibank.



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## 8 Thomas Högväg

Born: 1968. President of Wasa Kredit AB. Employed 2018. **Education:**

Business and Economics, Stockholm School of Economics. **Previous**

**experience:** SEB, President of FOREX Bank and management consultant.

## 9 Tobias Ternstedt

Born 1972. Head of IT. Employed 2010. **Education:** M.Sc. in Computer

and Information Science, Faculty of Engineering LTH at Lund University.

**Previous experience:** 20 years' experience from IT, mainly in banking and finance.



9



# Definitions

## Glossary

### Return on total assets

Profit for the year 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.

### Loan receivables

Comprises loans to the public and loans to credit institutions.

### 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

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.

### Fixed-interest period

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

### Small businesses

Companies with basic business requirements (loans, savings and payments).

### Tier 2 capital

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. Business volumes, cost/income ratio, 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 provisions 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.

### Business volumes

The total volume of internally and externally managed funds, agricultural loans, mortgages and other loans in Länsförsäkringar Bank and Wasa Kredit and deposits from the public.

### Share of credit-impaired loan receivables

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

### Return on total capital

Operating profit in relation to average total assets.

### Loan-to-value ratio

Refers to loans with single-family homes, tenant-owned apartments or vacation homes as collateral.

### Cost/income ratio

Total expenses in relation to total income. The cost/income ratio is calculated before and after credit losses.

### Credit loss level

Credit losses, net, for loan receivables (on an annual basis) in relation to loans to the public and credit institutions after provisions at the end of the period.

### Investment margin

Net interest income in relation to average total assets.

### Reserve ratio for loan receivables

Recognised provisions for loan receivables in relation to loan receivables before deductions for provisions.

### 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 2020

### First quarter:

Interim report January-March: 28 April 2020

### Second quarter:

Interim report April-June: 22 July 2020

### Third quarter:

Interim report July-September: 23 October 2020

# Addresses

## Länsförsäkringar Norrbotten

Box 937  
SE-971 28 Luleå  
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E-mail: info@LFnorrboten.se

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Box 153  
SE-901 04 Umeå  
Visit: Nygatan 19  
Tel: +46 90 10 90 00  
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## Länsförsäkringar Jämtland

Box 367  
SE-831 25 Östersund  
Visit: Prästgatan 18  
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## Länsförsäkringar Västernorrland

Box 164  
SE-871 24 Härnösand  
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## Dalarnas Försäkringsbolag

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## Länsförsäkringar Värmland

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## Länsförsäkringar Uppsala

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## Länsförsäkringar Stockholm

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## Länsförsäkringar Skaraborg

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## Länsförsäkringar Gotland

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## Länsförsäkringar Jönköping

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## Länsförsäkringar Halland

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## Länsförsäkring Kronoberg

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## Länsförsäkringar Blekinge

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## Länsförsäkringar Göttinge-Kristianstad

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## JOINT COMPANIES

### Länsförsäkringar AB

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## Wasa Kredit

Box 6740  
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E-mail: info@wasakredit.se

## Agria Djurförsäkring

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## Länsförsäkringar Fastighetsförmedling

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