

Managing SEK 114 billion in traditional life assurance

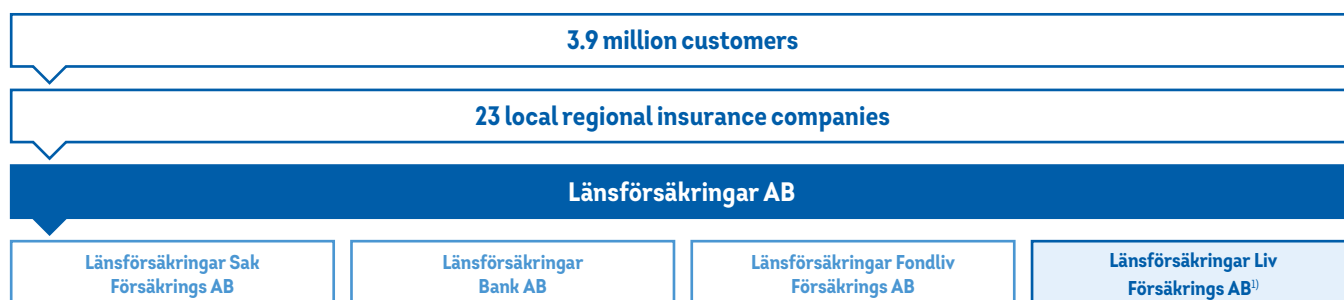
Länsförsäkringar Liv is the Länsförsäkringar Alliance's life-assurance company for traditional management. Länsförsäkringar Liv manages a total of SEK 114 billion divided into four management forms: New Trad, Old Trad, New World and Insured Pension. The operations are conducted according to mutual principles, which entails that earnings are not distributed to owners; they remain with the company's customers. The company has been closed for new business since September 2011.



Länsförsäkringar in brief

Local companies with customers who are owners and the only principal

Länsförsäkringar comprises 23 local and customer-owned regional insurance companies and the jointly owned Länsförsäkringar AB and its subsidiaries. Customers are provided with a complete 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' money and their security is fundamental. The Länsförsäkringar Alliance has 3.9 million customers and 7,200 employees.



¹⁾The company is operated according to mutual principles and is not consolidated in Länsförsäkringar AB.

Contents

Introduction

- 2 Statement by the President

Operations

- 4 Board of Directors' Report
- 8 Sustainability Report
- 12 Total return table
- 13 Five-year summary

Financial statements

- 15 Income statement
- 15 Statement of other comprehensive income
- 16 Performance analysis
- 18 Balance sheet
- 20 Statement of changes in equity
- 21 Statement of cash flow
- 22 Notes
- 45 Auditor's report

Other information

- 48 Corporate Governance Report
- 54 Board of Directors and auditor
- 56 Management
- 57 Definitions
- 57 Address

The 2019 fiscal year

Earnings 2019

Net profit for the year

2019 was characterised by strong capital markets and falling interest rates. High returns on equities, properties and alternative investments positively impacted the company's earnings. Low market interest rates posed challenges for traditional life assurance. In summary, the favourable return contributed to very positive earnings for Länsförsäkringar Liv. The capital situation remained stable.

Net profit for the year

SEK **5.6** bn (2018: SEK 0.6 bn)

Positive investment income in Old Trad and New Trad, positive operating profit and transitions to New Trad contributed positively to earnings. The year-on-year improvement was largely due to higher investment income.

New Trad

Return

14.9%

(2018: -0.6%)

Solvency margin

112%

(2018: 105%)

The bonus rate for New Trad was lowered from 5% to 3% on 1 January 2019. The bonus rate was raised to 4% on 1 November. In connection with this, an extra bonus of 4% was allotted.

Transitions to New Trad remained a priority activity in strengthening the company's balance sheet. Insurance policies with a total insurance capital of SEK 17.9 billion have transitioned to New Trad.

Old Trad

Return

6.9%

(2018: 0.9%)

Solvency margin

131%

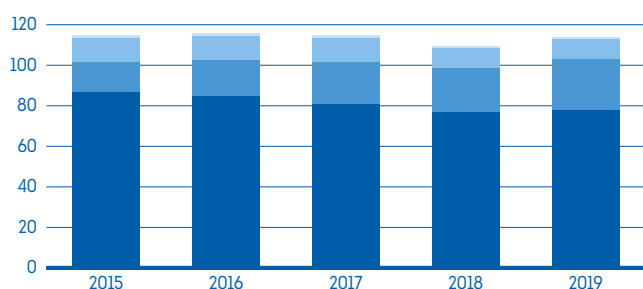
(2018: 124%)

The bonus rate for Old Trad was unchanged at 3% in 2019.

Solvency ratio

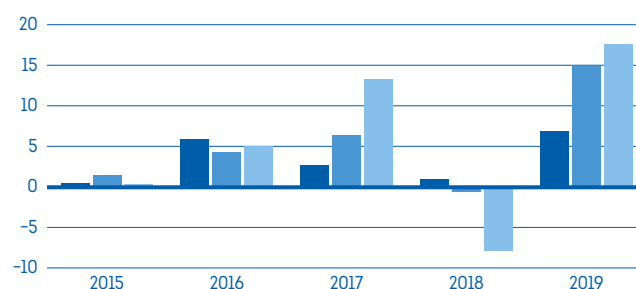
The solvency ratio calculated according to Solvency II amounted to 211% and own funds according to Solvency II to SEK 27,980 M.

Managed assets per management form, SEK bn¹⁾



● Old Trad ● New Trad ● New World ¹⁾Excluding Insured Pension
Länsförsäkringar Liv's New Trad management form has increased to SEK 25 billion since it was started in 2013.

Total return per management form, %¹⁾



● Old Trad ● New Trad ● New World ¹⁾Excluding Insured Pension

Managed assets

SEK **114** bn

Number of policies

626 thousand

Key figures

SEK M	2019	2018	2017	2016	2015
Investment assets, New Trad	24,977	21,836	20,803	17,983	15,004
Investment assets, Old Trad	77,858	76,631	80,572	84,718	86,636
Investment assets, New World	9,975	9,890	11,881	11,349	11,737
Solvency ratio, %	211	200	207	195	182 ¹⁾
Collective consolidation ratio, New Trad, %	112	105	117	114	114
Collective consolidation ratio, Old Trad, %	131	124	123	125	120
Total return, New Trad, %	14.9	-0.6	6.4	4.3	1.4
Total return, Old Trad, %	6.9	0.9	2.7	5.9	0.5
Total return, New World, %	17.6	-7.8	13.3	5.1	0.3

¹⁾Opening balance on 1 January 2016 under Solvency II.

Strong year for New Trad

Statement by the President > 2019 was a successful year for us and our customers. Despite falling interest rates, we reported strong earnings and increasing solvency, which contributes to improved long-term conditions and greater security for our customers. The return for New Trad for the year was 14.9% and we could pay extra bonuses to customers.

Strong equities markets despite higher macro-economic risks

2019 can be summarised as yet another financially strong year with higher returns for almost all classes of assets, at the same time as macro-economic risks increased, particularly in the geopolitical arena. We are very much affected by the global economy since we invest our capital all over the world. And the trend in the capital markets in 2019 was characterised by a struggle between interpretations of signs of weakness in economies in the West and China, pitted against continuing optimism about future company profits. It was obvious that the optimists won this fight, at least in the equities market, which noted a historically strong trend. The Swedish stock exchange (OMX) rose by more than 30%, while the MCI World was up 28%.

In a way, 2019 was a unique year since the pessimists retained their hold on the fixed-income market in spite of the optimism in equities. The already low long-term interest rates fell even lower. A historic level was surpassed when the Swedish ten-year rate was negative for the first time. This was driven by doubts about the long-term strength of the global economy and expectations of continued expansive monetary policy to counteract low inflation. Ultra low interest rates are a challenge for us traditional life-assurance companies investing in long-term fixed-income instruments and valuing long-term commitments with market interest rates. Through successful asset management, we succeeded with managing this during the year and it is highly gratifying that our own funds could be strengthened despite falling interest rates. Stronger own funds will be of major significance for our customers since it increases security and means that we can be more flexible in our asset management.

Positive investment income in our three asset portfolios

Returns for our three largest portfolios benefited from the favourable market performance. In addition, we were successful in our asset management to surpass the benchmarks for the year in all portfolios. New World, with a high share of equities in its investment mix, reported a return of 17.6%. New Trad, whose portfolio is similar to the industry average and is not impeded by guarantee risks in the same way as Old Trad, generated a return of 14.9% for the year. The return for 2019 was highly competitive, compared with both the market trend and our industry colleagues. It is positive that the customers who have chosen to move to New Trad are seeing results and benefiting from good returns.

Stronger balance sheet equals bonuses to customers

We have worked actively for several years on strengthening our balance sheet, with successful results. Since the start of 2012, we have strengthened own funds by more than SEK 15 billion. This work continued in 2019 and we succeeded in increasing own funds by SEK 4.5 billion this year. This is important for our ability to deliver

customer value since we must have financial leeway to successfully invest our assets. In other words, higher risk scope means that we do not need to have as high a share of low-yielding interest-bearing assets in our investment portfolios.

The stronger balance sheet has contributed to more efficient investment operations that has benefited our return, and in turn has increased our buffers even more. Furthermore, the profits in our risk operations have risen due to healthy profitability. Profits were at such a high level in 2019 that we decided to pay an extra bonus to our customers. Accordingly, we introduced significant premium discounts in our risk operations that led to an equivalent SEK 500 M in bonuses on an annual basis. In New Trad, we allotted an extra 4% of insurance capital for all customers in October, corresponding to a bonus of SEK 800 M. Finally, we reduced fees for customers who have had their insurance in Old Trad for a long period of time.

There is nothing more enjoyable in a mutually operated company that focuses its operations on creating customer value than giving back a little extra to our customers. Given our earnings, fee reductions and the extra bonuses, we can summarise 2019 as a very good year for us and our customers.

Progress in sustainability

The climate is the greatest challenge of our time. Huge investments are needed to carry out the necessary climate transition in society. The clock is ticking and we cannot wait for these investments. It will not be possible to finance this transition with public money. Instead, most of the funds will come from the capital markets, where our industry has an important role to play.

Some positive elements can be seen if we consider the situation in greater detail. One of the problems that the capital markets struggle with today is the imbalance between a large supply of money and weak demand for capital due to excessively high savings in relation to lower willingness to invest. This phenomenon has driven real interest rates into the ground. New demand for capital is arising based on the climate transition and the investments that need to be made. This demand will be able to correct the imbalance stemming from excessively high relative savings. Higher demand for financing will be positive for our industry, which is where the capital that can be used in this transition can be found.

In my opinion, we have an obligation as an important player in the capital markets to contribute this capital to this paramount transition. And by making smart climate investments in green assets, we are not only contributing to the transition of society but we are also creating opportunities for returns, we are strengthening our self-image and the pride of our employees, and we are building on the long-term relationships with our customers throughout Sweden.

Based on this insight, we significantly raised our sustainability ambitions in 2019. For example, we increased our investments in green

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bonds from SEK 2.9 billion to SEK 8.6 billion. Sustainability is a strategic priority and integrated part of the company and we have lofty long-term ambitions. Read more about our ambitions and our drive in the separate Sustainability Report section in the Annual Report.

Future

With a strong 2019 behind us, we are now looking ahead to future challenges. We set rigorous demands for ourselves when it comes to enhancing efficiency and creating the best possible conditions for investment income. It will be no easy task given the business environment that I am anticipating, with continuing low interest rates and volatile capital markets. We also have a special situation with no new business, meaning that our efficiency measures are particularly important. It is important to continue to strengthen the balance sheet. Because I believe that low interest rates are here to stay, we need to continue our work on ensuring that we have sufficient buffers to protect the company from unwanted shocks in the long term. We have now been successful in creating excellent conditions for New Trad, which has also paid off in the form of higher returns. We have also strengthened Old Trad, but going forward, I hope that we can make the situation even better for Old Trad, whose high guarantees mean that the company must maintain a high share of interest-

bearing instruments. The very low interest rates and the high interest rate sensitivity in Old Trad are not a good combination. A key factor for success is making the company, and particularly Old Trad, strong and thus create greater flexibility in management. We will work hard on continuing to strengthen the conditions for our customers. With better conditions for investment income, we can continue to pay high bonuses to our customers and with continued efficiency enhancements we can keep fees at low levels.

There is one thing that is more important than anything else in order for us to overcome these challenges – the amazing commitment and unique skills of our employees. That is where value is created. With dedicated teams that have high job satisfaction and develop, and that have well-defined tasks, I am certain that we will continue to create high customer value in a future environment that will be both challenging and changeable.

Stockholm, March 2020

A handwritten signature in blue ink, appearing to be 'J. Carlsson', written over a light blue horizontal line.

Jakob Carlsson
President of Länsförsäkringar Liv

Board of Directors' Report

The Board of Directors and the President of Länsförsäkringar Liv Försäkringsaktiebolag (publ), Corporate Registration Number 516401-6627, hereby submit the Annual Report for the 2019 fiscal year.

Ownership and Group structure

Länsförsäkringar Liv Försäkringsaktiebolag (publ), referred to below as Länsförsäkringar Liv, is a wholly owned subsidiary of Länsförsäkringar AB (Corp. Reg. No. 556549-7020), which in turn is owned by the 23 regional insurance companies together with 15 local insurance companies. The company is operated in accordance with mutual principles, which means that the earnings remain with the customers. The company is not consolidated in the Länsförsäkringar AB Group's income statement and balance sheet.

Focus of operations

Länsförsäkringar Liv is licensed to conduct life-assurance and non-life insurance operations. The company conducts life-assurance operations with mixed savings and risk insurance in three management forms: New Trad, Old Trad and New World, savings insurance in the Insured Pension management form and risk insurance with health and mortality products. The company's non-life insurance commitments, which represent a small part of the company's business activities, comprise products in accident cover and invalidity benefit. The company is closed for new business but receives premiums for existing insurance policies.

In traditional life assurance, customers' capital is normally invested in interest-bearing securities, equities, properties and alternative investments. Old Trad, where the main focus is to meet relatively high guarantee levels, largely comprises interest-bearing assets. New Trad, which has a lower guaranteed interest, has greater scope for flexibility in investments that can be expected to generate higher returns over time. 30% of investments in New World normally comprise interest-bearing securities and 70% equities, and the percentage of equities may vary between 60% and 80%. The percentage of equities on 31 December 2019 was 70%.

Financial markets

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

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

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

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

Significant events during the year

Jakob Carlsson became the President of Länsförsäkringar Liv on 1 May 2019. Jakob Carlsson has worked at Länsförsäkringar Liv for 11 years, eight of which as CFO of Länsförsäkringar Liv before he became President.

In connection with the restructuring of Bergvik Skog AB, Länsförsäkringar Liv sold a large portion of its forest holdings to Stora Enso, and to 17 regional insurance companies and Länsförsäkringar Fondliv. The sale took place on market-based conditions and was subject to a fairness opinion, and resulted in a positive gain of SEK 870 M for Länsförsäkringar Liv in the second quarter.

Länsförsäkringar Liv's agreement on excess loss reinsurance for mobility and mortality risks was completely discontinued on 31 December 2019. The excess loss reinsurance agreement was terminated ahead of 2018. Claims that occurred under the agreement

prior to 2018 were managed in run-off in 2019, meaning that Länsförsäkringar Liv and the reinsurer shared responsibility for these claims in accordance with the agreement.

A review of the collective consolidation fund's distribution between lines of business was initiated in 2018 and completed in 2019. The change was primarily based on the historical return in New World being distributed differently between the lines. The review resulted in an adjustment to the distribution between the lines of business in 2019. At the overall level, Länsförsäkringar Liv's collective consolidation fund was not impacted. See note 1 for more information.

Swedish long-term interest rates that affect the value of liabilities were at historically low levels in 2019. The Swedish ten-year rate fell by 38 basis points, which increased the value of liabilities. The effect of low interest rates on the company's key figures is reduced through consciously matching assets against liabilities. High returns on equities, alternative investments and properties contributed to a strengthened balance sheet during the year.

Measures continued to be taken to strengthen the balance sheet and key figures in 2019. Transitions to New Trad is one of the most important activities in this work. Such transitions to New Trad are offered to the customer groups for which such a change is expected to be advantageous. In this way, the transition benefits both the customers who change to New Trad and all of the company's customers due to strengthened key figures.

The premium discount in the risk operations was introduced from the second half of 2019. A relatively large surplus in the risk operations has been accrued over time, which justifies the decision to discount the premiums for the risk products and thereby reduce the accumulated surplus.

Länsförsäkringar Liv is closed for new business, meaning that the insurance portfolio is gradually reducing. To limit the company's cost risk, Länsförsäkringar Liv signed a long-term service agreement with Länsförsäkringar AB and Länsförsäkringar Fondliv on 1 January 2019 for deliveries of services at a fixed price per year.

Earnings and financial position

Profit for Länsförsäkringar Liv amounted to SEK 5.6 billion (0.6), mainly due to the healthy investment income that benefited from strong capital markets in 2019. Investment income was boosted mainly by high returns on equities, alternative investments and properties. The change in profit compared with 2018 was largely due to higher investment income, primarily as a result of stronger capital markets in 2019.

The healthy earnings were due to positive investment income in Old Trad and New Trad, positive operating profit and transitions to New Trad, which contributed positively to earnings in 2019 through lower technical provisions.

Earnings were negatively impacted by Swedish long-term market interest rates falling in 2019, which led to a lower discount rate for the liability during the year. Changes in market interest rates affect Länsförsäkringar Liv's earnings since future commitments are discounted with the market interest rate, whereby falling market interest rates lead to higher liabilities. However, the company can largely protect itself from interest rate changes impacting earnings by matching assets and liabilities against each other. In addition to

falling market interest rate, discounting of liabilities for terms of more than ten years was negatively affected by the 0.15 of a percentage point reduction of the Ultimate Forward Rate (UFR) to 3.9%.

Investment income was positive for all management forms and totalled SEK 9.9 billion (-0.5). The total return in Länsförsäkringar Liv's Old Trad portfolio was 6.9% (0.9). The total return for New Trade amounted to 14.9% (-0.6) and for New World to 17.6% (-7.8).

Premium income

Premium income in Länsförsäkringar Liv in 2019 amounted to SEK 1,682 M (1,685), down 0.2%. The company has been closed for new business since 2011, meaning that the portfolio of premium-paying policies has gradually declined. Paid-up insurance and external transfers, combined with essentially no additional new insurance policies, meant that the portfolio continued to decline.

Claims payments

Claims payments amounted to SEK 4,928 M (4,939). The amount includes the value of transfers of SEK 330 M (358) from Länsförsäkringar Liv.

Change in technical provisions

Technical provisions declined SEK 717 M in 2019 to SEK 80,147 M (80,863). The reason was a negative cash flow with payouts and external transfers exceeding premium income, although the transitions to New Trad and changed assumptions also contributed to the decline. Falling market interest rates in 2019 reduced the effect of the liability decline.

New Trad

New Trad is a management form that customers with existing traditional insurance can choose to transition to. Transitions involve lower fees and a lower guaranteed rate. A lower guaranteed rate means that Länsförsäkringar Liv can invest the capital in assets that have higher expected returns, which over time increases the possibility of a higher bonus. The offer to transfer to New Trad was sent to customers with a total insurance capital of SEK 42.5 billion. Customers with a total insurance capital of more than SEK 17.9 billion have transferred their insurance to New Trad, of which SEK 0.9 billion was changed in 2019. Customers with insurance in New World and Insured Pension have also received the transition offer since 2018. The interest shown in the offer was high and a total of SEK 2.3 billion was moved from these management forms.

New Trad had managed assets of SEK 25.0 billion (21.8) on 31 December 2019. Investments as at 31 December 2019 comprised 54% interest-bearing investments, 33% equities, 7% alternative investments and 6% properties. The return for the various investments was as follows: interest-bearing securities 4.8% (0.9), equities 29.5% (-5.6), alternative investments 21.0% (7.7) and properties 27.7% (16.8). Investment return for New Trad amounted to 14.9% (-0.6) in 2019. Both equities and interest-bearing investments made a positive contribution of 9.1% and 2.8%, respectively.

Collective consolidation in New Trad amounted to 112% (105) at year-end.

The bonus rate for New Trad on 31 December 2019 was 4% (5).

The bonus rate was lowered from 5% to 3% on 1 January 2019. The bonus rate was raised to 4% on 1 November 2019. In connection with this, an extra bonus of 4% was allotted.

The average bonus rate since New Trad started in 2013 has been 7.2%.

Old Trad

The current low interest rate environment presents major challenges for traditional life assurance since in many cases the expected return is lower than the guaranteed rate of the insurance policies. The primary aim of risk-taking in the Old Trad investment portfolio is to ensure that the guaranteed pension levels can also be realised in the event of a negative market trend. At the same time, balanced risk-taking is applied to facilitate a reasonable return on customers' savings. Low market interest rates meant that the percentage of fixed-income investments remained high for Old Trad. Investments on 31 December 2019 comprised 84% interest-bearing securities, 5% equities, 6% properties and 5% alternative investments. The return for the various classes of assets was as follows: interest-bearing securities 3.5% (0.9), equities 29.5% (-1.8), alternative investments 20.8% (7.4) and properties 27.7% (15.7). Managed assets in Old Trad amounted to SEK 77.9 billion (76.6) and the investment return was 6.9% (0.9). Collective consolidation in Old Trad amounted to 131% (124) on 31 December 2019. The bonus rate for Old Trad on 31 December 2019 was 3% (3). The average bonus rate for Old Trad over the past ten years was 2.3%.

New World

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

Investments in New World can vary within defined intervals, with the percentage of equities comprising 60–80% and the remainder comprising interest-bearing investments. The percentage of equities on 31 December 2019 was 70%.

Managed assets amounted to SEK 10.0 billion (9.9) and investment income was 17.6% (-7.8).

Insured Pension

Savings in Insured Pension comprise a bond portion and a derivative portion. The size of these two portions depends on the time remaining until retirement and thus the return for Insured Pension is individual. Insured Pension offers savers the opportunity to profit from stock-market upswings, while protecting them from stock-market slumps. The savings perform differently for different savers depending on the share of bonds in each policy. The return for the year for a typical customer with 11 years until retirement was 20.6%. Insured Pension customers have been invited to transfer to New Trad since 2018. This offer was well received and a total of more than SEK 840 M in customer insurance capital was transferred to New Trad. Managed assets in Insured Pension amounted to SEK 1.2 billion (1.0).

Risk operations

Risk operations for Länsförsäkringar Liv comprise products for life-assurance cover, survivor's protection, accident and health-insurance cover and invalidity benefit. Risk operations are largely integrated with the company's savings and occupational-pension products. A relatively large surplus in the risk operations has been accrued over time, which justifies the decision to discount the premiums for the risk products and thereby reduce the accumulated surplus. The premium discount was introduced from the second half of 2019. The risk result before reinsurance was SEK 118 M and after reinsurance was SEK -25 M (503). The negative result after reinsurance was the result of the company's excess loss reinsurance agreement that was terminated on 31 December 2019 on the basis of a clean-cut. The claims ratio totalled 39% (13). The result was positively affected by dissolutions of reserves of about SEK 127 M for the year. The company discontinued all reinsurance contracts on 31 December 2019 except for one catastrophe reinsurance cover agreement. Premium income for own account declined year-on-year to SEK 525 M (656).

Capital situation

The company applies the Solvency II regulations and uses a partial internal model to measure its solvency capital requirement. The capital requirement for market risk, except for concentration risk, is calculated using the internal model and the capital requirement for insurance risks and other risks is calculated according to the standard formula. Länsförsäkringar Liv works actively on measures to strengthen the balance sheet and own funds. A strong balance sheet provides the company with greater flexibility and opportunities to invest in asset classes with higher expected returns. The company has pursued a strategy whereby the investment portfolio was largely matched against insurance liabilities to protect Länsförsäkringar Liv's surplus against falling interest rates. ALM analyses are used to optimise the investment portfolios as regards the correlation between risk and return for the allocation of classes of assets.

Länsförsäkringar Liv's own funds according to Solvency II increased SEK 4.5 billion during the year from SEK 23,485 M to SEK 27,980 M, due to positive investment income in 2019. The surplus paid together with guaranteed pension payments in Old Trad and New Trad impact the company's own funds by reducing these funds. Surplus of SEK 1.0 billion was paid in 2019. The capital requirement amounted to SEK 13,243 M (11,742). The capital requirement rose due to increased managed assets, but also as a result of reallocation of the investment portfolios with a higher share of properties and alternative investments in both Old Trad and New Trad. The capital requirement declined in 2019 due to the fixed-price agreement for operating expenses signed with Länsförsäkringar AB and Länsförsäkringar Fondliv. The agreement reduced the expenses risk for Länsförsäkringar Liv. Länsförsäkringar Liv's solvency ratio amounted to 211% (200), with the improvement in the solvency ratio mainly due to own funds strengthening during the year as a result of positive investment income.

Risks and risk management

A central task for Länsförsäkringar Liv is to ensure that the company can meet its guaranteed commitments to customers by a satisfactory margin. This particularly applies to the Old Trad management form where guarantees are high. The continued low interest rates place even higher requirements on the company's risk management. Accordingly, risk-taking is an integrated part of the governance of the operations, and aims at maintaining a satisfactory balance between the level of risk and the conditions for generating returns. The company also works with prospective analyses to ensure long-term capitalisation. Länsförsäkringar Liv is primarily exposed to market risks and life-assurance risks. Among market risks, the risks that entail the highest capital requirements include equities risk, credit-spread risk and interest rate risk. Market risks are restricted by applying limits to capital requirements from the investment activities. The operations are characterised by a low risk profile and Länsförsäkringar Liv meets legal and supervisory capital requirements by a healthy margin. Länsförsäkringar Liv applies Solvency II to the entire operations and calculates the solvency capital requirement for market risk according to the partial internal model approved by the Swedish Financial Supervisory Authority. The capital requirement for other risks is calculated by applying the standard formula. A more detailed description of the risks to which Länsförsäkringar Liv is exposed and how these risks are managed is presented in note 2 Risks and risk management.

Significant events after the end of the fiscal year

The discount rate curve used to calculate technical provisions regarding longer terms is based on the assumption of an Ultimate Forward Rate (UFR). Calculations of long-term technical provisions for both accounting purposes under IFRS and for solvency calculations under Solvency II are based on this UFR. The rules for determining the UFR under Solvency II entail that the rate was lowered from 3.9% to 3.75% on 1 January 2020. This rate reduction will increase both the technical liabilities under IFRS and under Solvency II by SEK 320 M.

Expectations regarding future development

Länsförsäkringar Liv has worked for many years on strengthening the balance sheet and improving opportunities for future returns. This work was initiated in 2011 and the situation has improved considerably since then, with the balance sheet strengthening and the risk scope in primarily Old Trad increasing. However, the company's capital situation remains sensitive to very negative scenarios. Accordingly, work on further strengthening the company's balance sheet will continue in 2020.

Proposed appropriation of profit

The proposed appropriations will be presented to the Annual General Meeting in May 2020.

The Board of Directors and the President propose that net profit for the year be appropriated as follows, SEK:

Net profit for the year	5,567,087,005
Total	5,567,087,005

Of the above net amount, withdrawals from (-) and provision to (+) the collective consolidation fund are proposed as follows, SEK.

Defined-contribution occupational pension insurance	2,767,792,452
Occupation-linked health insurance and premium exemption	20,626,589
Individual traditional life assurance	2,797,389,854
Non-cancellable accident and health insurance and premium exemption	-26,888,563
Invalidity benefit and accident insurance	8,166,673
Total	5,567,087,005

The Board of Directors proposes that the Annual General Meeting authorise the Board in the 2020 fiscal year to use up to SEK 1,200 M of the funds in the collective consolidation fund for final allocations in connection with payments of pension and other claims payments to policyholders, transfers of insurance capital and repurchases as well as up to SEK 500 M for discounting premiums for certain risk products.

Sustainability Report

Sustainability Report for Länsförsäkringar Liv for 2019 fiscal year

This Sustainability Report has been prepared based on the requirements of Chapter 6, Section 11 of the Swedish Annual Accounts Act regarding sustainability reporting.

Governance documents

Länsförsäkringar AB's and Länsförsäkringar Liv's governance documents form the basis of sustainability activities and related risks.

Governance documents that include sustainability are:

- Sustainability policy
- Policy on responsible investments and corporate governance
- Code of Conduct for Employees
- Personnel policy
- Equality and diversity plan
- Remuneration Policy
- Purchasing and procurement policy
- Code of Conduct for Suppliers
- Policy on anti-money laundering and terror financing
- Guidelines on identifying and managing conflicts of interest
- Policy on improper benefits

The sustainability policy includes the material sustainability topics and aim to provide managers and employees with guidance in their daily sustainability work. The sustainability policy was updated in 2019. Policy on responsible investments and corporate governance (formerly the owner policy) was updated during the year. Länsförsäkringar Liv was one of the first companies to introduce climate-smart transition criteria into the management of its life-assurance portfolios as a supplement to exclusion criteria. These criteria stipulate that the company may consider retaining selected energy companies if they have made commitments in line with the Paris Agreement and can prove that they are transitioning away from fossil fuels. New climate-related exclusion criteria linked to coal and the production of oil from oil sand were also updated and introduced. New exclusion criteria related to specific sectors and products were introduced in 2019 for tobacco manufacturers.

Länsförsäkringar AB is a signatory of the UN Global Compact's Ten Principles on human rights, labour, environment and anti-corruption and seeks to ensure that the operations comply with these principles. The sustainability policy, Policy on responsible investments and corporate governance, Code of Conduct for Employees and Code of Conduct for Suppliers incorporate the principles of the UN Global Compact. All of these policies encompass Länsförsäkringar Liv's operations.

Länsförsäkringar AB has also signed the UN Principles for Responsible Investment (PRI), which, together with the UN Global Compact, form the basis of the policy on responsible investments and corporate governance that governs investments. Policies and guidelines are revised annually.

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

Monitoring

Employees are informed about the content of the sustainability policy and other relevant guidelines in the induction programme for new employees. All employees are also to complete a mandatory e-course that includes the Code of Conduct, security and sustainability every year. The Code of Conduct and e-course are available in Swedish and English. The e-course was updated for 2019.

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

Governance of sustainability activities

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

A Sustainability Committee, comprising an expanded management team including the Group management of Länsförsäkringar AB and the Head of Sustainability for Länsförsäkringar AB, meets at least four times a year to discuss, decide on and follow up priority sustainability topics. The President of Länsförsäkringar Liv is a member of the Sustainability Committee.

General sustainability risks in the investing activities

Länsförsäkringar Liv invests in Länsförsäkringar's own funds, in externally managed funds and in discretionary mandates and direct investments. The investment philosophy is based on using leading managers with different investment styles. Sustainability requirements are included in the procurement of new managers and their work is graded based on various criteria. The aim is to select external managers that integrate sustainability into their asset management and corporate governance. Managers are evaluated every year to ensure that they continuously improve their work on integrating sustainability into asset management. Managers who do not meet these requirements are replaced.

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

Länsförsäkringar Liv's investments have an indirect impact on people, society and the environment through the operations of the individual companies. Länsförsäkringar Liv endeavours to reduce its indirect impact through a systematic process for manager selection procedures, investment analyses, choice of investments, company analysis and dialogue. Länsförsäkringar Liv can contribute to several of the UN's Sustainable Development Goals (SDGs) and reduce sustainability risks in its investment portfolios through its investment and engagement.

Company analysis and engagement

Work on responsible investments is based on the UN Global Compact's principles and international conventions on the environment, human rights, labour, corruption and controversial weapons. A consultancy is engaged to review and analyse listed company holdings based on conventions. Starting from these analyses, Länsförsäk-

ringar Liv strives to engage in dialogue with companies that breach these conventions. The aim is that the analysed company will stop committing breaches and take measures to prevent similar incidents from being repeated. If the dialogue does not achieve the desired results, the holdings in the company may, as a last resort, be divested.

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

Länsförsäkringar also engages in preventive dialogue on sustainability topics with various companies and often partners with other investors in these dialogues. In 2019, Länsförsäkringar expanded its participation in preventive dialogues together with other investors in three initiatives: one directed to companies with the highest global carbon emissions, one to oil and gas companies and one focusing on companies in the food industry and sustainable food production.

Investments in responsible companies

Exclusion criteria were introduced in 2019 for companies that manufacture tobacco products (21 companies) and companies that use white phosphorus and thus are classed as being involved in controversial weapons (two companies). Tree companies were excluded due to convention violations and one company was re-included.

Environmental and climate risks

Climate risk is Länsförsäkringar's greatest sustainability risk. Climate change can impact companies by altering market conditions and through physical climate change. From a reverse perspective, there are investment opportunities in companies that restrict climate change and apply climate-adjustment solutions. Investment opportunities are identified by integrating sustainability topics into investment analyses and decisions. The aim is to contribute to the sustainable development of society within the framework of established asset management targets.

Excluding fossil companies and transition criteria

Länsförsäkringar sees financial risks in investing in companies that base their operations on fossil fuels and other companies that have a major impact on the environment. Exclusion criteria were made stricter during the year and the limit for investments in 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. Länsförsäkringar's objective is 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, new exclusion criteria were introduced to promote the climate transition. These criteria entail that investments can be made in companies that generate a maximum of 20% of their sales from thermal coal, if the company has made a commitment to the Paris Agreement, and if their sales from renewable energy surpass sales from fossil fuels.

In addition, a limit of 5% of sales was established for companies that extract oil from oil sand.

At year-end 2019, a total of 192 coal and oil sand companies had been divested.

Green bonds

Länsförsäkringar Liv continued to increase its investments in green bonds. Investments in green bonds in the institutional portfolios tripled from SEK 3 billion to more than SEK 9 billion in 2019, corresponding to 7% of the portfolios' total capital. The bonds finance, for example, the expansion of renewable wind and solar energy, green properties, forestry, water and waste management, sustainable public transport and charging infrastructure. The target for 2020 is that green and sustainable bonds are to increase to 13% of managed assets.

Carbon footprint in investments and scenario analyses

The carbon footprint of equities investments in Länsförsäkringar Liv's portfolios is measured every year and reported on the website. The footprint of equities investments declined an average of 2% for the three life-assurance portfolios. The overall assessment based on the results of the carbon footprint and climate scenario analyses by 2030, combined with climate-positive assets such as forestry, was that the portfolios as a whole were well aligned on the measurement date in relation to the targets of the Paris Agreement.

Länsförsäkringar applies the Task Force on Climate-related Financial Disclosures' recommendations to climate scenario analyses of portfolios in order to provide a greater understanding of the climate risks in the portfolios. Forward-looking forecasts of the carbon footprint of parts of the portfolios by 2030 were analysed in 2019 and compared with the trend in emission reductions required for a climate scenario of less than 2 degrees Celsius of global warming.

Investments	2019	2018	2017
Number of fossil companies excluded from investments	192	134	129
Number of reactive and proactive company dialogues on the environment	227	37	33
Number of reactive and proactive company dialogues on human rights	65	83	87
Number of reactive and proactive company dialogues on business ethics	11	20	21

The table provides information for the Länsförsäkringar AB Group. Dialogues take place through the company itself and via an ethics consultant.

Direct environmental impact

Länsförsäkringar Liv's direct environmental impact is relatively limited and primarily comprises business travel, heating and electricity in office premises, and paper print-outs. The office property in which Länsförsäkringar AB and Länsförsäkringar Liv are situated gained BREEAM (BRE Environmental Assessment Method) certification during the year with the 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. Renewable electricity and district heating are used in these properties. Work methods are continuously reviewed, for example, to bring about more energy-efficient electricity consumption and heating. Continuous efforts are made

to enhance efficiency in order to reduce the negative environmental impact of the office operations in several areas as regards materials, recycling and waste.

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

The guidelines for business travel recommend that digital meetings be used in the first instance. If travel is necessary, employees are to travel by rail rather than air. Business travel involving journeys of less than 3.25 hours must always be made by rail and eco-friendly taxis are to be used. Activities were carried out to reduce carbon emissions, including travelling by rail rather than car or air where possible and holding online meetings, video and telephone conferences instead of travelling. Double climate compensation for Länsförsäkringar AB's 2018 emissions was paid in 2019 via South Pole, a leading developer of global emissions-reducing projects for voluntary compensation. Emissions for 2019 will be climate compensated. The objective is to continue to reduce emissions.

Social and personnel-related risks

Employees are Länsförsäkringar Liv's most important resource. They possess a variety of specialist and professional expertise that is vital to carrying out and developing the operations. Being an attractive employer is a focus area for Länsförsäkringar Liv. Diversity and equality, skills development, learning, health and work environment are deemed important for employer attractiveness. Diversity centres on business value and helps to strengthen competitiveness and thus increase profitability. The personnel policy, Code of Conduct for Employees and the equality and diversity plan form the basis of HR. The equality and diversity plan includes the application of the Equal Opportunity Act and Discrimination Act, as well as targets, action plans and follow-up methods.

Diversity and equality

Länsförsäkringar's definition of diversity and inclusion are the seven grounds for discrimination and everything that makes people different and unique. The importance of an inclusive culture is considered to be critical for benefiting from diversity and welcoming different perspectives and approaches. Different ways of thinking is a key factor for success for learning and innovation, adds value to the business and strengthens competitiveness and profitability. Diversity initiatives also play an important role in being an attractive and responsible employer and broadening the recruitment pool.

A salary survey is performed every year to ensure that no gender discrimination exists for equal positions. Employees have the option of receiving supplementary salary as a complement to the state parents' allowance. The aim of the recruitment process is to ensure a more even gender distribution in working groups and various managerial positions.

Several internal information meetings were arranged in 2019 to highlight the importance of diversity and inclusion. Work on equality in working groups is continuing. Activity-based working centring on people, IT and flexibility will start to be implemented. The business plan for 2020 continued to focus on diversity and inclusion.

Health and work environment

Länsförsäkringar AB has applied a long-term approach to health and the organisational, social and physical work environment for many years. Proactive work is undertaken to create the conditions to ensure well-being and job satisfaction among employees in a healthy work environment that allows everyone to contribute their commitment, good performance and efficiency in order to attain 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. An agreement is in place with occupational health care services for rehabilitation support and work-related ill health, as well as ergonomic advice and regular medical check-ups. One hour of fitness activities during work hours is offered every week. The Work Environment and Equality Committee performs overall monitoring of the equality and diversity plan, sickness absence, occupational injuries and near-accidents, and the employee survey. Sickness absence in 2019 was 1.5% (0.9).

Human rights

Risks in the investing activities

There is a market and business risk that the companies that Länsförsäkringar Liv has invested in could be linked to violations of human rights. To minimise this risk, all holdings are analysed as described above and company engagement is used as the main tool to encourage them to stop such contraventions, assume their responsibility and take action to prevent violations from happening again. Länsförsäkringar also sets requirements and monitors managers' efforts to integrate sustainability aspects, including human rights, into their investment analyses. Länsförsäkringar AB also encourages managers to engage in dialogue with companies.

Risks in the supplier chain

Länsförsäkringar AB has a purchasing department, whose function is to leverage Länsförsäkringar AB's total purchasing power. Purchases are made through procurements to find the suppliers that offer services and products of the right quality and the least environmental impact at a cost that is the most financially advantageous in the long term. Länsförsäkringar Liv's purchases primarily comprise services in IT and telecommunications, financial services, investments and consulting. The largest sustainability risk is deemed to be in the area of work conditions.

The purchasing and procurement policy stipulates the rules and methods for purchasing and procurement. The Code of Conduct for Suppliers has been included in purchasing agreements with all new suppliers since 2016.

The Code is based on the principles of the UN Global Compact, and defines requirements regarding human rights, labour, environment and business ethics. This Code applies to potential and existing suppliers and their sub-suppliers. Suppliers are expected to comply with the Code of Conduct. Each contract manager in the operations has the main responsibility for monitoring suppliers.

The focus for the purchasing department in 2019 was on introducing sustainability requirements in the procurement process, and a self-assessment form was prepared to help in this. This form serves as a fundamental risk assessment of sustainability aspects. On-site audits took place at three large IT suppliers in India during the year to follow up their sustainability activities. The focus of these audits was labour, diversity, environmental impact and security. No major discrepancies were discovered and only a few minor areas of improvement were identified.

The Code of Conduct for Suppliers will be revised in 2020. Focus will be on enhancing the efficiency of supplier audits. Environmental and social risks related to country, line of business and company are assessed in procurement processes and meetings with suppliers.

Risks associated with business ethics and corruption

Money laundering and terror financing are international problems that pose serious threats to the financial system and its institutions, and ultimately the real economy and national safety. Confidence in the financial system is quickly tarnished if financial institutions are associated with illegal assets and money laundering or used to finance terrorism. The finance industry is subject to rules that seek to prevent and counteract the financial system being utilised for money laundering and terror financing. The finance industry is subject to strict rules and regulatory requirements aimed at protecting customers and maintaining confidence and stability in the financial market. The rules also seek to prevent and counteract the financial system being utilised for money laundering and terror financing.

The guiding governance documents are the Code of Conduct for Employees, policies and guidelines on anti-money laundering and terror financing, guidelines for identifying and handling conflicts of interest, and policies on improper benefits. For Länsförsäkringar Liv, it is essential to apply full regulatory compliance and optimally prevent the operations from being utilised for corruption, fraud, money laundering or terror financing. Länsförsäkringar Liv makes extensive efforts to limit these risks. Systematic work is conducted to reduce the risk of money laundering and terror financing, such as building up in-depth customer knowledge, active monitoring and transaction reporting. The general risk assessment performed within the business operations is regularly evaluated and updated as required, and also forms the basis of the governance documents, procedures and other anti-money laundering and terror financing measures. The Compliance function monitors and checks risk-assessment compliance. A new risk assessment is carried out when new products, services and distribution channels are introduced and re-organisations are implemented. The Länsförsäkringar Alliance has a shared system for reporting deviations.

All employees and contractors working in the life-assurance operations must be familiar with the content of the governance

documents and the relevant procedures for anti-money laundering and terror financing. Employees in the life-assurance operations undergo mandatory and regular training on the subject.

Corruption risks in the investing activities

Corruption risk is a risk found in all companies regardless of industry and country. There is a market and business risk that the companies that Länsförsäkringar Liv has invested in could be linked to corruption. To minimise this risk, all holdings are analysed and company engagement is used as the main tool to encourage them to assume their responsibility and take action to prevent violations from happening again. Länsförsäkringar also sets requirements and monitors managers' efforts to integrate sustainability aspects, including business ethics, into their investment analyses. Länsförsäkringar Liv also encourages managers to engage in dialogue with companies.

Corruption risks in Länsförsäkringar's own operations

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

The Compliance function regularly performs a risk and vulnerability analysis at Länsförsäkringar AB and its subsidiaries to evaluate the risk of bribery or other forms of improper influence. These analyses take into consideration each company's operations, size and organisation, market, customers, distribution channels, partners, sponsoring and purchasing. A bribery risk analysis of Länsförsäkringar Liv was performed in 2019 and the outcome was that the company has a low risk of being exposed to bribery.

Total return table

Investment assets in Old Trad, SEK M	Total return, %	Market value, 31 Dec 2019	%	Market value, 31 Dec 2018	%
Interest-bearing	3.5	65,123	83.6	67,149	87.6
Equities	29.5	3,963	5.1	4,607	6.0
Alternative investments ¹⁾	20.8	4,331	5.6	3,361	4.4
Properties	27.7	4,441	5.7	1,514	2.0
Total	6.9	77,858	100	76,631	100
Investment assets in New Trad, SEK M	Total return, %	Market value, 31 Dec 2019	%	Market value, 31 Dec 2018	%
Interest-bearing	4.8	13,394	53.6	12,768	58.5
Equities	29.5	8,244	33.0	7,419	34.0
Alternative investments ¹⁾	21.0	1,805	7.2	1,118	5.1
Properties	27.7	1,534	6.2	531	2.4
Total	14.9	24,977	100	21,836	100
Investment assets in New World, SEK M	Total return, %²⁾	Market value, 31 Dec 2019	%	Market value, 31 Dec 2018	%
Interest-bearing	1.1	3,019	30.3	3,402	34.4
Equities	25.9	6,956	69.7	6,488	65.6
Total	17.6	9,975	100	9,890	100
Total		112,810		108,357	

¹⁾ The valuation of alternative investments on 31 December is based on the most recent information from fund managers.

²⁾ The total return is based on the net asset value (NAV) of the portfolio, while the return per asset class is calculated based on the closing rates in each market.

Reconciliation total return table with balance sheet

	31 Dec 2019	31 Dec 2018
Market value according to total return table	112,810	108,357
Financial assets		
Interest-bearing securities issued by Group companies and loans to Group companies	3,376	3,056
Shares and participations	24,490	21,279
Bonds and other interest-bearing securities	76,511	76,644
Derivatives	6,697	5,666
Assets for conditional bonus	4,871	3,987
Other receivables	2,730	1,399
Cash and bank balances	3,563	3,978
Total financial assets	122,238	116,009
Financial liabilities		
Derivatives	-4,040	-3,828
Other liabilities	-4,460	-2,868
Accrued expenses and deferred income	-2	-3
Total financial liabilities	-8,502	-6,699
Adjustments		
Shares and participations in subsidiaries/associated companies	4	-
Adjustment of shares and participations	-1,117	-975
Adjustment of other receivables	-16	-49
Adjustment of other liabilities	200	113
Adjustment of accrued expenses and deferred income	2	5
Adjustment, other	1	-47
Total according to Total return table	112,810	108,357

Five-year summary

	2019	2018	2017	2016	2015
Earnings measure, SEK M					
Premium income after ceded reinsurance	1,539	1,684	1,533	1,720	1,919
Investment income, net	9,949	-527	5,479	5,652	373
Claims payments	-4,928	-4,939	-5,404	-5,683	-5,959
Disbursed and balanced bonus	-1,301	-1,075	-1,012	-1,032	-1,222
Technical result for insurance operations	5,614	798	3,182	2,463	5,386
Net profit for the year	5,567	609	3,121	2,359	5,143
Financial position, SEK M					
Investment assets measured at fair value	115,979	110,662	115,377	116,753 ⁴⁾	115,128
Technical provisions	85,018	84,850	90,165	92,218	93,498
Solvency capital	28,265	24,043	24,477	23,142	21,503
Of which, surplus value in Group and associated companies	-	-	-	716	334
Of which, deferred tax	60	71	64	85	116
Collective consolidation capital	19,184	14,542	16,753	17,956	15,471
Own funds	27,980	23,485	25,129	22,308	20,606 ²⁾
Own funds (according to FRL wording on 31 Dec 2015) ³⁾	-	-	-	-	21,169
Minimum capital requirement	3,311	2,964	3,042	3,238	3,246 ²⁾
Solvency capital requirement	13,243	11,742	12,170	11,433	11,345 ²⁾
Own funds, group (Länsförsäkringar AB) ³⁾	50,220	43,870	44,172	40,602	36,905 ²⁾
Solvency capital requirement, group (Länsförsäkringar AB) ³⁾	37,776	33,874	33,441	30,121	28,233 ²⁾
Required solvency margin (according to FRL wording on 31 Dec 2015) ³⁾	-	-	-	-	3,872
Own funds, insurance group (according to FRL wording on 31 Dec 2015) ³⁾	-	-	-	-	9,437
Required solvency margin, insurance group (according to FRL 2010:2043 wording on 31 Dec 2015) ³⁾	-	-	-	-	6,072
Key figures for Parent Company, % unless otherwise specified					
Management cost ratio	0.4	0.4	0.3	0.4	0.4
Direct yield ⁷⁾	5.0	0.8	0.9	1.3	1.8
Total return, Old Trad ⁸⁾	6.9	0.9	2.7	5.9	0.5
Total return, New World ⁸⁾	17.6	-7.8	13.3	5.1	0.3
Total return, New Trad ⁸⁾	14.9	-0.6	6.4	4.3	1.4
Collective consolidation ratio, Old Trad	131	124	123	125	120
Collective consolidation ratio, New Trad	112	105	117	114	114
Solvency rate (according to FRL wording on 31 Dec 2015)	-	-	-	-	128
Solvency ratio, multiple (according to FRL wording on 31 Dec 2015) ³⁾	-	-	-	-	5.6
Solvency ratio	211	200	207 ⁹⁾	195	182 ²⁾
Average bonus rate before tax and expenses, Old Trad	3.0	2.3	2.0	2.0	2.0
Average bonus rate after tax, Old Trad					
Endowment insurance (tax rate 30%)	2.6	1.9	1.6	1.6	1.7
Pension insurances (tax rate 15%)	2.9	2.2	1.9	1.9	1.8
Average bonus rate before tax and expenses, New Trad	7.2 ⁹⁾	10.8 ⁶⁾	5.0	5.5	9.2
Average bonus rate after tax, New Trad					
Pension insurances (tax rate 15%)	7.1	10.7	4.9	5.4	8.9

¹⁾ The group under the insurance-operation rules comprises the Parent Company Länsförsäkringar AB, all of the insurance companies in the Group, Länsförsäkringar Bank AB, Wasa Kredit AB, Länsförsäkringar Hypotek AB and Länsförsäkringar Fondförvaltning AB and Länsförsäkringar Liv Försäkrings AB, despite the Länsförsäkringar Liv Group not being consolidated in the Länsförsäkringar AB Group. As stated in the EU Solvency II Directive, the calculations are made in accordance with the consolidation method, except where the insurance-operation rules require deductions from surplus capital in subsidiaries that are not transferable to another company unless the subsidiary in question is an insurance company.

²⁾ Opening balance on 1 January 2016 under Solvency II. There are no comparative figures since the regulations came into effect on 1 January 2016.

³⁾ An insurance group for Länsförsäkringar AB (publ) together with Länsförsäkringar Liv, Länsförsäkringar Sak and Länsförsäkringar Fondliv due to the amendment of the Swedish Insurance Business Act (2010:2043).

⁴⁾ Comparative figures for 2016 (but not 2015) have been restated because accrued interest was recognised together with financial instruments measured at fair value. See note 1 for further information.

⁵⁾ Excluding changed assumption on operating expenses, including the changed assumption the solvency ratio is estimated at 200%.

⁶⁾ Of which 5% pertains to a one-off payment that took place in September 2018.

⁷⁾ Direct yield is calculated as the total of rental income from properties, interest income, interest expense, dividends on shares and participations, administration costs for asset management and operating expenses for properties in relation to the average value of the investment assets during the year.

⁸⁾ Total return is calculated on assets in traditional management prepared in accordance with Insurance Sweden's recommendation for annual reporting of total return. The total return table is found in the Board of Directors' Report. Other assets and administration costs are not included in the calculation of the total return.

⁹⁾ Of which 4% pertains to a one-off payment that took place in October 2019.

Financial statements

Income statement	15
Statement of other comprehensive income	15
Performance analysis	16
Balance sheet	18
Statement of changes in equity	20
Statement of cash flow	21
Note 1 Accounting policies	22
Note 2 Risks and risk management	26
Note 3 Premium income	32
Note 4 Investment income, net	32
Note 5 Claims paid before ceded reinsurance	33
Note 6 Operating expenses	33
Note 7 Fees and remuneration of auditors	33
Note 8 Employees, staff costs and remuneration of senior executives	33
Note 9 Tax	35
Note 10 Shares and participations in Group companies	35
Note 11 Interest-bearing securities issued by Group companies and loans to Group companies	35
Note 12 Shares and participations in associated companies	35
Note 13 Shares and participations	36
Note 14 Bonds and other interest-bearing securities	36
Note 15 Derivatives	36
Note 16 Information about offsetting	36
Note 17 Assets and provisions for conditional bonus	37
Note 18 Other receivables	37
Note 19 Deferred acquisition costs	37
Note 20 Share capital	37
Note 21 Life-assurance reserve	37
Note 22 Provision for claims outstanding	37
Note 23 Liabilities, direct insurance	37
Note 24 Other liabilities	37
Note 25 Financial assets and liabilities by category	38
Note 26 Fair value valuation techniques	39
Note 27 Recovery dates	40
Note 28 Pledged assets and contingent liabilities	40
Note 29 Disclosures on related-party transactions, etc.	41
Note 30 Significant events after the end of the fiscal year	43
Note 31 Proposed appropriation of profit	43
Board's signatures	44
Auditor's Report	45

Income statement			
Technical recognition of life-assurance operations, SEK M	Note	2019	2018
Premium income			
Premium income before ceded reinsurance	3	1,682	1,685
Premiums for ceded reinsurance		-143	-1
Total premium income after ceded reinsurance		1,539	1,684
Investment income, revenue	4	9,735	2,524
Unrealised gains on investment assets	4	2,417	47
Other technical revenue (after ceded reinsurance)		4	-
Claims payments			
Claims paid before ceded reinsurance	5	-5,059	-5,224
Reinsurers' portion		43	56
Total claims paid after ceded reinsurance		-5,016	-5,168
Change in provision for claims outstanding before ceded reinsurance		127	304
Reinsurers' portion		-39	-75
Total change in provision for claims outstanding after ceded reinsurance		88	229
Total claims payments after ceded reinsurance		-4,928	-4,939
Change in other technical provisions after ceded reinsurance			
Life-assurance reserve		593	3,128
Change in technical provisions for life assurance for which the policyholder bears the risk			
Conditional bonus		-889	1,864
Bonuses and discounts (after ceded reinsurance)		-224	-
Operating expenses	6, 7, 8	-430	-412
Investment income, expenses	4	-2,157	-1,978
Unrealised losses on investment assets	4	-46	-1,120
Technical result, life-assurance operations		5,614	798
NON-TECHNICAL RECOGNITION			
Technical result, life-assurance operations		5 614	798
Profit before appropriations and tax		5 614	798
Appropriations		50	-14
Profit before tax		5,664	784
Tax on net profit for the year	9	-97	-175
NET PROFIT FOR THE YEAR		5,567	609

Statement of other comprehensive income			
SEK M		2019	2018
Net profit for the year		5,567	609
Other comprehensive income		0	0
Items that cannot be transferred to profit and loss			
Change in fair value of equity instruments measured at FVOCI		0	0
Total other comprehensive income for the year, net after tax		0	0
Comprehensive income for the year		5,567	609

Performance analysis 2019

	Direct insurance in Sweden		
	Occupational pension insurance		
SEK M	Total	Defined-contribution traditional insurance	Health insurance and premium exemption insurance
Premium income before ceded reinsurance	1,682	788	263
Premiums for ceded reinsurance	-143	-3	-82
Total premium income after ceded reinsurance	1,539	785	181
Investment income, revenue	9,735	5,231	41
Unrealised gains on investment assets	2,417	1,245	-
Other technical revenue (after ceded reinsurance)	4	2	-
Claims payments			
Claims paid before ceded reinsurance	-5,059	-2,418	-160
Reinsurers' portion	43	-	24
Total claims paid after ceded reinsurance	-5,016	-2,418	-136
Change in provision for claims outstanding before ceded reinsurance	127	0	73
Reinsurers' portion	-39	-	-23
Total change in Provision for claims outstanding after ceded reinsurance	88	0	50
Total claims payments after ceded reinsurance	-4,928	-2,418	-86
Change in other technical provisions before ceded reinsurance			
Life-assurance reserve	593	-17	0
Change in technical provisions for life assurance for which the policyholder bears the risk			
Conditional bonus	-889	-588	-
Bonuses and discounts (after ceded reinsurance)	-224	-20	-90
Operating expenses	-430	-175	-41
Investment income, expenses	-2,157	-1,204	-7
Unrealised losses on investment assets	-46	-24	-
Technical result, life-assurance operations	5,614	2,817	-2
Appropriations	50	-	25
Tax on net profit for the year	-97	-49	-2
NET PROFIT FOR THE YEAR	5,567	2,768	21
Run-off result			
Technical provisions, before ceded reinsurance			
Life-assurance reserves	78,419	44,015	2
Provision for claims outstanding	1,728	20	947
Total	80,147	44,035	949
Provisions for life assurance for which the policyholder bears the insurance risk			
Conditional bonus	4,871	3,521	-
Collective consolidation funds	27,966	9,493	1,743

Performance analysis 2019, cont.

SEK M	Direct insurance in Sweden		
	Other life assurance		Accident and health insurance
	Individual traditional insurance	Health and premium exemption	Invalidity benefit insurance and health
Premium income before ceded reinsurance	514	46	70
Premiums for ceded reinsurance	-5	-43	-10
Total premium income after ceded reinsurance	510	3	60
Investment income, revenue	4,430	27	6
Unrealised gains on investment assets	1,172	-	-
Other technical revenue	2	-	-
Claims payments			
Claims paid before ceded reinsurance	-2,359	-89	-33
Reinsurers' portion	-	17	2
Total claims paid after ceded reinsurance	-2,359	-72	-31
Change in provision for claims outstanding before ceded reinsurance	0	47	7
Reinsurers' portion	-	-16	-
Total change in Provision for claims outstanding after ceded reinsurance	0	31	7
Total claims payments after ceded reinsurance	-2,359	-41	-24
Change in other technical provisions before ceded reinsurance			
Life-assurance reserve	610	0	-
Change in technical provisions for life assurance for which the policyholder bears the risk			
Conditional bonus	-301	-	-
Bonuses and discounts	-89	-15	-10
Operating expenses	-170	-19	-25
Investment income, expenses	-941	-4	-1
Unrealised losses on investment assets	-22	-	-
Technical result, life-assurance operations	2,842	-49	6
Tax allocation reserve	0	23	2
Tax	-44	-1	-1
NET PROFIT FOR THE YEAR	2,798	-27	7
Run-off result			
Technical provisions, before ceded reinsurance			
Life-assurance reserves	34,400	2	-
Provision for claims outstanding	56	637	68
Total	34,456	639	68
Provisions for life assurance for which the policyholder bears the insurance risk			
Conditional bonus	1,350	-	-
Collective consolidation funds	15,725	935	70

Balance sheet

ASSETS, SEK M	Note	31 Dec 2019	31 Dec 2018
Investment assets			
Investments in Group companies and associated companies			
Shares and participations in Group companies	10	30	30
Interest-bearing securities issued by Group companies and loans to Group companies	11	3,376	3,056
Shares and participations in associated companies	12	4	0
Other financial investment assets			
Shares and participations	13	24,490	21,279
Bonds and other interest-bearing securities	14	76,511	76,644
Derivatives	15, 16	6,697	5,666
Total investment assets		111,108	106,675
Investment assets for which the life-assurance policyholder bears the investment risk			
Assets for conditional bonus	17	4,871	3,987
Reinsurers' portion of technical provisions			
Provision for claims outstanding		-	397
Receivables			
Other receivables	18	2,730	1,399
Total receivables		2,730	1,399
Other assets			
Tangible assets		1	1
Current tax assets		70	-
Cash and bank balances		3,563	3,978
Total other assets		3,634	3,979
Prepaid expenses and accrued income			
Deferred acquisition costs	19	51	71
Other prepaid expenses and accrued income		2	1
Total prepaid expenses and accrued income		53	72
TOTAL ASSETS		122,396	116,509

Balance sheet, cont.

EQUITY, PROVISIONS AND LIABILITIES, SEK M	Note	31 Dec 2019	31 Dec 2018
Equity			
Share capital	20	8	8
Collective consolidation fund		22,395	23,082
Fair value reserve		4	4
Net profit for the year		5,567	609
Total equity		27,974	23,703
Untaxed reserves			
Tax allocation reserve		291	340
Technical provisions before ceded reinsurance			
Life-assurance reserve	21	78,419	79,012
Claims outstanding	22	1,728	1,851
Total technical provisions		80,147	80,863
Provisions for life assurance for which the policyholder bears the investment risk before ceded reinsurance			
Conditional bonus	17	4,871	3,987
Provisions for other risks and expenses			
Pensions and similar commitments		26	23
Other provisions		6	7
Total provisions for other risks and expenses		32	30
Deposits from reinsurers		0	397
Liabilities			
Liabilities, direct insurance	23	118	133
Liabilities, reinsurance		147	33
Derivatives	15, 16	4,040	3,828
Other liabilities	24	4,597	3,012
Total liabilities		8,902	7,006
Accrued expenses and deferred income			
Other accrued expenses and deferred income		179	183
TOTAL EQUITY, PROVISIONS AND LIABILITIES		122,396	116,509

Statement of changes in equity

SEK M	Share capital	Collective consolidation fund	Fair value reserve	Net profit for the year	Total
Opening equity, 1 January 2018	8	21,017	4	3,121	24,150
Net profit for the year	-	-	-	609	609
Other comprehensive income for the year	-	-	-	0	0
Comprehensive income for the year	-	-	-	609	609
Appropriation of profit	-	3,121	-	-3,121	-
Transfer conditional bonus to collective consolidation fund	-	19	-	-	19
Disbursed bonus	-	-1,075	-	-	-1,075
Closing equity, 31 December 2018	8	23,082	4	609	23,703
Opening equity, 1 January 2019	8	23,082	4	609	23,703
Net profit for the year	-	-	-	5,567	5,567
Other comprehensive income for the year	-	-	-	0	0
Comprehensive income for the year	-	-	-	5,567	5,567
Appropriation of profit	-	609	-	-609	-
Transfer conditional bonus to collective consolidation fund	-	5	-	-	5
Disbursed bonus	-	-1,301	-	-	-1,300
Closing equity, 31 December 2019	8	22,395	4	5,567	27,974

All equity is classified as restricted.

Statement of cash flow			
SEK M		2019	2018
Net profit for the year before tax		5,664	784
Income and yield tax paid		-183	-167
Disbursed bonus and pension collective agreements from collective consolidation fund		-1,301	-1,075
Adjustment for non-cash items		-4,649	-3,996
Total		-469	-4,454
Change in other operating receivables and liabilities			
Assets		-1,179	2,712
Liabilities		1,557	-428
Cash flow from operating activities		378	2,284
Investing activities			
Loans/deposits to Group and associated companies		-324	767
Investments in tangible assets		0	0
Cash flow from investing activities		-324	767
Net cash flow for the period		-415	-1,403
Cash and cash equivalents, 1 January		3,978	5,381
Change in cash and cash equivalents		-415	-1,403
Cash and cash equivalents, 31 December		3,563	3,978

Cash and cash equivalents pertains to balances of bank accounts and Plusgiro, the amount is recognised in the balance sheet under Cash and cash equivalents.

Supplementary information about cash flows			
SEK M		2019	2018
Interest payments, inward		2,147	2,145
Interest payments, outgoing		-548	-605
Dividends received		4,552	120
Specification of non-cash items:			
Changes in technical provisions		-681	-3,357
Change in value and results of investment assets		-4,827	1,181
Change in value in investment assets for which the policyholder bears the risk		889	-1,864
Other		-30	44
Total		-4,649	-3,996

Both interest payments and dividends are recognised in the operating activities.

Notes to the financial statements

All figures in SEK M unless otherwise stated.

Note 1 Accounting policies

Company information

The Annual Report for Länsförsäkringar Liv Försäkringsaktiebolag (publ), Corp. Reg. No. 516401-6627, pertains to the fiscal year 1 January–31 December 2019. Länsförsäkringar Liv Försäkringsaktiebolag (publ) is a mutual limited liability insurance company, with its registered office in Stockholm. The company's address is Tegeluddsvägen 11–13, SE-106 50 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 company and its subsidiaries are not consolidated in Länsförsäkringar AB's consolidated financial statements since Länsförsäkringar Liv's earnings accrue in their entirety to the policyholders.

Länsförsäkringar Liv mostly has life-assurance commitments, but also a small number of non-life insurance commitments in its life-assurance operations, in the form of accident and health insurance. Accordingly, the entire business operations are presented as life-assurance operations in the income statement. The portion comprising non-life insurance commitments is recognised in the performance analysis under Accident and health. Since these commitments represent less than 1% of the total operations, they have not been specified by occupational pension in this Annual Report.

Compliance with standards and legislation

The Annual Report was prepared in accordance with the Annual Accounts Act for Insurance Companies (1995:1560) (ÅRFL), the Swedish Financial Supervisory Authority's regulations and general guidelines regarding annual reports in insurance companies (FFFS 2015:12) and its amendments, and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. In accordance with the regulations and general guidelines, legally restricted IFRS is applied. This means that all IFRS and interpretations approved by the EU are applied as far as possible within the framework of Swedish legislation, taking into consideration the connection between accounting and taxation.

No consolidated financial statements have been prepared in accordance with the Annual Accounts Act for Insurance Companies (1995:1560) since the subsidiaries are not of material significance either individually or jointly.

The Annual Report was approved for publication by the Board of Directors and President on 10 March 2020. Final adoption of the Annual Report will take place at the 2020 Annual General Meeting.

Conditions relating to the preparation of the company's financial statements

The company's functional currency is Swedish kronor (SEK) and the financial statements are presented in SEK. All amounts, unless otherwise stated, are rounded to the nearest million (SEK M). Assets and liabilities are recognised at cost, except for most financial assets and liabilities, which are measured at fair value.

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

Judgements and estimates in the financial statements

The preparation of accounts in accordance with IFRS requires that corporate management make judgements and estimates, and make assumptions that affect the application of the accounting policies and the recognised amounts of income, expenses, assets, liabilities and contingent liabilities. These judgements and estimates are based on previous knowledge and experiences and the information available on the balance sheet date. The actual outcome may deviate from these estimates and judgements, but estimates are regularly evaluated to reduce deviations.

Changes in the above mentioned 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 the period in question and future periods.

Significant judgements applied to the company's accounting policies

An area in which corporate management makes significant judgements is the classification of insurance contracts. Under IFRS 4, contracts that transfer significant insurance risk are classified as insurance contracts. Länsförsäkringar Liv has assessed all insurance contracts. The level of insurance risk was assessed by considering whether one or more scenarios of commercial significance exist in which Länsförsäkringar Liv would be obligated to pay a significant amount of compensation. The company's traditional life assurance and the insurance component of the financial agreements are classified as insurance contracts in accordance with IFRS 4.

Länsförsäkringar Liv assesses the business model used to manage financial assets, which determines the classification. The categories of financial assets and liabilities are described below under the section Financial assets and liabilities, which also describes the company's assessed classification.

Significant sources of estimation uncertainty

The assumptions used in the calculation of the technical provisions have the most significant effect on the amounts recognised in the financial statements. In calculating the life-assurance reserve, assumptions are made regarding the discount rate, mortality, morbidity and expenses. An actuarial estimate of future costs for incurred health claims and claims that have not yet been reported is made when calculating provisions for claims outstanding. Statistical methods are used to estimate future claims costs. The valuation of the company's provisions is described in the section below concerning the recognition of technical provisions and in note 2 Risks and risk management.

Review of distribution of collective consolidation fund

A review of the collective consolidation fund's distribution between lines of business was completed in 2019. It resulted in changed estimates for the distribution between the insurance lines in the collective consolidation fund. The change was primarily based on the historical return in New World being distributed differently between the lines. The company's collective consolidation fund was not impacted on the overall level, as seen in the table below.

Insurance line	Collective consolidation fund, 31 Dec 2018 (kSEK)	Collective consolidation fund, restated 31 Dec 2018 (kSEK)	Change
Savings, Occupational	5,958,153	7,160,492	1,202,338
Savings, Non-occupational	13,824,442	12,855,134	-969,308
Health and passenger car insurance, Occupational	2,216,975	2,068,564	-148,412
Health and passenger car insurance, Non-occupational	1,695,328	1,610,709	-84,619
Total	23,694,899	23,694,899	0

Correction of error

An error was detected in one of Länsförsäkringar Liv's insurance systems in the fourth quarter of 2019 regarding a number of risk elements. These elements have now been corrected. The correction entails an effect on premium income, claims paid, changes in the provision for claims outstanding and operating expenses in the income statement. The net effect of these corrections for the current period is a SEK 2.3 M increase in earnings. The error is not material and all affected items were corrected with an impact on earnings for the current year.

Amended accounting policies applied from 1 January 2019

Länsförsäkringar Liv applies the accounting policies below 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 Liv 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.

IFRIC 23 Uncertainty over Income Tax Treatments

The company 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. The interpretation did not entail any impact on the company's financial statements.

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

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. Länsförsäkringar Liv does not apply hedge accounting and accordingly the amendments did not have any financial effect. Note 2 Risk and capital management provides disclosures on uncertainties as a result of the IBOR reform.

New accounting regulations that have not yet been applied

A number of new or amended standards and interpretations described below will not take effect until forthcoming fiscal years, and have not been applied in advance when preparing these financial statements. The expected effects that the application of these new or amended standards may have on Länsförsäkringar Liv's financial statements are described below. Other amendments did not have any impact on the financial statements. Other than those, no other new or revised IFRS and interpretations not yet in force are deemed to have any material effect on the financial statements.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts was published on 18 May 2017 and will replace the existing standard IFRS 4 Insurance Contracts. The new standard has not yet been adopted by the EU but is proposed to come into effect for fiscal years beginning on or after 1 January 2022. The standard will eliminate contradictions and weaknesses in the existing method by providing a principle-based set of rules for recognising insurance contracts. The new standard will also impose expanded disclosure requirements to increase comparability between different companies. During the year, the IASB issued proposed amendments to IFRS 17 and an exposure draft published for consultation feedback. The IASB intends to issue a new updated IFRS 17 in mid-2020.

The Swedish Financial Supervisory Authority is currently investigating the implementation of IFRS 17 for Swedish insurance companies. There is currently great uncertainty regarding how much of IFRS 17 will be implemented in Swedish regulations. The Financial Supervisory Authority is also considering introducing an extended implementation period for legal entities and the consolidated financial statements of unlisted insurance companies.

Länsförsäkringar AB is running a project in the Group to analyse the potential effects of the new standard on the financial statements.

Translation of foreign currencies

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

Unrealised exchange-rate differences thus arising are recognised in profit or loss as exchange-rate gains/losses net under Investment income, revenue or Investment income, expenses.

The currency futures utilised to financially hedge currency exposure in the balance sheet are measured at fair value and effects on earnings are recognised under both interest income and exchange-rate gains/losses.

Insurance contracts

Insurance contracts are contracts in which Länsförsäkringar Liv undertakes a significant insurance risk for the policyholder by committing to compensate the policyholder if a predetermined, insured event were to occur.

Contracts with discretionary participation features

Traditional life assurance at Länsförsäkringar Liv comprises contracts with discretionary participation features. This means that the policyholders have a preliminary distributable surplus. However, this preliminary distributable surplus is not guaranteed. Accordingly, these contracts are recognised in accordance with the policies applied for insurance contracts. The preliminary distributable surplus is recognised as equity.

Premium income

Premiums for the insurance contracts are recognised as premium income in line with premiums being paid. Premium income is recognised as the total gross premium for direct insurance deposited or can be credited to the company for insurance contracts for which the insurance period commenced prior to the end of the fiscal year.

Claims payments

Such compensation is recognised by the guaranteed portion being expensed and the bonus portion reducing equity. Expenses for claims adjustment are also included in claims paid.

Investment income

Investment income, revenue and expenses

Realised gains or losses on investment assets are calculated as the difference between the purchase consideration received and the cost of the asset.

Unrealised gains and losses on investment assets

Unrealised gains or losses comprise changes for the year in the difference between cost and fair value. In the event of a sale, the accumulated unrealised change in value is reversed as an unrealised gain or loss, except for shares and participations that the company has decided to measure at fair value through other comprehensive income.

Operating expenses

Länsförsäkringar Liv recognises its leases as operating leases. These rental changes are recognised straight-line over the lease term under Operating expenses.

Tax

Yield tax

Yield tax is a tax paid by the company on behalf of the policyholders. Tax objects comprise the market value of the net assets managed on behalf of the policyholders at the start of the fiscal year. The yield tax attributable to the period is recognised in profit or loss under Tax on net profit for the year.

Tax

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

Current tax is tax to be paid or received in the current year, with the application of the tax rates established or decided in practice on the balance-sheet date, and any adjustments of current tax attributable to prior periods.

Investment assets

Financial assets and liabilities

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 - no longer has any significant risks or benefits from the assets and also when the company loses control of the asset. 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 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.

Offsetting financial assets and liabilities

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

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 take place depending on the measurement category to which the financial instrument belongs.

Länsförsäkringar Liv's financial assets comprise:

- Debt instruments
- Derivative instruments
- Equity instruments

Debt instruments

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 measured at amortised cost meet these cash flow characteristics.

Amortised cost

Länsförsäkringar Liv manages its 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 profit or loss

Länsförsäkringar Liv's debt instruments comprise holdings of interest-bearing securities or similar instruments, mutual funds classified as either shares and participations or bonds and other interest-bearing securities based on whether at least half of the managed assets comprise shares or interest-bearing securities. Assets that are debt instruments and held in a business model that entails measurement at fair value through profit or loss since the assets are managed and evaluated based on the fair values of the assets, and since the fair value comprises the basis for the internal monitoring and reporting to senior executives.

Derivative instruments

Derivative instruments measured at fair value through profit or loss. Derivatives with positive market values are recognised as assets in the balance sheet and derivatives with negatives market values are recognised as liabilities.

Equity instruments

An equity instrument is every form of agreement that entails a residual right to a company's assets after deductions for all its liabilities. All holdings of equity instruments that comprise holdings of a more strategic nature and that are not held for the purpose of generating investment income are measured at fair value through other comprehensive income.

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

Financial liabilities

Länsförsäkringar Liv measures all financial liabilities that are not derivatives at amortised cost.

Method for determining fair value

Financial instruments quoted in an active market

The largest portion of the company's financial instruments are measured at fair value using prices quoted in an active market. No additions for transaction costs (for example, brokerage commission) or future transaction costs in connection with potential divestment are made. A financial instrument is considered to be quoted in an active market when transactions take place at sufficient frequency and volume in order to provide continuous price information. If the market for the asset or liability is the most advantageous market and if a company on the measurement date can perform a transaction with the asset or liability at this price on this market, the holding is classified as Level 1 in the fair value hierarchy.

Financial instruments not quoted in an active market

If the market for a financial instrument is not active, the fair value is determined by using a valuation technique. The company has OTC derivatives, for example, that are not traded in an active market. The valuation techniques applied are based on market data as far as possible, while company-specific information is used as little as possible. The instruments for which all material inputs required for measurement at fair value are observable are found in Level 2 of the fair value hierarchy. If one or more significant inputs are not based on observable market data, the instrument in question is classified as Level 3 in the fair value hierarchy.

Recognition of credit losses

Reserves for expected credit losses ("loss allowance") are recognised for financial assets measured at amortised cost. The initial loss allowance is calculated and recognised on initial recognition and is subsequently continuously adjusted over the lifetime of the financial asset. For accounts receivable, the company 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. The reserve for financial assets measured at amortised cost is recognised as a reduction of the recognised gross carrying amount of the asset. Loss allowance is presented in the income statement as investment income, expenses.

Confirmed credit losses are those losses whose amount is finally established 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.

Deferred acquisition costs

Costs that have a clear connection to underwriting insurance contracts are capitalised as Deferred acquisition costs in the balance sheet and are depreciated over the useful life. A condition for capitalisation is that the acquisition costs are attributable to a certain insurance contract, or homogeneous groups of contracts that can be followed up, and are deemed to generate a margin that covers at least the acquisition costs intended to be capitalised. These acquisition costs pertain to operating expenses, for example, commission and expenses for sales that are directly related to acquisitions or renewals of insurance contracts. Costs are depreciated straight-line over ten years. The asset is impairment tested every year.

Equity

The surplus and deficit arising in Länsförsäkringar Liv Försäkringsaktiebolag's products are transferred to the collective consolidation fund. The collective consolidation fund may be used for loss absorption or to distribute bonuses to the policyholders. The company's surplus on savings products is distributed preliminarily with a bonus rate and is consequently disbursed on the payment date, at which point it reduces the collective consolidation fund. For the company's risk products, the surplus is distributed through premium reductions. The premium reduction is not paid and is thus recognised as premium income and as an expense under bonuses and discounts.

Technical provisions

Technical provisions comprise of a life-assurance reserve and a provision for claims outstanding. All changes in technical provisions are recognised in profit or loss.

Life-assurance reserve

The life-assurance reserve corresponds to the anticipated capital value of the company's guaranteed commitments as per current insurance contracts after deduction of the anticipated capital value of future contractual premium payments. The life-assurance reserve is calculated in accordance with standard actuarial principles based on assumptions regarding interest, mortality, morbidity premium changes, repurchases/transfers, changed payment periods, operating expenses, and applicable tax rates for yield tax.

The discount rate curve defined by the EIOPA is applied to the calculation of technical provisions. This curve has been produced to correspond to a risk-free interest rate term structure and is based on market data for Swedish swap rates. A macroeconomic assumption of a long-term interest rate of 3.9% (4.05) is also included. A differentiated addition to the provisions for occupational pension insurance and other life assurance entails a difference between prudent and satisfactory provisions.

Assumptions regarding mortality are structured as generation mortality and include a trend-based increase in life expectancy in relation to year of birth. These assumptions are based on the company's experience of mortality in its own portfolio and on Statistics Sweden's assumptions for future increases in life expectancy.

Assumptions regarding premium changes, repurchases/transfers, changed payment periods and operating expenses including asset management expenses are determined based on the company's experience and, in certain cases, by applying expert judgement regarding future outcomes. Länsförsäkringar Liv's life expectancy and operating expenses assumptions are satisfactory and prudent, respectively, and other assumptions are considered to be realistic or, in certain cases, prudent.

Provision for claims outstanding

The provision for claims outstanding comprises provision for disability annuities, established claims and non-established claims.

The provision for disability annuities corresponds to the discounted capital value of the company's commitments in accordance with the insurance contract. For disability annuities at fixed amounts, the nominal interest rate assumption was determined based on the EIOPA's yield curve for Solvency II. A yield curve for break-even inflation, calculated as the difference between nominal and real government bond rates, was used for indexed disability annuities. The provision for established claims corresponds to the expected capital value of the company's future expenses due to the incurred health claim. It includes reported and approved claims that have not yet been paid and future operating expenses. It also includes the fixed-income operations. The provision for non-established claims pertains to claims that have not yet been reported but which have been made using statistical methods based on previous experience for the respective products.

Provisions for life assurance for which the policyholder bears the investment risk

Conditional bonus

The provision for conditional bonus for the Insured Pension management form is determined as the difference on an aggregated level between the market value of investment assets on behalf of the policyholders and the life-assurance reserves. The provision for conditional bonus for New World is determined as the difference between insurance capital and the life-assurance reserves on an individual level. Provisions for conditional bonus may not be negative for the specific insurance.

Reinsurance

Contracts signed between Länsförsäkringar Liv and reinsurers through which the company is compensated for losses on contracts issued by the company and that meet the classification requirements for insurance contracts as stated above are classified as ceded reinsurance. For ceded reinsurance, the

benefits to which the company is entitled under the reinsurance contract are recognised as the Reinsurers' portion of technical provisions, which corresponds to the reinsurers' liability. Deposited funds from reinsurers comprise the liability item Deposits from reinsurers. Receivables from and liabilities to reinsurers are valued in the same manner as the amounts linked to the reinsurance contract and in accordance with the conditions of each reinsurance contract. Annual earnings are primarily settled through deductions in accordance with reinsurance contracts.

Länsförsäkringar Liv does not underwrite assumed reinsurance.

Remuneration of employees

No variable salary is paid to employees of Länsförsäkringar Liv.

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. Also, no information is 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.

Untaxed reserves

Changes in untaxed reserves are recognised in profit or loss under appropriations (Tax allocation reserve). Untaxed reserves are offset, where appropriate, against loss carryforwards or are subject to taxation when they are dissolved.

An accounting unit can make a provision to the tax allocation reserve to reduce its taxable earnings during an income year, but must reverse the same tax allocation reserve for taxation during the sixth year following the provision year.

Contingent liabilities

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

Risk-management system at Länsförsäkringar Liv

Länsförsäkringar Liv is operated according to mutual principles and the company’s risks are borne by the policyholders. The management of risk-taking is to contribute to the provision of insurance products at a controlled risk level with a reasonable return. One of the key objectives of the risk-management system is to ensure that Länsförsäkringar Liv can meet its guaranteed commitments to customers with a satisfactory margin. Accordingly, the most critical risks are those that could contribute to the company’s insolvency, which could lead to the company not being able to meet the commitments to its policyholders.

The Länsförsäkringar AB Group has a shared risk-management system, which forms part of the internal governance and control system. The risk-management system is defined as the strategies, processes, procedures, internal rules, limits, controls and reporting procedures needed to ensure that the company is able to continuously identify, measure, monitor, govern, manage, have control over and report on the risks to which the companies are, or could become, exposed to.

Prospective analyses in the form of scenario analyses and Own Risk and Solvency Assessments (ORSA) are performed at least once a year for business and capital planning purposes. The overall aim of an ORSA is to ensure that own funds are and remain sufficient for bearing the risks associated with realising the business plan. Ongoing activities include handling known risks and identifying new risks. A complete report of major risks is submitted every quarter to the President, corporate management, Risk and Capital Committee, Audit Committee and Board.

Risk-management organisation

The Board is ultimately responsible for ensuring that an effective risk-management system is in place and adopting frameworks for risk management based on internal rules in the form of governance documents, including the company’s risk policy. This risk policy describes the company’s risk appetite, risk strategy and overall risk limit, which is expressed as the lowest permitted level for regulatory capitalisation. The President is responsible for incorporating these governance documents as adopted by the Board into the operations. The risk-management system comprises an integrated part of the

organisational structure and decision-making processes help the operations to meet its targets with a higher degree of certainty.

The risk-management function is responsible for independent risk control and provides support for the President, management and operating units in fulfilling their responsibility to conduct operations with reliable risk control.

The Actuarial function is responsible for coordinating and ensuring the quality of the technical calculations and investigations and assisting the Board and President in actuarial matters. The Actuarial function is also responsible for reporting, on its own initiative, to the Board and President on matters pertaining to methods, calculations and assessments of the technical provisions, the valuation of insurance risks, reinsurance cover and other risk-reduction techniques.

The Compliance function is an independent control function responsible for monitoring and controlling regulatory compliance in the licensable operations. The function identifies and reports on risks that may arise as a result of non-compliance with regulations and provides recommendations for action to relevant personnel, the President and the Board.

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.

The Internal Audit function, Compliance function and Risk management function are affiliated to Länsförsäkringar AB in the organisation and are independent from the operations that are controlled.

Solvency II

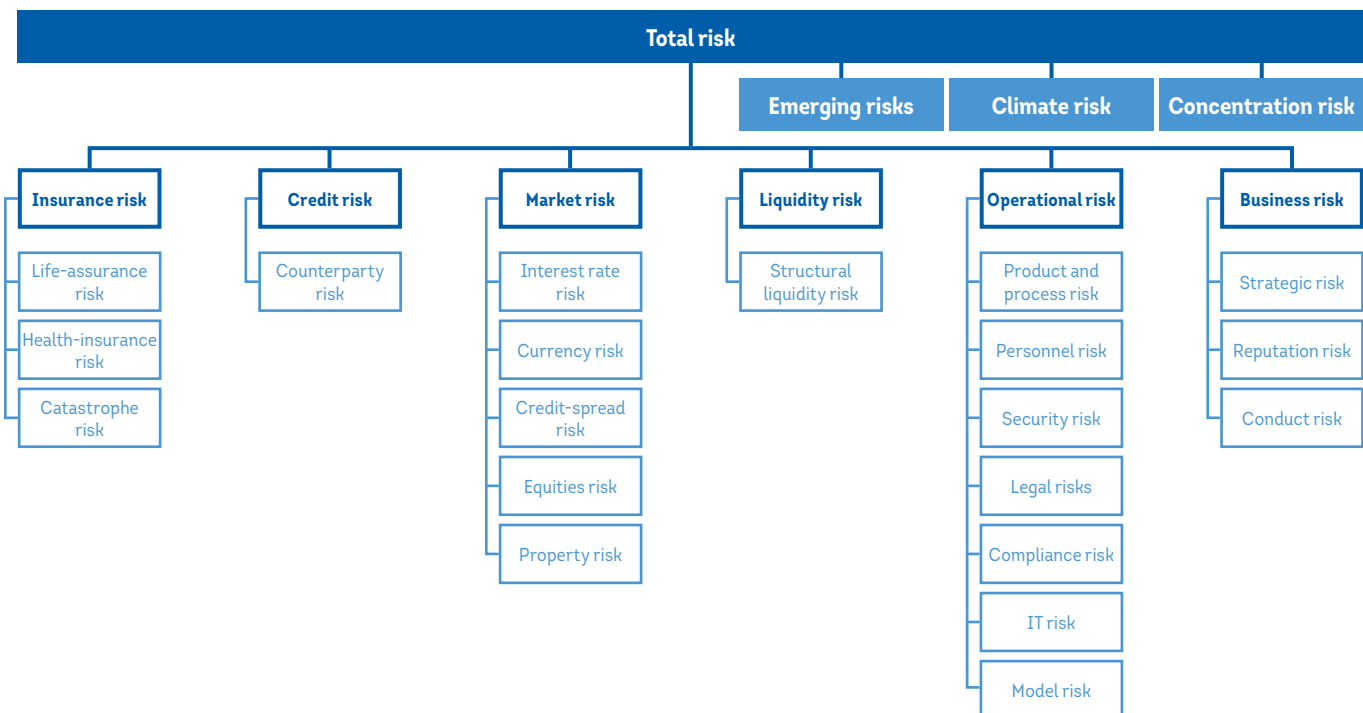
Länsförsäkringar Liv applies Solvency II to the entire operations from 1 January 2016. Länsförsäkringar AB has developed a partial internal model to measure risk and has received approval from the Swedish Financial Supervisory Authority to use this model. Länsförsäkringar Liv calculates the solvency capital requirement for interest rate risk, equities risk, property risk, credit-spread risk and currency risk by using the internal model. Other capital requirements are calculated in accordance with the standard formula.

Risk exposure

Länsförsäkringar Liv conducts traditional life-assurance operations and is primarily exposed to market risks and life-assurance risks, which are described more in the company’s Solvency and Financial Condition Report (SFCR).

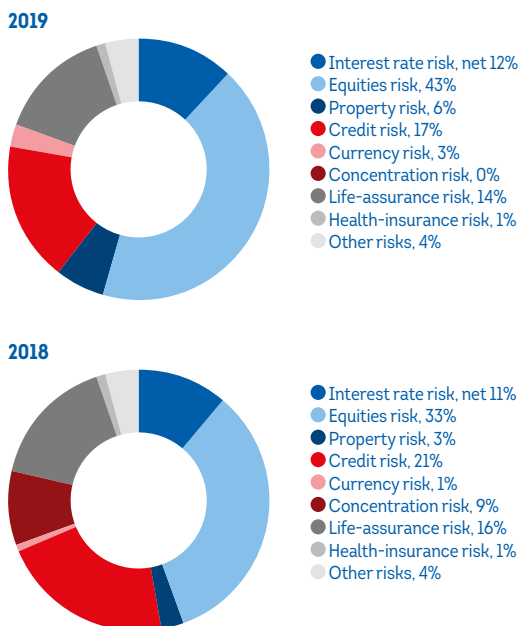
The diagram below shows Länsförsäkringar Liv’s risk map.

Figure 1. Classification of risk at Länsförsäkringar Liv



The diagram below shows the company's regulatory capital requirement where equities risk comprises the largest risk.

Figure 2. Regulatory capital requirement per type of risk (in accordance with Solvency II), including diversification under Länsförsäkringar's internal model



Insurance risk

Insurance risk (underwriting risk) refers to the risk of loss or negative change in the value of underwriting liabilities due to incorrect tariffs and provisions assumptions. Health-insurance risk is the risk of losses arising due to the insured's disability and morbidity being higher than assumed. Life-assurance risk refers to the risk of losses in connection with the insurance of a specific person's life and health.

- Mortality risk is the risk of losses arising due to mortality among the insured being higher than assumed.
- Longevity risk is the risk of losses arising due to the insured living longer than assumed.
- Expenses risk is the risk of losses arising due to the estimated operating expenses for conducting the company's operations being higher than assumed.
- Cancellation risk refers to the risk of losses arising due to a change in the premium payments, repurchases or transfers deviating from that which has been assumed.
- Catastrophe risk (in life-assurance and health insurance) refers to the risk of losses arising due to natural disasters, epidemics or disasters caused by human activities leading to very large claims payments.

Risk exposure

Länsförsäkringar Liv issues products in its life-assurance and health-insurance operations that also include a small portion of non-life insurance commitments in the form of products in accident cover and invalidity benefit. Länsförsäkringar Liv conducts life assurance in its portfolios of Old Trad and New Trad, both with traditional management, New World management as well as Insured Pension. A measure of the exposure to insurance risk is the expected present value of the future cash flows from all insurance contracts. The measure reflects the company's commitments to its customers and corresponds to the best estimate under the IBA. Länsförsäkringar Liv is operated according to mutual principles, which entails that the earnings are not distributed to the owner; they remain with the customers. Länsförsäkringar Liv stopped new sales in the autumn of 2011, which essentially means that all new sales have ceased.

For traditional management, investments are normally made on a discretionary basis in interest-bearing securities, equities, properties and alternative investments. Traditional management contains a guaranteed value that grows at a guaranteed interest rate. In addition, customers will receive bonuses if the total return is higher than the guaranteed rate over time. From May 2013, Länsförsäkringar Liv has two portfolios in traditional management:

New Trad and Old Trad. The New World management form is a management form that combines a guarantee element with the opportunity for better returns through investments in equities. The guarantee means that after five years, or death, the policyholder is guaranteed to recover the money invested after fees and taxes. The guaranteed interest rate is 0%.

Länsförsäkringar Liv targets private individuals, employees and self-employed persons working in small and medium-sized businesses, and has few commitments with large companies. A geographic distribution throughout Sweden is created since all 23 regional insurance companies brokered the company's products. The collective consolidation fund contains the collective surplus that can be distributed to the policyholders under the company's collective consolidation policy. The surplus capital in the collective consolidation fund is regularly analysed, for example, by studying transfer options, payment times and/or age in order to assess the scope of future payouts. Based on the above, Länsförsäkringar Liv does not have any material concentrations of insurance risk.

Risk management

Länsförsäkringar Liv is encompassed by the joint Länsförsäkringar AB catastrophe reinsurance cover that limits risks in accident and life assurance. The retention is SEK 20 M and covers amounts up to SEK 800 M.

The risk of anti-selection for insurance of a life-assurance nature can mainly be limited by making a variety of changes, for example, by reducing the payment period, making payment at an earlier date, repurchases or transfers. To reduce this risk, a change rule framework is in place that may entail the requirement of a medical examination. Long-life expectancy risk is managed by regularly updating life-expectancy assumptions and monitoring trends in increases in life expectancy.

Disability and morbidity risks are limited when new policies are sold by assessing risk according to the company's risk assessment regulations. Another measure to reduce risk takes place in connection with claims adjustment, by regularly checking information provided in accordance with the company's claims-adjustment policy. Risk is also managed by regularly updating assumptions regarding illness incidence and recovery. Other factors that influence underwriting risks are product composition and the content of terms and conditions.

The company regularly monitors trends in insurance risks. The company's sensitivity to several different risks is presented in table 1 below. The capital requirement for life-assurance and health-insurance risks under Solvency II is measured using the standard formula and is described in greater detail in the company's Solvency and Financial Condition Report (SFCR).

Since the company is closed for new business and the insurance portfolio is gradually decreasing, operating expenses must follow the same trend so that the charge per insurance policy does not increase over time. Accordingly, the company signed a fixed-price agreement with Länsförsäkringar AB and Länsförsäkringar Fondliv for deliveries of services. This agreement limits the company's expenses risk.

Table 1. Sensitivity analysis, life-assurance and health-insurance risks (SEK M)

Assumption	Change in assumption	Earnings effect before tax	
		31 Dec 2019	31 Dec 2018
Mortality	20% lower mortality	-1,619	-1,527
Morbidity	50% increase in morbidity	-177	-183
Operating expenses	10% higher operating expenses	-512	-509
Nominal discount rate ¹⁾	100 bp lower market interest rates	-5,960	-5,900
Nominal discount rate ¹⁾	100 bp higher nominal market interest rates	5,396	5,355

The earnings effect is the same effect on equity.

¹⁾ The technical provisions (FTA) are discounted based on a yield curve defined by the EIOPA, including an assumption of a long-term interest rate of 3.90%. It is assumed that nominal discount rates will change in the liquid portion of the yield curve, but not the assumption about the ultimate forward rate (UFR) of 3.90%.

Follow-up of assumptions regarding life-assurance and health-insurance risks

The technical provisions are calculated per insurance contract after assumptions are made for mortality, interest, morbidity, the probability of recovery,

cancellations and operating expenses. Assumptions made are followed up at least once annually in connection with the Actuarial function's reports to the Swedish Financial Supervisory Authority.

Market risk

Market risk is 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 encompasses equities risk, property risk, interest rate risk, credit-spread risk and currency risk.

Risk exposure

Market risk primarily arises through management of investment assets that are to cover insurance commitments. The value of insurance commitments is calculated by discounting using a yield curve, which means that the market risk is also recognised on the liability side of the balance sheet.

The main asset classes in Länsförsäkringar Liv's investment portfolio are interest-bearing securities, equities funds, properties and alternative investments. Derivative instruments are increasingly utilised in the management of investment assets in order to reduce market risks or to enhance the efficiency of the management of the company's assets and liabilities and to achieve the desired risk profile.

The company's equities exposure is primarily attributable to the equities funds found in the management portfolios of New Trad and New World. These management portfolios also include a limited portion of unlisted equities, known as private equity.

The company has credit-spread risk exposure in Swedish mortgage bonds and in European and US corporate bonds. Decisions on the size of the portion of the bond portfolio that is to comprise bonds with credit-spread risk are made in light of prevailing market conditions and the desired level of risk-taking in the investment portfolio. Table 4 below shows that most of the interest-bearing investments have an AAA rating.

Table 2. Sensitivity analysis, market risks (SEK M)

The table shows the net sensitivity in assets and liabilities before tax.

Assumption	Earnings effect before tax	
	31 Dec 2019	31 Dec 2018
Interest rate risk, net ¹⁾ 100 basis point higher market interest rates	1,887	1,429
Interest rate risk, net ¹⁾ 100 basis point lower market interest rates	-2,058	-1,522
Credit-spread risk ²⁾ 100 basis point higher credit spread	-2,579	-2,596
Equities risk ³⁾ 10% lower share prices	-2,534	-2,230
Property risk ⁴⁾ 10% lower market value	-244	-171
Currency risk ⁵⁾ 10% strengthening of SEK against all other currencies	-1,265	-472

¹⁾ Interest rate risk takes into consideration price risk, including accrued interest. Net changes in value of investment assets including accrued interest rates, less changes in technical provisions. The investment assets are discounted using a market-based yield curve and the technical provisions (FTA) are discounted based on a yield curve defined by the EIOPA, including an assumption of a long-term interest rate of 3.90%.

²⁾ The calculation of credit-spread risk and interest rate risk is based on analysed fund holdings.

³⁾ Shares and participations adjusted for property equities.

⁴⁾ Based on market value of holdings of property equities.

⁵⁾ Currency exposure refers to directly-owned holdings quoted in each currency and indirect exposure via analysis of funds.

The company currency exposure derives from investment assets in other currencies than SEK. The risk of losses in value in the investments may arise by the SEK strengthening against other currencies and be limited by using currency derivatives. The table below shows the currency exposure for the currencies where the earnings effect of the SEK strengthening by 10% is larger than SEK 10 M and currencies that are normally hedged. The item Other currencies includes other currencies apart from SEK that the company is exposed to through its investment assets and where the earnings effect of the SEK strengthening against the individual currency is less than SEK 10 M. The total currency exposure as a percentage of market value on 31 December 2019 amounted to 11.2% (4.4) of total investment assets.

Table 3. Earnings effect at year-end of SEK strengthening by 10% against all other currencies

Currency ¹⁾	Earnings effect before tax, SEK M	
	31 Dec 2019	31 Dec 2018
BRL	-12	-16
CHF	-41	2
EUR	-272	1
HKD	-39	-79
INR	-14	-29
KRW	-23	-43
TWD	-20	-35
USD	-780	-198
ZAR	-8	-13
Other currencies	-56	-62
Total	-1,265	-472

¹⁾ Pertains to currency exposure in directly-owned holdings listed in each currency and indirect exposure via analysis of funds.

The investment assets are highly diversified to avoid excessively high risk accumulation. During the year, the company divested its holdings in Bergvik Skog, which was previously deemed to entail a concentration risk and subsequently the concentration risk in the investment assets is considered to be very small.

Risk management

The risk-reduction techniques used in the management of assets is diversification and derivatives. Investments are spread over several classes of assets and segments in these classes, leading to exposure to various risk factors that react in different ways to fluctuations in the financial markets. This means that as a whole the portfolio is less sensitive to market fluctuations than its portfolio components. The diversification effect is modelled using the internal model (Solvency II regulations) and is regularly measured as an integrated part of these calculations.

Länsförsäkringar Liv governs its own risk-taking by considering the sensitivity of the insurance undertakings to changes in interest rates, with conscious choices about the extent to which the undertakings are matched against assets with corresponding properties. This primarily takes place by using various types of interest rate derivatives. Interest rate derivatives (futures and forwards) and interest rate swaps are used in management to reduce interest rate risk, primarily for liabilities matching. By using these instruments, interest rate sensitivity can be effectively reduced without needing to sell the underlying bonds and thus retaining any coupons and excess returns of credit-spread exposure. The effect of these derivative strategies is continuously monitored by measuring the resulting interest rate duration and interest rate sensitivity of the portfolio on a daily basis.

Management uses equity index derivatives when it needs to temporarily reduce equities risk. In this way, the company can avoid the need to sell holdings in equities funds, while the portfolio is protected from major falls in prices in the equities markets. The effect of this risk-reducing strategy is measured by equities allocation (including derivatives) being reconciled continuously to ensure the desired regional allocation.

Management also makes use of derivative instruments to limit currency risk in the portfolio. This means that established limits on currency exposure can be considered without having to refrain from investing in desirable assets that have a different currency risk than SEK.

To ensure long-term stability, ALM analyses are performed by simulating future capital requirements based on projecting the liability and asset sides given several plausible scenarios.

IBOR and Interest Rate Benchmark Reform

Following the financial crisis, alternative risk-free rates and other interbank offered rates (IBORs) were prioritised by global players to ensure better functionality of the financial market. Currently, there is uncertainty about the timing and exact nature of these changes. The company currently has contracts that refer to IBORs with Euribor, Stibor and USD Libor as rates in contracts for interest-bearing securities with viable interest rates and interest rate derivatives.

Länsförsäkringar expects that it may be necessary to review systems and processes in order to identify the changes to contracts including IBORs, and to manage any tax and accounting consequences.

Counterparty risk

Counterparty risk pertains to the risk of losses arising due to counterparties being unable to fulfil their undertakings and that any collateral provided will not cover the receivable. Counterparty risk derives from counterparties for financial derivatives, bank balances and counterparties in reinsurance.

Risk exposure

Exposure to counterparty risk primarily arises through the use of financial derivatives and balances in bank accounts. Derivatives are purchased to protect the balance sheet against, for example, interest rate risk, equities risk and currency risk and entail that the counterparty undertakes, through derivative contracts, to compensate for negative results arising from changes in, for example, market interest rates, share prices or exchange rates. As a result, a receivable from the counterparty may arise in the event of market changes.

Länsförsäkringar Liv is also exposed to counterparty risk from the reinsurers. The company takes out reinsurance to avoid assuming greater individual liability than that stated in the insurance guidelines and reinsurance policy. Most of the reinsurance cover was terminated at the end of 2019, apart from joint Länsförsäkringar AB catastrophe reinsurance, with negligible counterparty risk.

Risk management

The counterparty risk that arises via counterparties in financial derivatives is managed by limits for derivative exposures per counterparty, and by signing agreements with all companies regarding OTC derivatives. These agreements regulate receivables in derivatives contracts between the contract parties, for example, the amount of receivables permitted, how they are to be paid and at what frequency. In practice, this means that for the majority of cases the collection and provision of collateral takes place on a daily basis. The size of the permitted exposure depends on the rating of the counterparty. Table 4 shows the market value consideration of credit enhancement and corresponds to the carrying amount of the assets on the balance-sheet date.

The method for how expected credit losses are determined for financial assets is described in the note Accounting policies in the section on expected credit losses.

Table 4. Länsförsäkringar Liv's exposure by credit quality step

	Market value, SEK M	
	31 Dec 2019	31 Dec 2018
Cash and bank balances and cash and cash equivalents classified as other receivables		
A	3,564	3,978
Total	3,564	3,978
Bonds and other interest-bearing securities¹⁾		
AAA – Swedish Government	4,142	6,125
AAA – Government securities other than those issued by the Swedish Government	2,502	2,262
AAA – other	53,149	49,769
AA	3,909	3,232
A	1,892	2,785
BBB	3,861	6,062
BB or lower	4,525	4,763
No rating available	6,343	4,971
Total	80,323	79,968
Derivatives		
AA	-40	69
A	-99	278
BBB	-	1
BB	30	41
Total	-109	389
Total	83,778	84,335

¹⁾ Market value including accrued interest for directly-owned holdings, which also includes analysed fixed-income funds.

Operational risk

Operational risk refers to the risk of losses arising due to inadequate or failed internal processes, human error, erroneous systems or external events and includes legal and compliance risk.

Risk exposure

The operating activities that the company conducts with the products and services it provides entails exposure to operational risk, such as product and process risks, personnel risks, legal risks and compliance risks, IT risks, model risks and security risks. Security risks, for example, external crime and internal fraud cannot be completely avoided and as digitisation increases greater focus has been directed to cyber risks and IT risks. Amendments and new regulations affecting the insurance operations are also of central importance to risk exposure.

Risk management

Operational risks are managed so that the company's long-term profitability and existence are met and so that customer confidence and the confidence of other stakeholders in the company remains high. Work on operational risk is based on Group-wide methods that encompass business-critical processes and key controls as well as reported incidents and the operations' self-assessment of operational risk. All employees are responsible for actively managing operational risk within their individual operations. This means that the daily management of operational risk primarily takes place when the risk arises. Risks are minimised by proactive preventive measures and awareness of operational risk in every decision-making situation.

The process of managing and controlling operational risk includes identifying, measuring, monitoring, managing and reporting. Business-critical processes and risks have been analysed and documented. Controls of process risks are performed every quarter and reported to each company Board. Operational risk analyses are performed at least once annually. Operational risks are identified, the potential consequences evaluated and probability of the risk occurring assessed. Action plans are prepared for material risks, which are followed up at least once every quarter at management level. In-depth analyses are also carried out in the event of serious incidents, major changes in the business environment or indications of high risk levels. Risk management also includes risks in the operations that are outsourced to internal or external parties. This means that information is regularly collected about risks and incidents in outsourced operations.

The Länsförsäkringar AB Group has a shared framework for identifying, measure and documenting risks in the decision-making process for decisions that could be expected to have a material impact on profitability, risk profile, organisation or brand. The purpose is to ensure efficient decision-making through proactive and appropriate management of the risks so as to thereby achieve established targets with a higher degree of certainty, to ensure compliance with applicable laws and regulations and to create customer value. Furthermore, a separate process for the approval of new investment assets is applied that aims to highlight and manage potential risks prior to investments in a new class of asset, type of instrument or fund.

The company's continuity management involves preparing business contingency, continuity and restoration plans to manage incidents before, during and after a crisis has occurred. The overall goal for security work is to protect the organisation's assets from all types of threats – internal or external, intentional or unintentional. Security work is conducted in accordance with the ISO standards on information security and continuity management.

The company regularly carries out exercises to ensure that it is highly capable of managing crisis situations. Exercises and testing comprise both manual response procedures and automated IT support. Desktop and technological testing of applications and administration objects are carried out annually. Large-scale crisis management exercises are conducted at least every three years.

Other material risks

In addition to the risks described above, Länsförsäkringar Liv is also exposed to business risks, emerging risks, climate risks and concentration risks.

- Business risk pertains to the risk of lower earnings, higher expenses or loss of confidence from customers or other stakeholders. Business risk also includes conduct risk, meaning the risk of improper conduct.
- Emerging risks refers to new or changed behaviour patterns, situations or

trends that may have a material impact on the company's financial situation, market position or brand in a negative direction within the company's business planning horizon.

- Climate risk refers to 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.
- Concentration risk refers to the risk of a single exposure, homogeneous group of exposures or a specific market event resulting in widespread losses even if the operations were to be well-diversified. Concentration risk may derive from concentrations of both assets and liabilities as well as sources of income and suppliers, including suppliers of outsourced services.

Risk exposure

The company's exposure to business risks follows the business strategies decided where the business planning process and results from business risk analyses comprise important instruments in managing challenges associated with strategies and objectives. Due to the strong brand connection between the companies in the Group, diminished confidence in one of the companies could entail a reputation risk that damages the brand and thus Länsförsäkringar Liv.

Climate risk could directly or indirectly increase other risks, such as insurance, market or brand risks. The company identifies climate risks in its business in the form of transition risks and physical risks, with transition risks driven by regulatory, political, market-based and technical changes related to the transition to a low-carbon society. Physical risks, which are actual consequences of climate change, such as a higher average temperature on Earth, more instances of extreme weather conditions and gradually rising sea levels, may increase insurance claims. In addition to these risks, adjustments to climate change can also entail risks, such as changes in regulations and higher carbon tax or changed behaviours in the markets that lead to stranded assets, which in turn can impact market risk. Länsförsäkringar Liv invests in companies all over the world, through its own management and via externally managed funds and mandates. There is a market risk and a business risk for Länsförsäkringar Liv that these companies are associated with violations of human rights, corruption and environmental conventions.

New risks, emerging risks, can arise over time due to changes in the external business environment or internal circumstances. This could be a brand new behaviour pattern that presents a new risk or a risk that changes its nature and thus should be managed in a new way, but could also be a risk that has previously been deemed to be immaterial that has become material. Examples could be the emergence of new economies, technological advances and social-political changes, etc.

Länsförsäkringar Liv is not deemed to have any material concentrations of assets, liabilities or sources of income. See also the sections on market risk and insurance risk.

Risk management

Business risks are managed at Board and management level through analyses and decisions prior to making strategic choices on the direction of the operations. Business risk analyses are carried out in the annual business planning process, but can also be performed in the interim if required due to changes in the external environment or in connection with business decisions. The specific business risks that are deemed to be the most important at any given time are continuously monitored at management level.

Climate risks are analysed as part of the Group-wide annual strategy and business planning process and are limited by taking proactive measures, although analyses are also regularly carried out in connection with changes in the business world or new strategic decisions. In 2019, the Group adopted a climate-smart vision according to which the company works actively on reducing its impact on the climate and climate risks in its operations. Climate risks are continuously evaluated and considered in significant cases in decision-making documentation for management and the Board. Länsförsäkringar AB supports the Task Force on Climate Related Financial Disclosures (TCFD), which are recommendations on the reporting of climate-related risks and opportunities that are expected to be developed into a standard for climate reporting in the future.

Emerging risks are identified and managed as part of the continuous risk-management activities and in the company's annual Own Risk and Solvency Assessment (ORSA). The materiality of the risk determines whether action is to be taken and the nature of the risk governs the appropriate course of action.

Liquidity risk

Liquidity risk is the risk of losses arising due to the company's own payment commitments not being fulfilled due to a shortage of cash and cash equivalents or that these undertakings can only be fulfilled by raising funding at significantly higher costs than usual or by divesting assets at a loss.

Risk exposure

The business activities of Länsförsäkringar Liv are based on premiums being paid in advance and being managed until insurance compensation is to be paid out. A lack of liquidity could lead to the company not being able to fulfil its commitments to customers. Liquidity risk is closely associated with the investment assets found in the company's investment portfolios and is measured and monitored through daily forecasts of liquidity requirements, taking into account both inflows and outflows, including liquidity requirements for signed derivative agreements.

Risk management

The company's liquidity requirements are also forecasted for the medium term, up to five years, based on annual actuarial cash-flow forecasts within the framework of the company's ORSA. A liquidity reserve is maintained to ensure favourable short-term access to funds that also takes into account the need for cash and surplus liquidity based on established liquidity forecasts for the payment of securities transactions, claims payments and, where necessary, other inward and outward payments, such as premiums and operating expenses.

Assets are classified into pre-defined liquidity classes, of which the liquidity reserve may comprise only assets in the highest liquidity class. Clear rules also apply to life-assurance companies regarding how assets are to be deposited to ensure that they are readily available to the company and can thus be realised as needed.

Table 5. Discounted net cash outflows for technical provisions

Duration, year	Percentage of cash flow, %	
	2019	2018
0-5	30.8	32.0
5-10	25.7	25.9
10-15	19.2	18.5
15-20	11.3	11.0
20-30	9.6	9.2
30-	3.4	3.4

Table 6. Maturity analysis for interest-bearing financial assets and liabilities and insurance undertakings

The table shows the cash flows for each period, based on the remaining contractual maturities.

SEK M	2019						2018					
	<3 months	3 months-1 year	1-5 years	5-10 years	>10 years	Total	<3 months	3 months-1 year	1-5 years	5-10 years	>10 years	Total
Assets												
Interest-bearing securities issued by Group companies and loans to Group companies	0	55	2,881	498	0	3,434	0	293	2,784	0	0	3,077
Bonds and other interest-bearing securities	284	2,749	35,798	16,870	15,709	71,410	322	4,269	35,613	16,039	17,404	73,648
Other receivables	2,730	-	-	-	-	2,730	1,399	-	-	-	-	1,399
Total assets	3,014	2,804	38,679	17,368	15,709	77,574	1,721	4,562	38,397	16,039	17,404	78,124
Liabilities												
Technical provisions ¹⁾	1,307	4,073	20,764	21,858	37,015	85,017	1,333	4,180	21,616	21,983	35,738	84,850
Other liabilities	4,460	-	-	-	-	4,460	2,868	-	-	-	-	2,868
Accrued expenses and deferred income	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	5,767	4,073	20,764	21,858	37,015	89,477	4,201	4,180	21,616	21,983	35,738	87,718
Derivatives, in and outflows, net	319	397	1,149	1,164	219	3,248	196	377	1,172	1,286	426	3,457
Total derivatives	319	397	1,149	1,164	219	3,248	196	377	1,172	1,286	426	3,457

¹⁾ Technical provisions are recognised gross, before ceded reinsurance.

Capital management

Länsförsäkringar Liv is a limited liability life-assurance company with a prohibition against issuing dividends and that is operated according to mutual principles. Länsförsäkringar Liv is a subsidiary of Länsförsäkringar AB, but is not consolidated in the Länsförsäkringar AB Group. The company's profit is not distributed to the owner and instead stays in the company and accrues to Länsförsäkringar Liv's policyholders.

Capital planning process

Unlike profit-making subsidiaries in the Group that are to contribute to value growth and dividends to the owners of Länsförsäkringar AB, the capital in Länsförsäkringar Liv is controlled only to secure commitments to customers and to generate as high returns on investment assets for customers as possible. Given its corporate form, it is also vital for Länsförsäkringar Liv to maintain sufficient capital. The possibility of raising capital via direct capital contributions is considered to be limited due to the prohibition against issuing dividends. A capital target is decided every year by the Board in connection with the ORSA, which is expressed as a target for the solvency ratio calculated in accordance with Solvency II. The Board also decides on the minimum level for capitalisation.

The purpose of the ORSA is to ensure that own funds are sufficient for bearing the risks associated with realising the business plan. The analysis is based on the business plan activities and the base scenario, but also includes a demanding negative scenario and stress tests. The analysis is to be performed in such a manner that the Board and management gain greater joint understanding of issues relating to capital structure, capital requirement and business contingency to reduce risks.

Länsförsäkringar Liv's solvency ratio is measured in accordance with Solvency II and exceeds the statutory requirement by a healthy margin. The solvency ratio amounted to 211% (200).

As presented in table 7, the capital situation strengthened significantly during the year, mainly as a result of higher investment income. Own funds for Länsförsäkringar Liv increased SEK 4,495 M during the reporting period to SEK 27,980 M.

Table 7. Capital situation under Solvency II

SEK M	31 Dec 2019	31 Dec 2018
Own funds	27,980	23,485
Capital requirement	13,243	11,742
Solvency ratio	211	200

Note 3	Premium income	
	2019	2018
Gross premium income before ceded reinsurance is distributed as follows in the life-assurance operations		
Direct life assurance	1,192	1,296
Direct accident and health insurance	266	389
Premium income in the form of distributed bonuses	224	-
Total	1,682	1,685
Gross premium income for direct life assurance is distributed in the following categories		
Premiums for individual life assurance	1,192	1,296
Group insurance premiums	-	-
Total	1,192	1,296
Periodic premiums	1,172	1,163
Single premiums	20	133
Total	1,192	1,296
Premiums for contracts that do not carry bonus rights	172	270
Premiums for contracts that carry bonus rights	1,020	1,026
Total	1,192	1,296

All premiums pertain to insurance in Sweden.

Note 4	Investment income, net	
	2019	2018
Dividends		
Dividends received on shares and participations	4,522	120
Total dividends	4,522	120
Interest income		
Bonds and other interest-bearing securities ¹⁾	1,170	1,255
Interest-bearing securities issued by Group companies	19	19
Derivatives	408	301
Other interest income ²⁾	68	51
Total interest income	1,665	1,626
Realised profit, net		
Shares and participations	2,293	533
Profit from participations in partnerships (Group companies)	0	0
Bonds and other interest-bearing securities	1,157	204
Interest-bearing securities issued by Group companies	14	8
Derivatives	-942	-647
Other investments	0	1
Total realised profit, net	2,522	99
Unrealised profit, net		
Shares and participations	693	-639
Bonds and other interest-bearing securities	1,092	-473
Interest-bearing securities issued by Group companies	-10	-8
Derivatives	596	47
Total unrealised profit, net	2,371	-1,073
Exchange-rate losses, net	-336	-442
Interest expense		
Bonds and other interest-bearing securities	-12	-15
Derivatives	-536	-589
Other interest expense	-1	-1
Total interest expense	-549	-605
Asset management expenses	-95	-99
Other financial expenses	-151	-153
Total investment income, net	9,949	-527
Investment income per measurement category		
Financial assets measured at FVPL	10,392	37
Financial assets measured at amortised cost	-1	-8
Items not specified by category		
Exchange-rate losses, net	-336	-442
Other items	-106	-114
Total investment income, net	9,949	-527

¹⁾ Of which negative interest rate on interest-bearing securities of SEK 10.3 M (20.2).

²⁾ Of which negative interest rate on cash and bank balances of SEK 8.1 M (13.5).

Note 5	Claims paid before ceded reinsurance	
	2019	2018
Claims payments	-4,618	-4,757
Cancellations, repurchases and external transfers	-433	-459
Claims adjustment costs	-8	-8
Total	-5,059	-5,224

Note 6	Operating expenses	
	2019	2018
Operating expenses in life-assurance operations distributed according to functions		
Acquisition	-76	-30
Change in the deferred acquisition costs item	-20	-31
Administration expenses	-336	-351
Commission and profit shares in ceded reinsurance	2	0
Total	-430	-412
of which, purchasing from the Länsförsäkringar AB Group	-237	-259
Total amount of direct insurance commission	-76	-86

The item Acquisition below consists of total of the items Acquisition and Change in the deferred acquisition costs. The item Administration below consists of the total of the items Administration expenses and Commission and profit shares in ceded reinsurance.

Total expenses comprise the following

	2019	2018
Acquisition	-96	-62
Claims adjustment	-8	-8
Administration	-334	-351
Asset Management	-95	-99
Total	-533	-520

Costs for acquisition and administration are recognised in profit or loss under operating expenses, claims adjustment costs are recognised under claims payments in note 5 Claims paid, and costs for asset management are recognised in note 4 Investment income, expenses under asset management expenses.

Leases are recognised as operating leases These rental changes are recognised straight-line over the lease term under Operating expenses.

Total costs are distributed as follows

	2019	2018
Staff costs, etc.	-61	-65
Costs for premises, etc.	-5	-0
Amortisation/depreciation, etc.	-28	-38
Other	-439	-417
Total	-533	-520

Note 7	Fees and remuneration of auditors	
	2019	2018
KPMG AB		
Audit assignment	2	2
Audit operations in addition to the audit assignment	-	0
Tax advice	1	1
Total	3	3

Audit assignments pertain to a review of the Annual Report and accounts, and the administration by the Board of Directors and President, other work assigned to the company's auditors, and advice or other assistance required due to observations made during the review or implementation of such other assignments.

Note 8	Employees, staff costs and remuneration of senior executives	
	2019	2018
Average number of employees		
<i>Sweden</i>		
Men	12	14
Women	16	18
Total number of employees	28	32
Salaries and other remuneration, as well as social security expenses, other employees		
Salaries and remuneration	22	22
Social security expenses	21	17
of which, pension costs	11	9
Total	43	39
Board of Directors and other senior executives		
Salaries and remuneration	11	14
of which, fixed salary to the President and Executive Vice President	3	6
of which, fixed salary to other senior executives	5	5
Social security expenses	8	13
of which, pension costs	4	7
Total	19	27
Total salaries, other remuneration and social security expenses		
Salaries and remuneration	33	35
of which, variable salary	-	-
Social security expenses	29	31
of which, pension costs	15	16
Total	62	66

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. Employee representatives and Board members of the Länsförsäkringar AB Group do not receive any directors' fees.

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. Other senior executives are the individuals who, together with the President, comprise corporate management.

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

Remuneration of senior executives	Pension costs as a percentage of pensionable salary, %					
	2019, SEK M	Basic salary/ Board fee	Other remuneration	Pension costs	Total	Defined-contribution
Jakob Carlsson, President from 1 May		2.3	0.0	0.8	3.1	44
Jörgen Svensson, former President		1.3	0.1	0.6	2.0	49
Sten Dunér, Chairman of the Board		0.6	-	-	0.6	
Anna Söderblom, Deputy Chairman		0.3	-	-	0.3	
Eric Grimlund, Board member		0.3	-	-	0.3	
Olof Wogén, Board member		0.3	-	-	0.3	
Marie-Louise Zetterström, Board member		0.3	-	-	0.3	
Lars Holmgren, Board member		0.1	-	-	0.1	
Lena Lilja, Board member		0.1	-	-	0.1	
Anders Grånäs, Board member		0.1	-	-	0.1	
Mats Andersson, former Board member		0.1	-	-	0.1	
Gunnar Wetterberg, former Board member		0.1	-	-	0.1	
Örian Söderberg, former Board member		0.1	-	-	0.1	
Henrik Perlmutter, former Board member		0.1	-	-	0.1	
Other senior executives (4 people)		4.8	0.0	2.5	7.3	44
Total 2019		10.9	0.1	3.9	14.9	

Remuneration of senior executives	Pension costs as a percentage of pensionable salary, %					
	2018, SEK M	Basic salary/ Board fee	Other remuneration	Pension costs	Total	Defined-contribution
Jörgen Svensson, President		3.9	0.1	4.3	8.3	51
Jakob Carlsson, Executive Vice President		1.9	0.0	0.8	2.7	44
Sten Dunér, Chairman of the Board		0.5	-	-	0.5	
Karl-Olof Hammarkvist, former Chairman of the Board		0.2	-	-	0.2	
Anna Söderblom, Deputy Chairman		0.3	-	-	0.3	
Gunnar Wetterberg, former Board member		0.3	-	-	0.3	
Henrik Perlmutter, Board member		0.2	-	-	0.2	
Eric Grimlund, Board member		0.2	-	-	0.2	
Mats Andersson, Board member		0.2	-	-	0.2	
Olof Wogén, Board member		0.1	-	-	0.1	
Marie-Louise Zetterström, Board member		0.3	-	-	0.3	
Örian Söderberg, Board member		0.3	-	-	0.3	
Ingemar Larsson, former Board member		0.1	-	-	0.1	
Karin Starrin, former Board member		0.1	-	-	0.1	
Other senior executives (3 people)		5.1	0.0	2.2	7.3	44
Total 2018		13.7	0.1	7.3	21.1	

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 the pension premium is to amount to 35% of the monthly salary.

The retirement age for other senior executives is 65. The terms comply with pension agreements between the FAO, Forena and SACO.

Furthermore, an additional pension premium corresponding to one price base amount per year is paid every year for each senior executive.

Severance pay

A mutual period of notice of six months applies to the President. If the company terminates employment, severance pay corresponding to 12 months' salary is paid during the period of notice.

For other senior executives, the period of notice follows applicable collective agreements between the Swedish Insurance Employers' Association (FAO), Forena and the Swedish Confederation of Professional Associations (SACO).

Preparation and decision-making process applied in relation to the issue of remuneration of corporate management

A Remuneration Policy for the Länsförsäkringar AB Group regulates the preparation and decision-making process for remuneration of corporate management.

The Remuneration Committee prepares important remuneration decisions and decisions on measures for following up the application of the Remuneration Policy. The Board decides on remuneration and other terms of employment for corporate management and employees with overall responsibility for one of the company's control functions.

Composition of Remuneration Committee and mandate

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

Policies for remuneration of corporate management

Senior executives in the Länsförsäkringar AB Group are to have market-based employment terms and conditions. The total remuneration must be on par with the industry. The structure and level of remuneration should 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.

Pension

Pensions should comply with the terms of the collective agreements between the Swedish Insurance Employers' Association (FAO), Forena and SACO.

Other benefits

In addition to the above benefits, a company car, health care insurance and other benefits are offered to all employees.

Number of women among senior executives, %

	31 Dec 2019	31 Dec 2018
Board members	45	33
Other senior executives	0	20

Note 9		Tax						
	2019	2018		2019	2018		2019	2018
Current tax expense				Reconciliation of effective tax rate				
Yield tax on pension funds	-93	-100	Profit before tax	5,564	784			
Tax	-4	-75	Less, earnings in operations with taxable returns	-5,648	-444			
Adjustment of tax pertaining to prior years	0	0	Total profit in income-taxed operations	16	340			
Total recognised tax expense	-97	-175	Tax at applicable tax rate	-3	-75			
Tax rates applied:			Tax on non-deductible costs	-0	-1			
Average government funding rate for taxation, pension insurance	0.50%	0.51%	Tax on non-taxable income	0	1			
Government funding rate for taxation, endowment insurance	1.51%	1.49%	Tax attributable to prior periods	-0	-0			
Tax rate for calculating income tax	21.4%	22%	Tax attributable to appropriations	-1	-0			
			Total tax on net profit for the year	-4	-75			
			<i>Effective tax rate, %</i>	<i>28.7%</i>	<i>21.9%</i>			

Note 10		Shares and participations in Group companies						
Company name	Corporate Registration Number	Registered office	Number of shares/ participations	Share of equity, %	Equity 2019	Earnings 2019	Carrying amount	Fair value
Länsförsäkringar Komplement AB	556660-1257	Stockholm	1,000	100%	0	0	0	0
Fastighets KB Automobilpalatset	969680-4195	Stockholm	1,000	100%	30	0	30	30
Total 31 December 2019					30	0	30	30
Total 31 December 2018					30	0	30	30

All shares and participations are unlisted.

Cost	31 Dec 2019	31 Dec 2018
Opening balance	164	164
Share of gains/losses from limited partnerships	0	0
Closing balance	164	164
Accumulated changes in value		
Opening balance	-134	-134
Closing balance	-134	-134
Total carrying amount	30	30
Fair value	30	30

Note 11		Interest-bearing securities issued by Group companies and loans to Group companies	
	31 Dec 2019	31 Dec 2018	
Listed bonds issued by Länsförsäkringar Hypotek	3,376	2,940	
Listed bonds issued by Länsförsäkringar Bank	-	116	
Total fair value	3,376	3,056	
Amortised cost	3,349	3,015	

Note 12		Shares and participations in associated companies						
Company name	Corporate Registration Number	Registered office	Number of shares/ participations	Share of equity, %	Equity 2019	Earnings 2019	Carrying amount	Fair value
FAB S-Holt i Kista	556678-4715	Stockholm	499	49.9	1	0	0	0
Lansa Fastigheter AB	559067-0260	Gothenburg	38,318	23.8	1,937	129	4	16
Total 31 December 2019					1,938	129	4	16
Total 31 December 2018					1	1	0	0

All shares and participations are unlisted.

It has been assessed that the holdings in associated companies are not of material significance to the Parent Company.

Cost	31 Dec 2019	31 Dec 2018
Opening balance	0	0
Added and deducted assets	4	0
Closing balance	4	0

Note 13 Shares and participations		
	31 Dec 2019	31 Dec 2018
Listed shares and participations	22,298	16,252
Unlisted shares and participations	5,480	7,749
Total fair value	27,778	24,001
Cost	19,321	16,253
Total carrying amount	27,778	24,001
Less, assets for conditional bonus	-3,288	-2,722
Total	24,490	21,279

Note 14 Bonds and other interest-bearing securities		
	31 Dec 2019	31 Dec 2018
Issuer		
Swedish government	4,142	6,124
Swedish mortgage institutions	27,959	26,906
Other Swedish issuers	17,167	16,619
Foreign states	5,306	4,618
Other foreign issuers	23,003	23,285
Total fair value	77,576	77,552
Amortised cost	70,501	70,162
Market status		
Listed securities	74,465	75,463
Unlisted securities	3,112	2,089
Total	77,576	77,552
Carrying amounts compared with nominal amounts		
Total surplus	6,547	6,074
Total deficit	-130	-169
Total carrying amount	77,576	77,552
Less, assets for conditional bonus	-1,065	-908
Total	76,511	76,644

Note 15 Derivatives				
	Carrying amount		Nominal amount	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Derivatives with positive values or valued at zero				
Equity	60	2	80	0
Interest	6,028	5,199	39,855	42,140
Currency	661	484	24,284	32,230
Total	6,749	5,685	64,220	74,370
Derivatives with negative values				
Equity	-	11	-	0
Interest	3,829	3,621	13,396	14,470
Currency	212	196	8,979	7,881
Total	4,040	3,828	22,375	22,351
Total carrying amount for derivatives with positive values	6,749	5,685		
Less, assets for conditional bonus	-52	-19		
Total	6,697	5,666		

Note 16 Information about offsetting

The table shows the financial instruments covered by a legally binding agreement regarding netting or a similar agreement, together with related collateral. The company has ISDA and CSA agreements with all derivative counterparties, which means that all exposures are covered by these types of agreements. The agreements entitle the parties to offset liabilities and receivables in the event of suspension of payment or insolvency. The net amount comprises the amount that in the event of suspension of payment or insolvency would be received if the amount is an asset, or paid if the amount is a liability.

Financial assets and liabilities that are offset or subject to netting agreements						
31 Dec 2019	Gross amount	Offset in balance sheet	Net amounts in balance sheet	Related amounts not offset in the balance sheet		Net amount
				Netting framework agreement	Collateral Received(-) / Pledged(+)	
Assets						
Derivatives	6,749	0	6,749	-2,584	-4,228	-64
Liabilities						
Derivatives	-4,040	0	-4,040	2,584	1,506	51
Total	2,709	0	2,709	0	-2,722	-13

Financial assets and liabilities that are offset or subject to netting agreements						
31 Dec 2018	Gross amount	Offset in balance sheet	Net amounts in balance sheet	Related amounts not offset in the balance sheet		Net amount
				Netting framework agreement	Collateral Received(-) / Pledged(+)	
Assets						
Derivatives	5,685	-	5,685	-2,671	-2,648	366
Liabilities						
Derivatives	-3,828	-	-3,828	2,671	1,350	193
Total	1,857	-	1,857	0	-1,298	559

Note 17 Assets and provisions for conditional bonus		
	31 Dec 2019	31 Dec 2018
Opening balance	3,987	5,869
Change in value	884	-1,882
Closing balance	4,871	3,987

Changes in provisions are recognised in profit or loss on the line item Technical provisions for life assurance for which the policyholder bears the risk. The change in fair value on the asset side is recognised in profit or loss on the rows Investment income, revenue and expense, and Unrealised gains and Unrealised losses.

Note 18 Other receivables		
	31 Dec 2019	31 Dec 2018
Receivables from Länsförsäkringar AB Group	16	38
Collateral and non-liquidity-settled sales of investment assets	2,714	1,351
Total	2,730	1,399

In its calculation of loss allowance for financial receivables, the company uses the simplified method that is described in more detail in note 1 Accounting policies. The loss allowance on 31 December 2019 amounted to SEK 0 M (0).

Note 19 Deferred acquisition costs		
	31 Dec 2019	31 Dec 2018
Insurance contracts		
Opening balance	71	102
Capitalised costs during the year	8	7
Depreciation according to plan for the year	-28	-38
Closing balance	51	71

Note 22 Provision for claims outstanding					
	Established claims	Non-established claims	Provision for claims and disability annuities	Total 31 Dec 2019	Total 31 Dec 2018
Opening balance	58	182	1,611	1,851	2,157
Change	4	-7	-120	-123	-306
Closing balance	62	175	1,491	1,728	1,851

Note 23 Liabilities, direct insurance		
	31 Dec 2019	31 Dec 2018
Liabilities to policyholders	113	137
Liabilities to insurance brokers	5	-4
Total	118	133

Note 24 Other liabilities		
	31 Dec 2019	31 Dec 2018
Liabilities to Group companies	30	44
Liabilities to Länsförsäkringar AB Group	190	108
Collateral and non-liquidity-settled sales of investment assets	4,228	2,648
Other liabilities	149	212
Total	4,597	3,012

Note 20 Share capital		
	31 Dec 2019	31 Dec 2018
Number of shares, issued and paid	8,000	8,000
Quotient value per share, SEK	1,000	1,000
Number of shares outstanding	8,000	8,000

According to applicable Articles of Association, the company is unable to pay any dividend. The changes in equity, compared with the preceding year's balance sheet, are recognised in the statement of changes in equity.

Note 21 Life-assurance reserve		
	31 Dec 2019	31 Dec 2018
Opening balance	79,012	82,140
Payments	1,020	1,026
Claims paid	-4,668	-4,835
Estimated costs withdrawn ¹⁾	-360	-393
Investment income contributed to life-assurance reserves	-135	-358
Change in reserves due to amended interest rate assumptions	4,237	2,395
Mortality results	-30	-40
Tax expense withdrawal, life-assurance reserve	-62	-95
Change due to basic change to New Trad	-47	-123
Adjustment of LA (risk margin)	-12	205
Other changes ²⁾	-536	-910
Closing balance	78,419	79,012

¹⁾ Of which, costs withdrawn for asset management SEK -114 M (-129). Introduced in 2016.

²⁾ The largest items included in "Other changes" for 2019 are changes due to internal transfers to New Trad of SEK -297 M.

The discount rate curve defined by the EIOPA is used for life-assurance reserves and provision for disability annuities at fixed amounts. This curve has been produced to correspond to a risk-free interest rate term structure and is based on market data for Swedish swap rates. A macroeconomic assumption of a long-term interest rate of 3.9% is also included. A yield curve for break-even inflation, calculated as nominal interest minus real interest for government bonds, was used for indexed disability annuities.

Note 25 Financial assets and liabilities by category

31 Dec 2019	Financial assets measured at FVPL			Financial assets measured at FVOCI		Total carrying amount	Fair value
	Measured at FVPL	Equity instruments	Financial assets measured at amortised cost	Debt instruments measured at FVOCI	Equity instruments		
Assets							
Interest-bearing securities issued by Group companies and loans to Group companies	3,376	-	-	-	-	3,376	3,376
Shares and participations	24,483	-	-	-	7	24,490	24,490
Bonds and other interest-bearing securities	76,511	-	-	-	-	76,511	76,511
Derivatives	6,697	-	-	-	-	6,697	6,697
Assets for conditional bonus	4,871	-	-	-	-	4,871	4,871
Other receivables	-	-	2,730	-	-	2,730	2,730
Cash and bank balances	-	-	3,563	-	-	3,563	3,563
Total	115,938	-	6,293	-	7	122,238	122,238

	Financial liabilities measured at FVPL	Financial liabilities measured at amortised cost	Total carrying amount	Fair value
Liabilities				
Derivatives	4,040	-	4,040	4,040
Other liabilities	-	4,460	4,460	4,460
Accrued expenses and deferred income	-	2	2	2
Total	4,040	4,462	8,502	8,502

The carrying amount of assets classified as Financial assets measured at amortised cost and liabilities classified as Financial liabilities measured at amortised cost 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.

31 Dec 2018	Financial assets measured at FVPL			Financial assets measured at FVOCI		Total carrying amount	Fair value
	Measured at FVPL	Equity instruments	Financial assets measured at amortised cost	Debt instruments measured at FVOCI	Equity instruments		
Assets							
Interest-bearing securities issued by Group companies and loans to Group companies	3,056	-	-	-	-	3,056	3,056
Shares and participations	23,994 ¹⁾	-	-	-	7	24,001	24,001
Bonds and other interest-bearing securities	77,552 ¹⁾	-	-	-	-	77,552	77,552
Derivatives	5,684 ¹⁾	-	-	-	-	5,684	5,684
Assets for conditional bonus	3,987	-	-	-	-	3,987	3,987
Other receivables	-	-	1,399	-	-	1,399	1,399
Cash and bank balances	-	-	3,978	-	-	3,978	3,978
Total	114,273	-	5,377	-	7	119,657	119,657

	Financial liabilities measured at FVPL	Financial liabilities measured at amortised cost	Total carrying amount	Fair value
Liabilities				
Derivatives	3,628	-	3,628	3,628
Other liabilities	-	2,868	2,868	2,868
Accrued expenses and deferred income	-	3	3	2
Total	3,628	2,871	6,499	6,499

The fair value of assets classified as Loans and receivables and liabilities classified as Other financial liabilities comprises a reasonable approximation of the fair value based on the cost of the assets and liabilities since these assets and liabilities have short terms.

¹⁾ Including amounts in the balance sheet recognised as assets for conditional bonus.

Note 26 Fair value valuation techniques

Financial assets and liabilities measured at fair value in the statement of financial position are presented in the table based on the valuation techniques applied:

Level 1 refers to prices determined from prices quoted in an active market.

Level 2 refers to prices determined by calculated prices of observable market data.

Level 3 refers to prices based on own assumptions and judgements.

31 Dec 2019	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Interest-bearing securities issued by Group companies and loans to Group companies	3,376	-	-	3,376
Shares and participations	19,010	7	5,473	24,490
Bonds and other interest-bearing securities	73,004	396	3,112	76,511
Derivatives	78	6,619	-	6,697
Assets for conditional bonus	4,819	52	-	4,871
Liabilities				
Derivatives	2	4,038	-	4,040

31 Dec 2018	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Interest-bearing securities issued by Group companies and loans to Group companies	3,056	-	-	3,056
Shares and participations	13,530	7	7,742	21,279
Bonds and other interest-bearing securities	74,226	329	2,089	76,644
Derivatives	18	5,648	-	5,666
Assets for conditional bonus	3,969	18	-	3,987
Liabilities				
Derivatives	12	3,816	-	3,828

There were no significant transfers between Level 1 and Level 2 during 2019 or during 2018. There were no transfers from Level 3 in 2019 or 2018.

Shares and participations in Level 3 are measured at equity per share based on the most recent company report. Delisted, insolvent companies are measured at zero, if no other listing can be found.

Holdings in private equity funds classified as shares in Level 3 are valued externally by the manager of each fund. The valuation of each fund is based on the valuation of the fund's holdings in portfolio companies. The valuation of underlying portfolio companies is based on systematic comparisons with market-listed comparable companies or on a value based on a relevant third-party transaction. In certain cases, the valuations are based on discounted cash flows or methods based on other unobservable data. The valuation is performed in accordance with industry practice, for example, International Private Equity and Venture Capital Valuation Guidelines, which are supported by many industry organisations, such as the EVCA (European Venture Capital Association).

Bonds and other interest-bearing securities that are not quoted in an active market comprise interest-bearing, unlisted loans that are valued using unobservable market data and are classified according to measurement Level 3. Valuations are performed by external managers based on generally accepted valuation techniques, which means that the underlying holdings held by the issuer of the loan are valued based on relevant observable market data wherever available, and holdings for which market data is not available are measured at a fair value corresponding to the cost adjusted for any impairment.

Gains and losses are recognised in profit or loss under Investment income, revenue and Investment income, expenses. For information on determination of fair value, valuation techniques and inputs, see note 1 Accounting policies.

Change Level 3

	Shares and participations	Bonds and other interest-bearing securities	Total
Opening balance, 1 January 2018	6,657	1,520	8,178
Acquisitions	454	593	1,047
Divestments	-55	-14	-69
Recognised in profit or loss	686	-10	676
Closing balance, 31 December 2018	7,742	2,089	9,831
Opening balance, 1 January 2019	7,742	2,089	9,831
Acquisitions	973	959	1,932
Divestments	-136	-14	-150
Recognised in profit or loss	-3,107	78	-3,029
Closing balance, 31 December 2019	5,473	3,112	8,584

Note 27 Recovery dates

	2019		2018	
	Not more than 1 year	More than 1 year	Not more than 1 year	More than 1 year
Assets				
Shares and participations in Group companies	-	30	-	30
Interest-bearing securities issued by Group companies and loans to Group companies	2,867	509	351	2,705
Shares and participations in associated companies	-	4	-	-
Shares and participations	-	24,490	-	21,279
Bonds and other interest-bearing securities	3,878	72,633	6,668	69,976
Derivatives	6,697	-	5,666	-
Assets for conditional bonus	187	4,684	194	3,793
Reinsurers' portion of provision for claims outstanding	-	-	84	313
Other receivables	2,730	-	1,399	-
Property and equipment	-	1	-	1
Current tax assets	70	-	-	-
Cash and cash equivalents	3,563	-	3,978	-
Deferred acquisition costs	18	33	38	33
Other prepaid expenses and accrued income	2	-	1	-
Total	20,012	102,384	18,379	98,130
Liabilities				
Life-assurance reserve	4,816	73,603	5,079	73,933
Provision for claims outstanding	372	1,356	349	1,502
Conditional bonus	187	4,684	194	3,793
Provision for pensions and similar commitments	-	26	-	23
Other provisions	6	-	7	-
Deposits from reinsurers	-	-	84	313
Liabilities, direct insurance	118	-	133	-
Liabilities, reinsurance	147	-	33	-
Derivatives	4,040	-	3,828	-
Other liabilities	4,597	-	3,012	-
Other accrued expenses and deferred income	179	-	183	-
Total	14,462	79,669	12,902	79,564

Note 28 Pledged assets and contingent liabilities

	31 Dec 2019	31 Dec 2018
For own liabilities, pledged assets		
Assets registered for technical provisions:	85,018	84,453
Total	85,018	84,453
¹⁾ Assets pledged for the benefit of policyholders to cover technical provisions in accordance with Chapter 6, Section 11 of the Insurance Business Act. The amount recognised as pledged assets corresponds to the technical liabilities after deductions for reinsurers' portion. All assets recognised in the benefit register amounted to SEK 113,243 M (108,017).		
Other pledged assets	3	3
Total	3	3
Contingent liabilities		
Part-owner of Fastighets KB Automobilpalatset	-	14
Total	-	14
Commitments		
Loan commitments	500	-
Remaining amount to invest in investment assets	10,824	4,391

Organisation

Länsförsäkringar Liv is a wholly owned subsidiary of Länsförsäkringar AB, which in turn is owned by 23 customer-owned regional insurance companies.

Some operations in the Länsförsäkringar Alliance are conducted jointly via outsourcing and purchases of services, for example, in finance, legal, life-assurance administration, asset management, security, staff, communication and operation, management and development of joint IT systems. This means that there are a large number of ongoing transactions and a few non-recurring transactions between the companies within the Länsförsäkringar Alliance.

Related legal entities and related parties

Länsförsäkringar Liv's operations are conducted according to mutual principles. This means that no profits may be distributed to shareholders.

Related legal entities include all companies within the Länsförsäkringar AB Group, the regional insurance companies and the local insurance companies. All of these companies combined comprise the Länsförsäkringar Alliance. Related key persons are Board members, senior executives and their close family members and companies owned by them.

Remuneration of Board members and senior executives in Länsförsäkringar Liv is found in note 8 Employees, staff costs and remuneration of senior executives. In all other respects, no transactions took place between these individuals and their related parties apart from normal customer transactions.

Guidelines for managing conflicts of interest

It is important that there is a well-functioning system to prevent disguised dividends or other non-permitted capital use, while utilising policyholders' interest in enjoying economies of scale and other benefits from being part of a group. Länsförsäkringar Liv's Board of Directors has established guidelines for managing conflicts of interest aimed at establishing principles for identifying and managing conflicts of interest, and serving as a tool to promote a high level of internal governance and control, and helping to protect the interests of customers and other stakeholders.

Pricing

Pricing for service activities within Länsförsäkringar is normally based on direct and indirect costs. Overall, pricing is intended to distribute costs fairly within the Länsförsäkringar Alliance based on consumption.

There is a price list for individual services, for example, project management, development costs and training. Individual services pertain to services that are individually priced and which Länsförsäkringar Liv may choose to purchase from Länsförsäkringar AB when necessary. Prices for individual services are set to reflect consumption of the product or service and invoicing is according to agreement with the customer.

Länsförsäkringar Liv signed a 20-year service agreement with Länsförsäkringar AB and Länsförsäkringar Fondliv in 2019 for deliveries of certain services at a fixed price per year. This fixed-price agreement applies for basic services from Länsförsäkringar AB (for example, costs for rent, workspaces and shared functions), obligatory services from Länsförsäkringar AB (for example, for shared service and development for the Länsförsäkringar Alliance) and services from Länsförsäkringar Fondliv (for example, life-assurance administration, IT management of the shared life-assurance system, risk assessment and claims adjustment).

Decision-making process

The transactions are based on written agreements at market standards and terms. The decision-making documentation prior to a new agreement with related legal entities must be written and contain a risk assessment for conflicts of interest. The decision-making documentation must also include a brief requirement and impact analysis, as well as the person responsible for the transaction. The company-specific appendix to the guidelines on managing conflicts of interest contain additional provisions that are to be observed for internal transactions regarding the preparation and format of decision-making documentation.

There are assignment agreements that regulate the assignments that Länsförsäkringar Liv has commissioned other companies in the Länsförsäkringar Alliance to perform. The assignment agreements state how control and planning of the outsourced operation is to take place. There are also specifications for assignment agreements that describes each assignment's service content, service level and execution.

Monitoring

Invoices under the fixed-price agreement are monitored continuously. The total costs and internal costs are reported to the Board of Länsförsäkringar Liv and corporate management.

Länsförsäkringar Liv's transactions with related parties

The following section provides a description of the most significant related-party transactions in 2019.

1) Services from Länsförsäkringar AB

Services from Länsförsäkringar AB are primarily based on outsourcing agreements for IT, service and development. A more detailed description of pricing and organisation for

these services is available in the above section about regulations for internal transactions of an ongoing nature.

From 1 January 2019, Basic Services in the Länsförsäkringar AB Group and Obligatory Services are included in the fixed-price agreement that Länsförsäkringar Liv signed with Länsförsäkringar AB and Länsförsäkringar Fondliv.

Prices for individual services are set to reflect consumption of the product or service and invoicing is according to agreement with the customer.

2) Bonds in Länsförsäkringar Hypotek AB

Länsförsäkringar Liv owns listed bonds issued by Länsförsäkringar Hypotek AB with a fair value of SEK 3,376 M (2,940).

3) Regional insurance companies' distribution remuneration

Länsförsäkringar Liv pays remuneration to the regional insurance companies for customer care based on capital under management (New Trad), premiums paid and for the change to New Trad management. Remuneration levels are regulated through agreements.

4) Service offerings between Länsförsäkringar Liv and Länsförsäkringar Fondliv

Länsförsäkringar Liv purchases administrative services from Länsförsäkringar Fondliv. Costs for these services are included in the fixed-price agreement that Länsförsäkringar Liv signed with Länsförsäkringar AB and Länsförsäkringar Fondliv. Services primarily pertain to life-assurance administration, IT management, administration of risk operations, risk assessment and claims adjustment.

5) Asset management in Länsförsäkringar AB and with external managers

Länsförsäkringar AB is commissioned by Länsförsäkringar Liv to manage investment assets through its asset management department and a number of external managers. For management, Länsförsäkringar Liv pays remuneration in relation to its proportion of the asset management department's actual operating expenses. The remuneration is calculated on cost price applicable at any time pursuant to adopted financial control policies within the Länsförsäkringar AB Group. For external management, the companies pay remuneration of a corresponding amount and on the same date as Länsförsäkringar AB pays remuneration to external managers. Some of the external management of the traditional portfolios and New World comprises funds via Länsförsäkringar Fondförvaltning AB. This share (of the total invested via funds) at year-end amounted to 63% for New Trad, 29% for Old Trad and 92% for New World. The remuneration paid to Länsförsäkringar Fondförvaltning AB is market-based. The agreement with Länsförsäkringar AB applies until further notice, with a 18-month period of notice.

6) Management remuneration from Länsförsäkringar Fondförvaltning AB

Länsförsäkringar Fondförvaltning provides management remuneration for managing New World as well as Old Trad and New Trade. The cooperation agreement applies until further notice, with a one-month period of notice.

7) Occupational pensions for employees of the Länsförsäkringar Alliance

Länsförsäkringar Liv provides occupational pensions for employees of the Länsförsäkringar Alliance. These pension benefits are based on agreements in the Swedish labour market and the premiums are market-based.

8) Bonds and subordinated debts in Länsförsäkringar Bank AB

Länsförsäkringar Liv owns listed bonds issued by Länsförsäkringar Bank AB with a fair value of SEK 0 M (116).

9) Cooperation with Länsförsäkringar Sak regarding procurement of catastrophe reinsurance:

Länsförsäkringar Liv has commissioned Länsförsäkringar Sak's Reinsurance department to take responsibility for the procurement and administration of non-proportional reinsurance of catastrophe risks. This cooperation entails that the parties will share the reinsurance cover. The premium amounted to SEK 0.9 M (1.0). No disaster claims were incurred during the year.

10) Agreement with Länsförsäkringar Fondliv regarding compensation for transfer of capital, when customers transfer their insurance, between the companies:

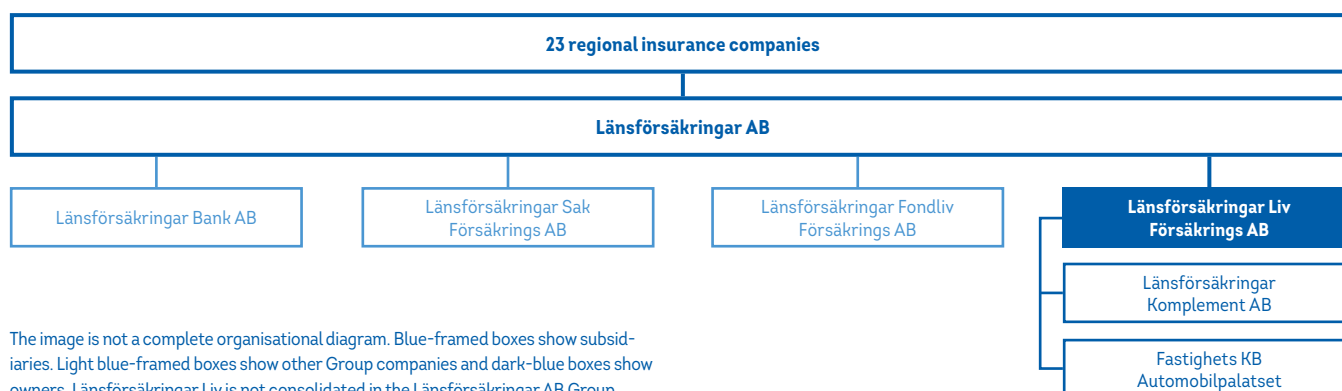
Premium flows currently take place between Länsförsäkringar Liv and Länsförsäkringar Fondliv when management forms are changed. Länsförsäkringar Liv and Länsförsäkringar Fondliv have agreed that the companies will pay compensation to each other based on commercial terms for the expenses arise when insurance capital is transferred between the two companies. This compensation is to be at a level corresponding to the transfer fees that apply at any time for external transfers from each party. Settlement is to take place every quarter between the parties according to separate accounts.

11) Agreements regarding AML services with Länsförsäkringar Bank AB:

Länsförsäkringar Bank AB provides certain anti-money laundering services and measures to combat terror financing. Länsförsäkringar Liv pays remuneration according to a cost-distribution principle adopted by the Boards of both companies. Costs for AML services were invoiced via Länsförsäkringar Bank AB in 2019.

Organisational structure

The tables below show the significant related-party transactions between companies within Länsförsäkringar Liv and legal entities closely related to the Group, as reported above. All amounts are in SEK M.



The image is not a complete organisational diagram. Blue-framed boxes show subsidiaries. Light blue-framed boxes show other Group companies and dark-blue boxes show owners. Länsförsäkringar Liv is not consolidated in the Länsförsäkringar AB Group.

Länsförsäkringar Liv's transactions with related parties

Nature	Counterparty	2019		2018		Reference
		Income	Expenses	Income	Expenses	
Services from Länsförsäkringar AB	Länsförsäkringar AB	-	103	-	125	1
Interest	Länsförsäkringar Hypotek AB	31	-	23	-	2
Distribution remuneration including remuneration capital	23 regional insurance companies	-	73	-	86	3
Services	Länsförsäkringar Fondliv AB	5	134	3	134	4
Asset management	Länsförsäkringar AB	-	95	-	99	5
Management remuneration	Länsförsäkringar Fondförvaltning AB	31	-	22	-	6
Occupational pension premiums for employees of the Länsförsäkringar Alliance	Länsförsäkringar Alliance	21	-	26	-	7
Interest	Länsförsäkringar Bank AB	-	-	1	-	8
Catastrophe reinsurance	Länsförsäkringar Sak AB	-	1	-	1	9
Compensation for transfer of capital	Länsförsäkringar Fondliv AB	1	-	2	-	10
AML services	Länsförsäkringar Bank AB	-	0	-	-	11
Total		89	406	77	445	

Related-party receivables and liabilities

Counterparty	31 Dec 2019		31 Dec 2018	
	Receivables	Liabilities	Receivables	Liabilities
Länsförsäkringar Hypotek AB	3,376	-	2,940	-
Länsförsäkringar Bank AB	800	-	1,072	-
Länsförsäkringar AB	5	3	35	18
Länsförsäkringar Fondliv AB	10	186	7	88
Länsförsäkringar Fondförvaltning AB	5	-	2	-
Regional insurance companies	-	5	-	13
Länsförsäkringar Sak AB	-	1	-	2
Fastighets KB Automobilpalatset	-	30	-	44
Total	4,196	225	4,056	165

Note 30 Significant events after the end of the fiscal year

New assumptions regarding the long-term discount rate: The discount rate curve used to calculate technical provisions regarding longer terms is based on the assumption of an Ultimate Forward Rate (UFR). Calculations of long-term technical provisions for both accounting purposes under IFRS and for solvency calculations under Solvency II are based on this UFR. The rules for determining the UFR under Solvency II entail that the rate was lowered from 3.9% to 3.75% on 1 January 2020. This rate reduction will increase both the technical liabilities under IFRS and under Solvency II by about SEK 320 M.

Note 31 Proposed appropriation of profit

The proposed appropriations as specified below will be presented to, and the income statement and balance sheet will be adopted at, the Annual General Meeting in May 2020.

Recognised profit for 2019 amounted to SEK 5,567,087,005.

The Board of Directors and the President propose that net profit for the year be appropriated as follows, SEK:

Net profit for the year	5,567,087,005
Total	5,567,087,005

Of the above net amount, withdrawals from (-) and provision to (+) the collective consolidation fund are proposed as follows, SEK.

Defined-contribution occupational pension insurance	2,767,792,452
Occupation-linked health insurance and premium exemption	20,626,589
Individual traditional life assurance	2,797,389,854
Non-cancellable accident and health insurance and premium exemption	-26,888,563
Accident and health	8,166,673
Total	5,567,087,005

The Board of Directors proposes that the Annual General Meeting authorise the Board in the 2020 fiscal year to use up to SEK 1,200 M of the funds in the collective consolidation fund for final allocations in connection with payments of pension and other claims payments to policyholders, transfers of insurance capital and repurchases as well as up to SEK 500 M for discounting premiums for certain risk products.

The company's income statement and balance sheet will be adopted at the Annual General Meeting in May 2020.

Stockholm, 10 March 2020

Sten Dunér
Chairman

Anna Söderblom
Board member, Deputy Chairman

Fredrik Bergström
Board member

Eric Grimlund
Board member

Anders Grånäs
Board member

Lars Holmgren
Board member

Lena Lilja
Board member

Olof Wogén
Board member

Marie-Louise Zetterström
Board member

Bitte Franzén Molander
Employee representative

Kristina Padel Roström
Employee representative

Jakob Carlsson
President

Our auditor's report was submitted on 10 March 2020
KPMG AB

Gunilla Wernelind
Authorised Public Accountant

Auditor's Report

To the general meeting of the shareholders of Länsförsäkringar Liv Försäkringsaktiebolag (publ), corp. id 516401-6627

Report on the annual accounts

Opinions

We have audited the annual accounts of Länsförsäkringar Liv Försäkringsaktiebolag (publ) for the year 2019, except for the sustainability report on pages 8-11. The annual accounts of the company are included on pages 4-44 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Insurance Companies, and present fairly, in all material respects, the financial position of Länsförsäkringar Liv Försäkringsaktiebolag (publ) as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Insurance Companies. Our opinions do not cover the sustainability report on pages 8-11. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet.

Our opinions in this report on the the annual accounts are consistent with the content of the additional report that has been submitted to the 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 Länsförsäkringar Liv Försäkringsaktiebolag (publ) 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 of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts as a whole, but I do not provide a separate opinion on these matters.

Technical provisions

See disclosure 21 and 22 and accounting principles on page 25 in the annual account for detailed information and description of the matter.

Description of key audit matter

The technical provisions in the annual accounts are stated at SEK 80,147 M at December 31, 2019, corresponding to 65 percent of total assets.

This is an area that involves significant judgments.

Life-insurance reserves correspond to the capital value of the guaranteed amounts of ongoing insurance contracts after deduction of the future agreed premiums.

Life-insurance reserves are calculated using generally accepted actuarial methods. The calculations contain assumptions such as interest rates, mortality, tax and operating expenses

Provision for claims outstanding consists of four different technical reserves: Provision for disability annuities, established claims, non-established claims and claims-handling reserve. Significant assumptions are morbidity and settlement period.

Response in the audit

We have assessed the applied assumptions in the actuarial methods used to calculate life-insurance reserves and provision for claims outstanding.

We have compared the valuation assumptions against the Company's own investigations, regulatory requirements and industry benchmarks.

We have involved our own actuarial specialists to assist us in challenging the methodology and assumptions used in the calculation of cash-flows and valuation of the technical provisions. We have via calculations checked that the provisions are adequate compared to the expected future contractual obligations or, with regards to provisions for disability annuities and non-established claims, compared to our own recalculations.

We have performed tests on a sample basis to assess the management's data extraction process, actuarial calculations and booking in the general ledger.

We have also considered the completeness of the underlying facts and circumstances that is presented in the disclosures in the accounts and assessed whether the information is adequate to understand management judgements.

Valuation of financial instruments classified as level 2 and 3

See disclosure 26 and accounting principles in the annual account for detailed information and description of the matter.

Description of key audit matter

The financial instruments classified as level 2 and 3 in the annual accounts are stated at SEK 19,697 M at December 31, 2019, corresponding to 18 percent of investment assets.

The fair value of financial assets, classified as level 2 according to the IFRS fair value hierarchy, are measured based on observable market data that are not included in level 1. Since there are a limited number of representative transactions for these assets the fair value is difficult to assess.

The fair value of financial assets classified as level 3 according to the IFRS fair value hierarchy is based on valuation models that involve significant levels of management judgements as the fair value calculation is based on input that is unobservable by a third party.

The Company's assets as above, consists of shares and participations and Bonds and other securities.

Response in the audit

We have tested the controls over the valuation process including management's determination and approval of assumptions and methods used in model-based calculations, controls over data integrity, change management for internal valuation models and management's review of valuations made by external experts.

We have engaged our internal valuation specialists to assist us in challenging the method and assumptions used in the valuation of unlisted financial assets.

We have assessed methods used in the valuation models against industry practice and valuation guidelines.

We have compared assumptions used against appropriate benchmarks and pricing sources and investigated significant differences.

We have also considered the completeness of the underlying facts and circumstances that is presented in the disclosures in the annual accounts and assessed whether the information is adequate to understand management judgements.

Other Information than the annual accounts

This document also contains other information than the annual accounts and is found on pages 1-3 and 8-11 and 48-57, but does not include the annual accounts and our auditor's report thereon. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual 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, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual 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 that they give a fair presentation in accordance with the Annual Accounts Act for Insurance Companies. 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 that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts The Board of Directors and the Managing Director are responsible for the assessment of the company'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 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.

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, 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. 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 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 or, if such disclosures are inadequate, to modify our opinion about the annual 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 the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

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, we have also audited the administration of the Board of Directors and the Managing Director of Länsförsäkringar Liv Försäkringsaktiebolag (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 Länsförsäkringar Liv Försäkringsaktiebolag (publ) 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 type of operations, size and risks place on the size of the company'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 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 Insurance Business Act, the Annual Accounts Act for Insurance 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 opinion regarding the statutory sustainability report

The Board of Directors is responsible for the sustainability report on pages 8–11, and that it is prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR:s auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

A statutory sustainability report has been prepared.

KPMG AB, Box 382, 101 27, Stockholm, was appointed auditor of Länsförsäkringar Liv Försäkringsaktiebolag (publ) by the general meeting of the shareholders on the 13 of May 2019. KPMG AB or auditors operating at KPMG AB have been the company's auditor since 2000.

Stockholm 10 March 2020

Gunilla Wernelind
Authorized Public Accountant

Corporate Governance Report

Introduction

Länsförsäkringar Liv Försäkringsaktiebolag (Länsförsäkringar Liv) 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 Liv is operated according to mutual principles, which entails that the earnings are not distributed to the owner; they remain with the customers.

Länsförsäkringar Liv complies with the applicable parts of the Swedish Corporate Governance Code (the Code). The main reason for deviations is that Länsförsäkringar Liv is not 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 52.

This Corporate Governance Report is unaudited.

Corporate governance

Länsförsäkringar Liv comprises the Traditional Life Assurance unit within the Länsförsäkringar AB Group.

Länsförsäkringar AB 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 regu-

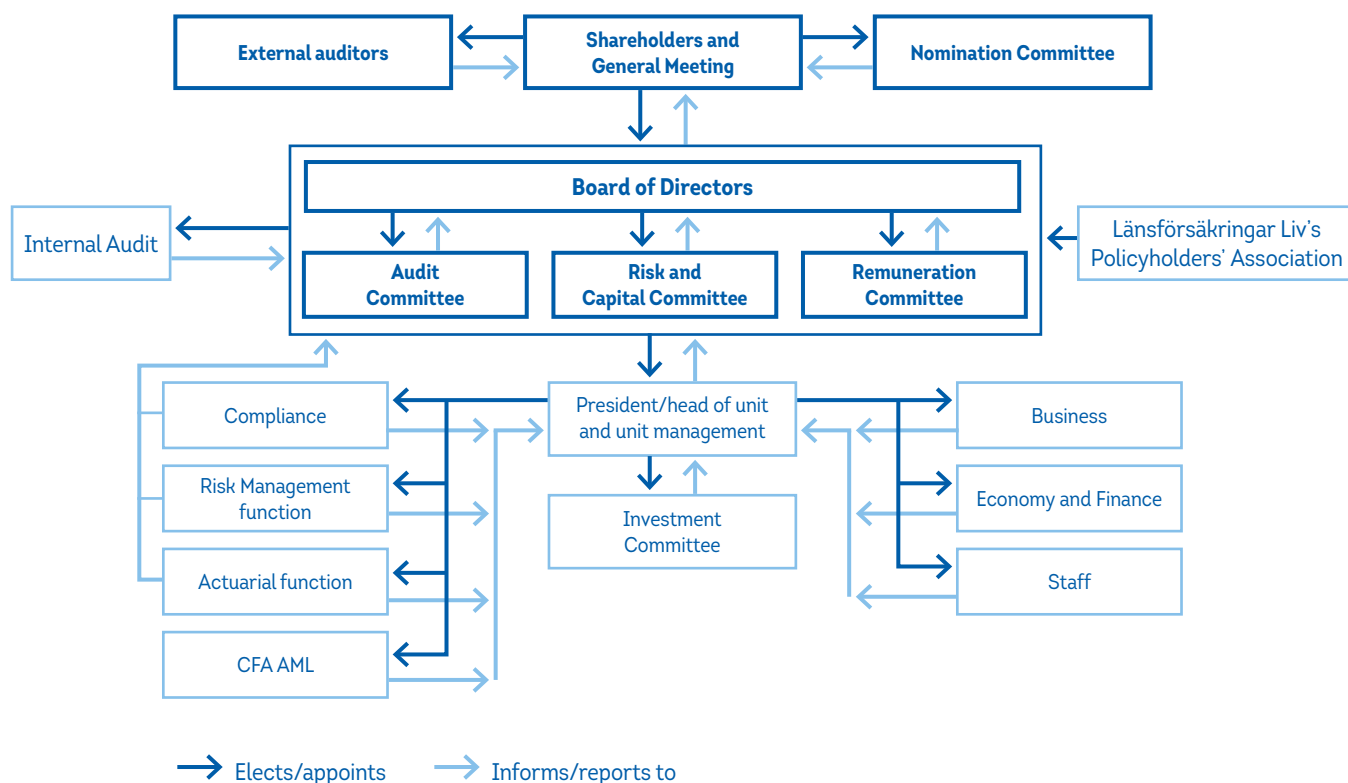
lations and internal-control system, while Länsförsäkringar Liv guarantees the governance and internal control within the company within the framework of the corporate governance system.

The Board establishes the operational organisation for Länsförsäkringar Liv, which should be appropriate and transparent, with a clear distribution of responsibility and information 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 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 and contingency plans, efficient systems for reporting and transferring information, information security, management of conflicts of interest and ensuring that Board members and employees are suited to their tasks.

The 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 Länsförsäkringar Liv. 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 and that financial statements and reporting are

Länsförsäkringar Liv's governance structure, figure 1



reliable. Furthermore, the internal control is to ensure that information systems are managed and operated efficiently, 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 at Länsförsäkringar Liv is based on a system comprising three lines of defence, which comprise operations in the first line, the Actuarial function and functions for compliance and risk control in the second line and the 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 Länsförsäkringar Liv's operations 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 figure 1.

The company has outsourced important parts of its operations to the Parent Company Länsförsäkringar AB and fellow subsidiary Länsförsäkringar Fondliv Försäkringsaktiebolag (Länsförsäkringar Fondliv). The main reason for this is that the greatest efficiency is

deemed to be achieved by performing certain functions jointly on a Group-wide basis. In addition, the fellow subsidiary Länsförsäkringar Bank AB manages anti-money laundering activities. Distribution and customer care are primarily managed by the regional insurance companies. Specialised expertise and resources are allocated in each responsible function in the company to ensure ordering, monitoring and control of the outsourced operations.

An overview of the organisation and outsourced operations is provided in figure 2.

Shareholders and General Meeting

Shareholders exercise their voting rights at the General Meeting, which is the highest decision-making body. A General Meeting is normally held once a year, known as the Annual General Meeting. Länsförsäkringar AB holds 100% of the capital and votes in Länsförsäkringar Liv.

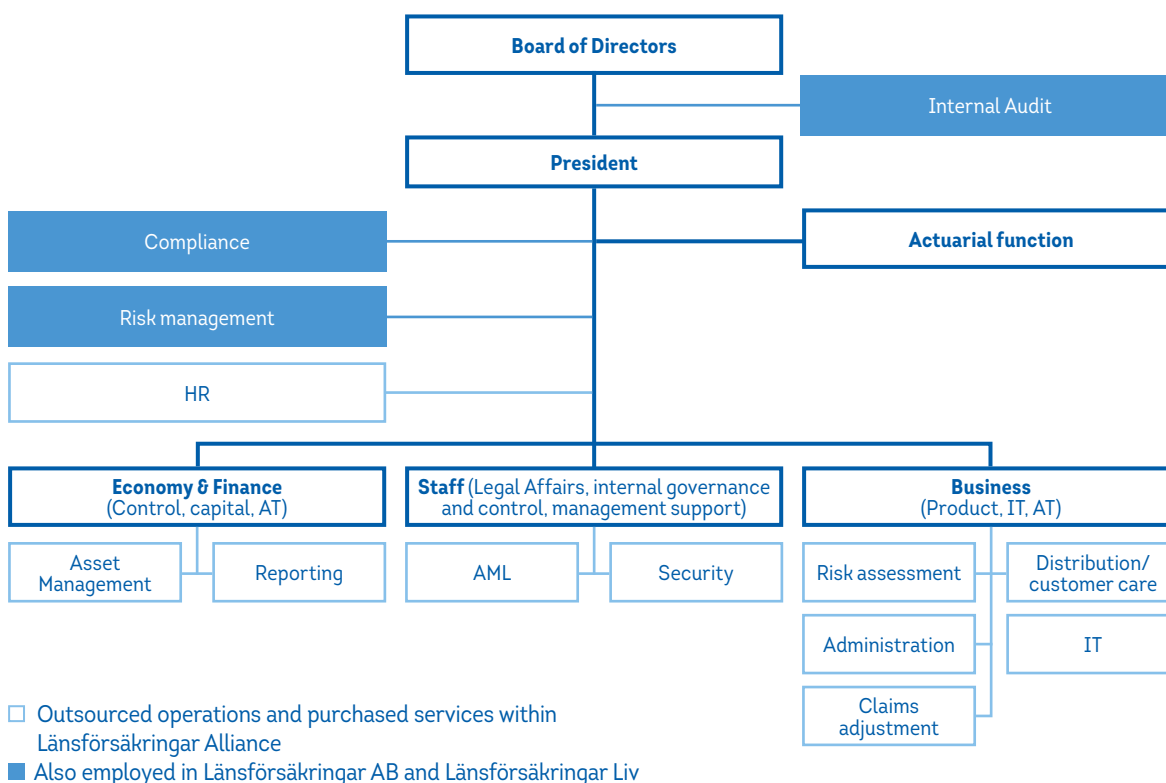
Decisions are made at the Annual General Meeting regarding the Annual Report, the election of members of the Board and auditors, fees and other remuneration of Board members and auditors, and other important matters to be addressed in accordance with laws or the Articles of Association. The proposal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

Länsförsäkringar Liv's organisational structure, figure 2



the task of presenting, in consultation with the CEO of Länsförsäkringar AB, proposals regarding the Board of Directors and auditors of companies including Länsförsäkringar Liv, and fees and other remuneration of these Board 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 is to assess whether the Board has a suitable composition, with respect to the operations, stage of development and other conditions of the company, that ensures the overall competencies and experience necessary for the company are in place, characterised by diversity in terms of, for example, age, gender and ethnic origin. The Nomination Committee is also responsible for ensuring that a suitability ("fit and proper") assessment of proposed individual Board members is performed.

Nomination Committee prior to Annual General Meeting

The Nomination Committee of Länsförsäkringar AB has comprised Otto Ramel as Chairman (Länsförsäkringar Skåne), Henrietta Hansson (Länsförsäkringar Jönköping), Anna-Greta Lundh (Länsförsäkringar Södermanland), Göran Trobro (Länsförsäkringar Göttinge Kristianstad) and Mats Åstrand (Länsförsäkringar Gävleborg) since the 2019 Annual General Meeting. Henrietta Hansson 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 requirements for expertise and experience, and
- reviewed and discussed requirements for expertise and experience 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 Liv 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. At the 2019 Annual General Meeting, KPMG AB was appointed as the audit firm with Gunilla Wernelind as auditor in charge for the period up to the 2022 Annual General Meeting.

The auditor examines Länsförsäkringar Liv's Annual Report, as well as the administration of the Board and the President. 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.

Länsförsäkringar Liv's Policyholders' Association

Länsförsäkringar Liv's Policyholders' Association was formed with the purpose of promoting the long-term interests of Länsförsäkringar Liv's policyholders. Members of the association are appointed by the policyholders in Länsförsäkringar Liv. To secure fulfilment of the purpose and ensure that the policyholders acquire influence and insight into the company's operations, the association is entitled to appoint two members to Länsförsäkringar Liv's Board of Directors. In matters of particular significance, the association will receive special information and be able to submit special statements.

Board of Directors

Composition of Board

In accordance with the Articles of Association, the Board of Directors of Länsförsäkringar Liv is to comprise between eight and 14 Board members, with between zero and six deputies. Board members are elected for a maximum 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 Liv has no time limit for the length of time a member may sit on the Board and no age limit for Board members. Two of the members are appointed by Länsförsäkringar Liv's Policyholders' Association. A majority of the Board members, including the employee representatives, must be independent in relation to Länsförsäkringar Liv and other companies in the same Group. The Chairman of the Board is appointed by the Annual General Meeting. The 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 has comprised 11 regular members and one deputy since the 2019 Annual General Meeting. Seven of the members are appointed by the General Meeting, two by Länsförsäkringar Liv's Policyholders' Association and two members and one deputy by the trade unions. Six of the members are independent. A presentation of the Board members can be found on pages 54 and 55 of the company's Annual Report.

Board responsibilities and allocation of duties

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

Every year, the Board adopts a formal work plan. The formal work plan includes a description of 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 reporting, as well as procedures for Board meetings in terms of notices of meetings and presentations of materials, as well as conflicts of interest and disqualification.

The Board is to continuously remain informed about the performance of the company to be able to continuously assess the company's financial situation and position. Through its formal work plan, the Board has established that financial reporting is to take place in

accordance with established instructions and through regular Board meetings.

The Board must also regularly manage and evaluate the company's risk development and risk management. During the year, the Board regularly reviews the company's earnings and business-volume trends, financial position and risk trends in relation to, for example, the business plan and forecasts. The Board receives regular reports from Compliance, the Risk Management function, the Actuarial function and Internal Audit. The Board continuously monitors current matters with authorities.

Chairman

According to the formal work plan, the Chairman is to lead the Board's work and ensure that the Board fulfils its duties. The Chairman 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. Through ongoing contact with the President, also between Board meetings, the Chairman is to remain informed of significant events and developments in the company, and support the President in his work.

Deputy Chairman

The Deputy Chairman is to support the Chairman in leading the Board's work and ensuring that the Board fulfils its duties. The Deputy Chairman replaces the Chairman in his/her absence or when a disqualification situation arises for the Chairman.

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 has established the company's operational structure, clarified the allocation of responsibilities between the various units and executives in the company, and stated how the operations are to be governed and controlled.

In addition to the Board's formal work plan and the company directive, the Board establishes a directive at least once per year for the President, risk policy, insurance guidelines, investment guidelines and guidelines for managing conflicts of interest, outsourcing guidelines as well as a large number of governance documents for the operations.

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

The Board conducts annual strategic seminars and evaluates 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 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 discussed such matters as the strategy for the life-assurance operations, arranged a risk workshop and received training in regulations and other current matters in connection with each scheduled Board meeting.

The number of Board meetings and members' attendance are presented in the table on page 52.

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.

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 Länsförsäkringar Liv's level of risk-taking and capital requirements. Prior to Board meetings, the Committee is to discuss and address issues relating to the following:

- asset management operations,
- risk policy,
- the methods, models and valuations of the company's partial internal model,
- internal risk and capital assessment, and
- follow-up of risk trends and potential deviations from risk limits.

At the first Board meeting held after the 2019 Annual General Meeting, Sten Dunér (Chairman), Fredrik Bergström, Anders Grånäs and Anna Söderblom 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 52.

Audit Committee

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

- 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 corporate governance system and control of the operational risks

At the first scheduled Board meeting after the 2019 Annual General Meeting, Eric Grimlund (Chairman), Sten Dunér, Olof Wogén and Marie-Louise Zetterström were appointed members of the Audit Committee. The number of Audit Committee meetings and members' attendance are presented in the table on page 52.

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. The Committee is also to prepare decisions on measures for following up the application of the Remuneration Policy.

At the first scheduled Board meeting after the 2019 Annual General Meeting, Sten Dunér (Chairman), Fredrik Bergström and Anna Söderblom were appointed members of the Remuneration Committee. The number of Remuneration Committee meetings and members' attendance are presented in the table on page 52.

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.

	Independent members	Board of Directors	Risk and Capital Committee	Audit Committee	Remuneration Committee
Total number of meetings		9	5	5	2
Mats Andersson ¹⁾ member until 13 May 2019	X	4	2		
Fredrik Bergström		8	5		2
Sten Dunér	X	9	5	5	2
Bitte Franzén Molander		7			
Eric Grimlund ²⁾		8		3	
Anders Grånäs ³⁾		2	3		
Lars Holmgren ⁴⁾	X	4			
Lena Lilja ⁴⁾	X	5			
Susanne Lindberg (deputy)		4			
Kristina Padel Roström		6			
Henrik Perlmutter ⁵⁾	X	4		2	
Örian Söderberg ⁵⁾		4		2	
Anna Söderblom	X	9	5		2
Gunnar Wetterberg ⁶⁾ member until 25 Feb 2019	X	1			
Marie-Louise Zetterström	X	6		5	
Olof Wogén ⁷⁾	X	9		3	

¹⁾ Board member and member of the Risk and Capital Committee until 13 May 2019.

²⁾ Member of the Audit Committee from 11 June 2019.

³⁾ Board member from 13 May 2019 and member of the Risk and Capital Committee from 11 June 2019.

⁴⁾ Board member from the AGM on 13 May 2019.

⁵⁾ Board member and member of the Audit Committee from 13 May 2019.

⁶⁾ Board member and member of the Risk and Capital Committee from 25 Feb 2019.

⁷⁾ Member of the Audit Committee from 11 June 2019.

President and corporate management

Jakob Carlsson has been the President of Länsförsäkringar Liv since May 2019. He was born in 1967.

The organisational structure of Länsförsäkringar Liv is divided into departments. In addition, there are four control functions: the Risk Management function, Compliance, the Actuarial function and Internal Audit. Corporate management comprises the President and the heads of the departments. Corporate management serves as a forum for consultation and exchange of information between the company's senior executives. Management discusses and decides on matters pertaining to the company.

The President has also established an Investment Committee for preparing, deciding on and monitoring asset management issues. The President is the Chairman of this Committee.

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.

The results of the Internal Audit's review are reported in summary to the Board and in more detail to the Audit Committee.

Compliance

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

Risk Management function

The Risk Management function provides support to the Board, President, management and the rest of the operations for fulfilling their responsibility of ensuring that proper risk management and risk control have been carried out for all operations and for ensuring that risks are managed in line with the risk framework established by the Board. The Risk Management function is to carry out its activities independently from the business activities. The Risk Management function reports regularly to the President and the Board. Operational risk is also continuously reported to the Audit Committee and other risks to the Risk and Capital Committee.

Actuarial function

The Actuarial function has the overall responsibility for the quality of the company's actuarial calculations and reports to management and the Board on matters pertaining to methods, calculations and assessments of the technical provisions, the valuation of insurance risks and reinsurance cover. The function also contributes to the company's risk-management system, for example, through its participation in the company's Own Risk and Solvency Assessment.

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 with respect to the fact that the company is not a stock-market company and only has one shareholder. For more information, see the sections Shareholders and General Meeting and Nomination Committee on page 49.

Period of office for Board members

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

Remuneration Committee

A deviation from the Code's requirements regards the independence of a majority of the members of the Committee in relation to the company and corporate management due to the federal structure, governance and working methods of the Länsförsäkringar Alliance.

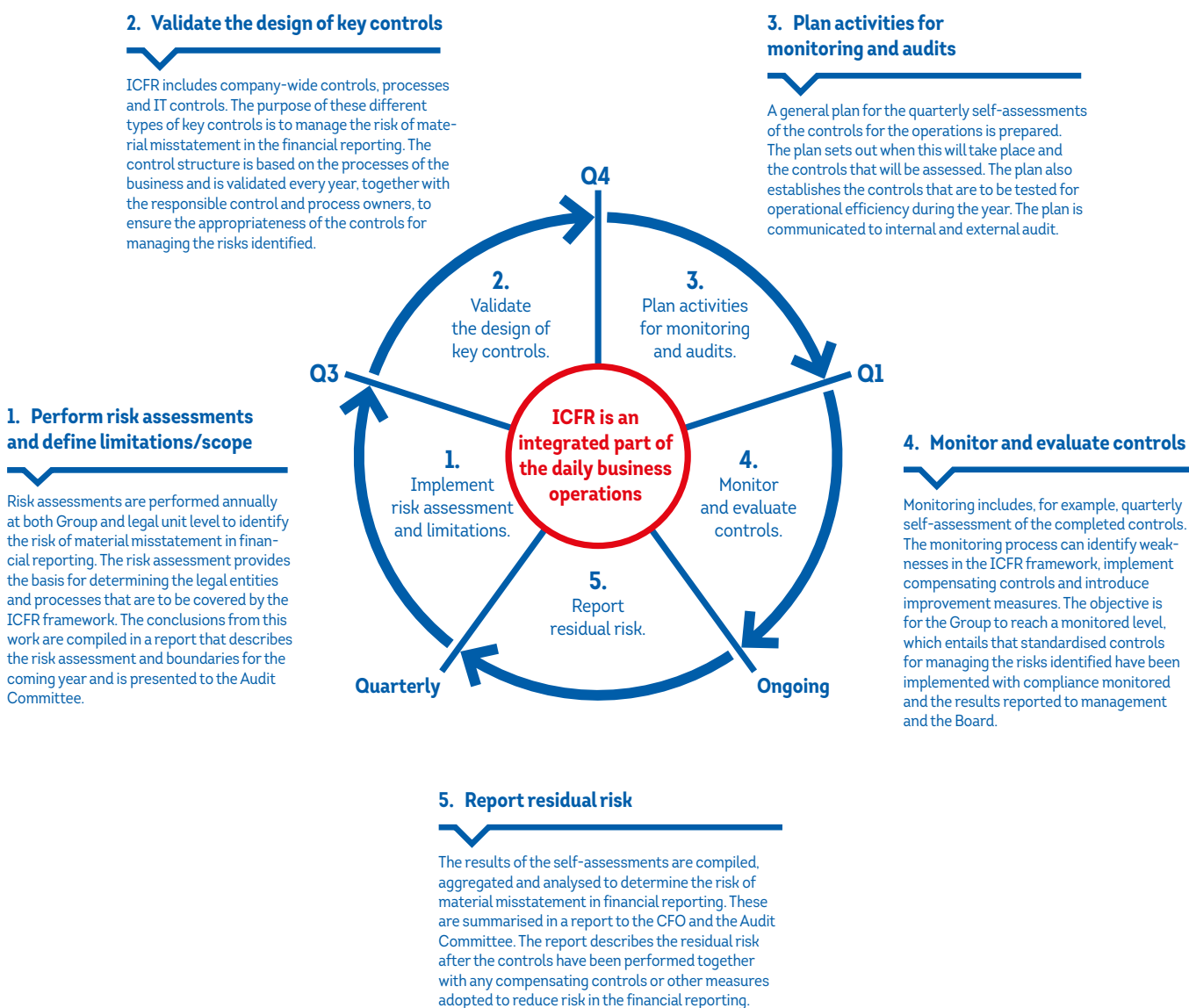
Financial reporting

Länsförsäkringar Liv is not a listed company and thus does not follow the special requirements on financial reporting that apply to listed companies.

Internal control over financial reporting

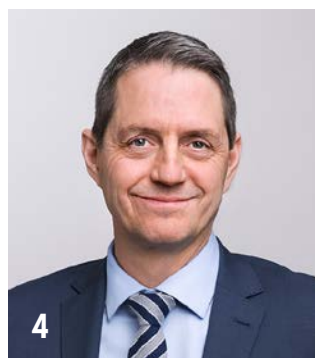
The Board's responsibility is to ensure that efficient systems are in place to monitor and control the company's operations and financial position. Internal control over financial reporting (ICFR) is a framework for providing reasonable assurance of the reliability of the financial reporting to management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

Board of Directors and auditor



1 Sten Dunér

Born 1951. Elected: 2009. **Education:** M.Sc. in Business and Economics. **Other Board appointments:** Board member of Fastighets AB Balder. **Previous experience:** President and CEO of Länsförsäkringar AB, Chairman of Länsförsäkringar Sak, Länsförsäkringar Bank and Länsförsäkringar Fondliv, Board member of Insurance Sweden, Swedish Insurance Employers' Association (FAO) and European Alliance Partners Company AG, CFO and other senior positions at Länsförsäkringar AB.

2 Anna Söderblom

Born: 1963. Doctor of Philosophy in Business and Economics. Lecturer and researcher at Stockholm School of Economics. Elected: 2015. **Education:** University degree in mathematics from Lund University. Doctor of Philosophy in Business and Economics from Stockholm School of Economics. **Other Board appointments:** Chairman of Advenica AB (publ.), Board member of Poolia AB (publ.), BTS Group AB (publ.), Midway Holding AB, Cabonline Holding AB and Almi Företagspartner. **Previous experience:** Technical Support Manager and Marketing Director at Microsoft Norden, Marketing Director at Posten Brev and Investment Manager Industrifonden.

3 Fredrik Bergström

Born 1970. Employed 2018. President and CEO of Länsförsäkringar AB. Elected: 2018. **Education:** M.Sc. in Business and Economics, Uppsala University. **Other Board appointments:** Chairman of Länsförsäkringar Bank AB, Länsförsäkringar Fondliv AB and Länsförsäkringar Sak AB, Board member of Insurance Sweden, Swedish Insurance Employers Association (FAO), European Alliance Partners Company AG, 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.

4 Eric Grimlund

Born 1967. Lawyer Elected: 2017. **Education:** LL.M. **Other Board appointments:** Chairman of Länsförsäkringar Skaraborg and Board member of Platzer Fastigheter Holding AB (publ).

5 Anders Grånäs

Born 1966. Elected 2019. **Education:** M.Sc. in Engineering Physics, Uppsala University, MBA Stanford University. **Other Board appointments:** Länsförsäkringar Bank AB, 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).

6 Lars Holmgren

Born 1952. Elected: 2019. **Education:** M.Sc. in Chemistry. **Other Board appointments:** Board member of Cliens Kapitalförvaltning AB **Previous experience:** CFO of Federation of Swedish Farmers, Chairman of LRF Försäkring, CFO of Föreningsbanken.

Auditor: KPMG AB, with Gunilla Wernelind as Authorised Public Accountant in charge. Elected by General Meeting.

7 Lena Lilja¹⁾

Born 1964. Elected: 2019. **Education:** Board and management educational courses. **Other Board appointments:** Board experience from property industry, travel and tourism and events industry. Developed companies in the advertising and consultancy industries and in the price-pressurised travel industry. **Previous experience:** Development and sale of companies.

8 Olof Wogén¹⁾

Born 1958. Elected: 2018. **Education:** M.Sc. in Business and Economics from the Stockholm School of Economics, MBA Warwick Business School. **Other Board appointments:** Chairman of Dirual Försäkrings AB and Board member of Dirual AG and Länsförsäkringar Liv's Policyholders' Association. **Previous experience:** Group Finance Director at Södra Skogsägarna and Group Treasury Director at Lantmännen ek.

9 Marie-Louise Zetterström

Born 1959. President of Patient Insurance LÖF. Elected: 2013. **Education:** Law, specialising in insurance law. **Other Board appointments:** Personförsäkringsföreningen (PFF). **Previous experience:** President of Förenade Liv, Marketing Manager at Folksam, Board member of Folksam Fond försäkring, Folksam LO Fond försäkring, Folksam LO Fond, Tre Kronor försäkring and Patientförsäkring Löf.

Employee representatives

10 Bitte Franzén Molander

Born: 1961. System specialist, Administration manager. Elected: 2009 as deputy, regular member 2016. **Education:** Degree in behavioural science. **Other Board appointments:** Länsförsäkringar Fondliv AB. **Previous experience:** Many years of experience in the life assurance and pension insurance industries, Board member of Länsförsäkringar Fondförvaltning AB.

11 Kristina Padel Roström

Born: 1963. Product specialist. Elected: 2015. **Previous experience:** Accountant at Skandia International, life and pension administrator at Länsförsäkringar Liv, business developer at Swedbank Försäkring, Board member of Länsförsäkringar Fondliv AB.

Deputy: Susanne Lindberg.



¹⁾ Lena Lilja and Olof Wogén are the policyholder representatives on the Board and are appointed by Länsförsäkringar Liv's Policyholders' Association.

Management

Jakob Carlsson

President. Born 1967. Employed 2007. Former CFO. **Education:** M.Sc. in Business and Economics Örebro University, MBA City University of London. **Board appointments:** None. **Previous experience:** Head controller at SPP and Handelsbanken Liv, Group controller at Alecta.

Erling Andersson

Head of Actuarial function. Born 1955. Employed 2001. **Education:** M.Sc. in Engineering (Engineering physics) Faculty of Engineering (LTH), Lund University, Dr of nuclear physics Heidelberg. **Board appointments:** None. **Previous experience:** Corporate Senior Actuary at Länsförsäkringar Liv, actuary Skandia Liv.

Veronika Engstrand

Head of Legal Affairs. Born 1976. Employed 2015. **Education:** LL.M. Uppsala University. **Board appointments:** None. **Previous experience:** County administrative court clerk, insurance lawyer at Financial Supervisory Authority, Head of insurance and pension law at Financial Supervisory Authority.

Roger Lidberg

Business Manager. Born 1960. Employed 1995. **Education:** Studies in economics at Lund University and Uppsala University. **Board appointments:** None. **Previous experience:** Various senior positions at Länsförsäkringar and Skandia.

Peter Marell

CFO. Born 1967. Employed 2007. **Education:** M.Sc. in Business and Economics, Umeå University. **Board appointments:** None. **Previous experience:** Controller and Head Controller at Länsförsäkringar Liv, Business Controller Bombardier Transportation.

Definitions

Management cost ratio

Operating expenses according to the income statement and claims adjustment costs according to note 6 as a percentage of average managed assets.

Own funds

Own funds comprise Tier 1 capital and ancillary own funds. Tier 1 capital is the difference between assets and liabilities measured in accordance with the Solvency II regulations rules and subordinated liabilities. Ancillary own funds comprises items not recognised in the statutory balance sheet but that could be required to cover losses. Own funds for Länsförsäkringar Liv main comprises equity and untaxed reserves according to the legal accounts adjusted by revaluation items arising on the remeasurement of the balance sheet in accordance with Solvency II.

Solvency ratio

Own funds in relation to the solvency capital requirement.

Collective consolidation ratio

The ratio between the market value of total net assets and the company's total commitments to policyholders (guaranteed commitments and preliminarily distributed bonus) for the insurance policies that carry bonus rights.

Collective consolidation capital

The market value of total net assets less the company's total commitments to policyholders (guaranteed commitments and preliminarily distributed bonus) for the insurance policies that carry bonus rights.

Solvency capital

Equity, untaxed reserves (including deferred tax), as well as surplus values on assets.

Minimum capital requirement

The minimum capital requirement comprises the minimum amount of eligible Tier 1 capital and is calculating by taking into account all or part of technical provisions, premium income, positive risk amounts, deferred taxes, administrative costs, ceded reinsurance and the solvency capital requirement.

Solvency rate

The market value of the company's total net assets in relation to guaranteed commitments to policyholders (technical provisions according to the balance sheet).

Solvency capital requirement

Regulatory solvency capital requirement calculated using Länsförsäkringar's Internal Model.

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