



# About us

## Länsförsäkringar AB

Länsförsäkringar AB is wholly owned by the regional insurance companies, together with 15 local insurance companies. Through its distinct role in the Länsförsäkringar Alliance's value chain, Länsförsäkringar AB contributes to increasing competitiveness and reducing costs for joint development. In turn, this creates possibilities for the regional insurance companies to be successful in their respective markets. In addition to the Parent Company, Länsförsäkringar AB, the Group consists of Länsförsäkringar Sak, Länsförsäkringar Bank, Länsförsäkringar Fondliv, Länsförsäkringar Liv and the subsidiaries of these companies. Länsförsäkringar Liv is not consolidated in the Group since the company is operated according to mutual principles.

## Länsförsäkringar in brief

Länsförsäkringar comprises 23 local and customer-owned regional insurance companies and the jointly owned Länsförsäkringar AB and its subsidiaries. Customers are provided with a complete offering of banking, insurance, pension and real-estate brokerage services through the regional insurance companies. The regional insurance companies are owned by the insurance customers. There are no external shareholders and meeting customer needs and requirements is always the primary task. The Länsförsäkringar Alliance has 3.9 million customers and 7,200 employees.

3.9 million customers

23 local regional insurance companies

### Länsförsäkringar AB

#### Länsförsäkringar Sak Försäkrings AB

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

#### Länsförsäkringar Bank AB

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

#### Länsförsäkringar Fondliv Försäkrings AB

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

#### Länsförsäkringar Liv Försäkrings AB

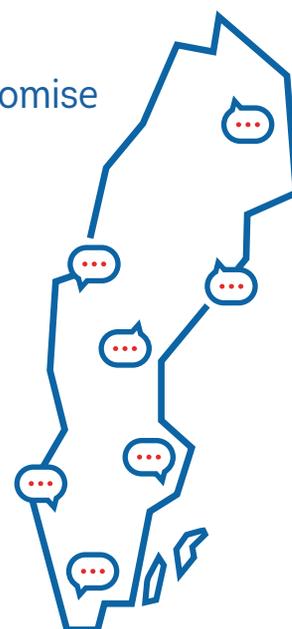
Manages traditional life insurance taken out before September 2011 when the company was closed for new business.

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

### Rating

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

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



# The 2019 fiscal year

## Earnings 2019 *Figures in parentheses pertain to 2018*

- Operating profit for the Länsförsäkringar AB Group increased to SEK 3,003 M (2,351). The return on equity amounted to 10% (9).
- Operating profit for the Länsförsäkringar Sak Group rose to SEK 851 M (460). The combined ratio amounted to 95.8% (93.5).
- Operating profit for the Länsförsäkringar Bank increased to SEK 1,893 M (1,510). Net interest income rose to SEK 4,617 M (4,497).
- Operating profit for Länsförsäkringar Fondliv rose to SEK 738 M (673). Premium income increased to SEK 9,478 M (9,010). Commission and fee income increased to SEK 1,779 M (1,671).

Operating profit for the Länsförsäkringar AB Group	Operating profit, Bank	Combined ratio non-life insurance	Managed assets, unit-linked insurance
SEK <b>3.0</b> bn	SEK <b>1.9</b> bn	<b>96%</b>	SEK <b>159</b> bn

## Five-year summary

	2019	2018	2017	2016	2015
<b>Länsförsäkringar AB, Group<sup>1)</sup></b>					
Operating profit, SEK M	3,003	2,351	2,825	2,286	2,155
Equity per share, SEK	2,754	2,462	2,269	2,046	1,858
Total assets, SEK M	572,594	506,835	473,773	421,816	384,595
Return on equity, %	10	9	11	10	11
Own funds for the group (FRL) <sup>2)</sup>	50,220	43,870	44,172	40,602	36,905 <sup>3)</sup>
Solvency capital requirement for the group (FRL) <sup>2)</sup> , SEK M	37,776	33,874	33,441	30,121	28,233 <sup>3)</sup>
Own funds for the financial conglomerate, SEK M	50,220	43,870	44,172	40,352	-
Capital requirement for the financial conglomerate, SEK M	37,776	33,874	33,441	30,121	-
<b>Länsförsäkringar Sak, Group</b>					
Premiums earned after ceded reinsurance, SEK M	6,211	5,891	5,623	5,342	5,074
Technical result for insurance operations, SEK M	283	402	977	435	821
Operating profit, SEK M	851	460	1,028	644	908
Solvency ratio, % (Länsförsäkringar Sak Försäkrings AB)	221	228	221	260	235 <sup>3)</sup>
<b>Länsförsäkringar Bank, Group</b>					
Deposits from the public, SEK M	119,303	108,142	99,404	91,207	83,925
Loans to the public, SEK M	307,099	289,426	261,444	226,705	201,964
Operating profit, SEK M	1,893	1,510	1,599	1,467	1,175
Return on equity, %	9.5	8.3	10.0	10.1	8.9
Common Equity Tier 1 capital ratio, Bank Group, %	13.9	14.2	24.3 <sup>4)</sup>	24.8 <sup>4)</sup>	23.7 <sup>4)</sup>
Tier 1 ratio, Bank Group, %	16.0	15.5	26.8 <sup>4)</sup>	27.5 <sup>4)</sup>	26.6 <sup>4)</sup>
<b>Länsförsäkringar Fondliv</b>					
Premium income, SEK M	9,478	9,010	9,133	8,637	8,645
Operating profit, SEK M	738	673	600	512	516
Managed assets, SEK M	158,827	125,805	128,140	114,450	102,807
Solvency ratio, %	137	135	152	150	141 <sup>3)</sup>
<b>Länsförsäkringar Liv (not consolidated in Länsförsäkringar AB)</b>					
Premium income, SEK M	1,539	1,684	1,533	1,720	1,919
Net profit for the year, SEK M	5,567	609	3,121	2,359	5,143
Collective consolidation ratio, New Trad, %	112	105	117	114	114
Collective consolidation ratio, Old Trad, %	131	124	123	125	120
Solvency ratio, %	211	200	207	195	182 <sup>3)</sup>

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

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

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

<sup>4)</sup> The risk weight floor for mortgages in Pillar II.

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Länsförsäkringar AB's 2019 Annual Report contains information about the operations conducted within the Länsförsäkringar AB Group. Länsförsäkringar AB's consolidated subsidiaries are: Länsförsäkringar Sak, Länsförsäkringar Bank and Länsförsäkringar Fondliv. Länsförsäkringar Liv is operated according to mutual principles and is not consolidated in Länsförsäkringar AB. The Sustainability Report contains information about Länsförsäkringar's work on sustainability in its customer offering, operations and social commitment.

” Länsförsäkringar AB's role is to be the best partner for the regional insurance companies so that they can realise the customer promise of creating a simpler everyday life and a more secure future. A very strong sense of pride is built up within the Länsförsäkringar Alliance from the Swedish Quality Index's customer satisfaction surveys showing year after year that Länsförsäkringar has Sweden's most satisfied customers. But good can always be better, so we are focusing on even more satisfied customers!

**Fredrik Bergström**

*President and CEO of Länsförsäkringar AB*



## Proud and pleased. But more to do.

Länsförsäkringar has topped the Swedish Quality Index for many years, which measures satisfaction among customers in the areas of banking, insurance and real-estate brokerage services. Länsförsäkringar came first in seven categories in the 2019 survey: Retail banking, Corporate banking, Real-estate brokerage, Private insurance, Corporate insurance, Private pension and Car insurance.

\*As named. \*\*Joint first place.

# The year in brief

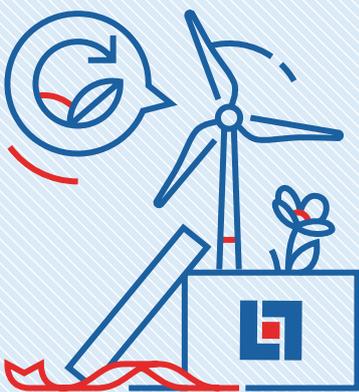
## Länsförsäkringar's logo turns 50

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



## Best Overall Fund House 2019

Global fund analyst Morningstar named Länsförsäkringar Best Overall Fund House Sweden 2019. Länsförsäkringar is the first ever Swedish company to have received this award. Morningstar's Morningstar's motivation was Länsförsäkringar's broad fund range with average values exceeding category average values every year for the past ten years, and that asset managers are generally cautious in risk-taking.



### Länsförsäkringar supports climate research

Länsförsäkringar's Research Fund continues to support climate research and will provide financing of SEK 21 M for two new climate projects between 2020 and 2023. Research that increases expertise about how we need to adapt society to climate change is an important field for Länsförsäkringar. The results will benefit customers and various players in society.

## Lean Agile work method

Introducing the Lean Agile work method will enhance the efficiency of Länsförsäkringar's development activities and make them more innovative, resulting in rapid product development and testing. This means more efficient deliveries of new services demanded by customers.



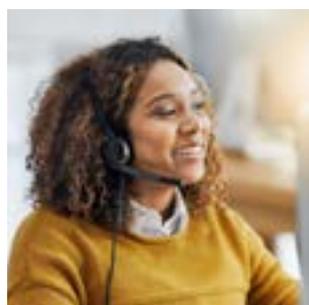
## 1 JANUARY Partnership with Toyota

Länsförsäkringar assumed responsibility for brand insurance and vehicle-damage guarantees for Toyota and Lexus cars in the Swedish market, which proved to be a highly successful partnership in 2019.



## 11 APRIL Industry leader in sustainability

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



## 4 JUNE Best banking and insurance service

Länsförsäkringar topped ServiceScore 2019's survey of how Swedish consumers perceive the service they receive in the categories of both banking and insurance. Proof that customers appreciate Länsförsäkringar's customer focus.



## 25 NOVEMBER-1 DECEMBER Sweden's largest fire drill

Länsförsäkringar arranged fire-safety activities throughout Sweden. Households were taught about how to conduct a fire drill and how simple fires in the home can be prevented and extinguished.

# The best partner for the regional insurance companies

**Statement by the President** > Länsförsäkringar AB Group reported solid earnings of SEK 3 billion for 2019. It is inspiring to be involved in creating the right conditions for the 23 regional insurance companies to develop their local customer meetings. Particularly since year after year we receive exactly the confirmation that we want – that we have Sweden's most satisfied customers.

Länsförsäkringar AB plays an important role in the success of the regional insurance companies and traditionally has a distinct role in the value chain. During the year, we worked a great deal on even more clearly defining our role as the best partner for the regional insurance companies so that they can realise their customer promise of creating a simpler everyday life and a more secure future. Introducing the Lean Agile work method will enhance the efficiency of development activities and make them more innovative, resulting in rapid product development and testing. Much involves how we are to help the regional insurance companies to best leverage the strength of the Länsförsäkringar Alliance in an increasingly digitised world. It is this very balance between the local small scale and the shared large scale that is the key to our success.

## A year of development

We successfully implemented a new core banking system in 2019 and launched our Open Banking platform, which will help make services in the digital area even better, both now and in the future. We also created a "Bopulsen" app to help house owners to easily keep one step ahead and prevent damages. We are actively working on innovation together with other insurance companies in Eurapco, an alliance of eight European mutual insurance companies. This way, we can develop new ideas while sharing costs.

The majority of development activities are currently founded on IT. It is absolutely essential that everyone at Länsförsäkringar AB, across all units and at all levels, enhances their IT skills. The operations must be IT proficient to ensure an effective and successful journey of development. Proud, committed and highly skilled employees who drive and develop the operations are vital for achieving our objectives. In 2019, we prepared a Group-wide skills supply plan that includes short- and long-term objectives and activities. A pilot group of employees started a course on artificial intelligence and our first SAFe train will commence in 2020. I am very excited to follow the implementation of our Lean Agile work method.

## Sustainability throughout the operations

Sustainability must be inherent throughout the operations in order for Länsförsäkringar to simultaneously reduce its sustainability risks and contribute to the positive development of society. Länsförsäkringar AB worked together with the 23 regional insurance companies in 2019 to select the UN Sustainable Development Goals (SDGs) that we can support for sustainable development. A total of 13 targets

within seven goals were identified as most relevant and can be clearly linked to our business. UN initiatives such as the Global Compact, Principles for Responsible Investment and Principles for Sustainable Insurance continue to provide guidance in our day-to-day sustainability activities.

Climate risk is the sustainability topic that presents the most important challenge for Länsförsäkringar – a view we share with many others according to the World Economic Forum's 2020 Global Risks Report which ranked climate and environmental risks among the top five risks. Länsförsäkringar limits the risk related to climate impact through, for example, claims prevention and engagement. Länsförsäkringar's Research Fund supports climate research and will provide financing of SEK 21 M for two new climate projects between 2020 and 2023. Länsförsäkringar also participates in a UN project on climate-risk scenarios. Länsförsäkringar AB has been pursuing a climate-smart vision since 2019, with the long-term aim of managing climate risks and adapting investments to the climate targets of the Paris Agreement.

It is a huge challenge to combat economic crime and money laundering, which are widespread problems in society with a major bearing on the financial sector. Although Länsförsäkringar's business model entails lower exposure to more high-risk segments and our lending is limited to Sweden, we must work continuously on further strengthening our ability to prevent and counteract economic crime and money laundering in all of our business operations.

## Strong earnings for 2019

The Länsförsäkringar AB Group reported a solid operating profit of SEK 3.0 billion for 2019.

The non-life insurance operations contributed an operating profit of SEK 0.9 billion, benefiting from strong net gains from financial items and the divestment of property holdings. The combined ratio amounted to 95.8%. Agria's healthy growth continued in 2019, particularly in the international business lines – Agria now operates in five countries outside Sweden.

The high inflow of new customers to the banking operations also continued, which led to steadily growing market shares and operating profit of SEK 1.9 billion. Deposits rose 10% and lending rose 6% with continued high credit quality.

Operating profit for the unit-linked insurance operations amounted to SEK 0.7 billion. Managed assets increased 26% to

“ Our role is to be the best partner for the regional insurance companies so that they can realise the customer promise of creating a simpler everyday life and a more secure future.



SEK 159 billion due to a favourable stock-market trend and positive net inflows of premiums and capital from existing and new customers. From the start of 2020, Länsförsäkringar will again become an eligible manager for the KAP-KL and AKAP-KL occupational pensions with unit-linked insurance, meaning that more than one million municipal and county council employees can choose Länsförsäkringar for their occupational pension.

Our customers with pension capital received strong returns in 2019. The return on all life-assurance and pension-insurance products was high and many of our own funds performed very well – for example, Länsförsäkringar Fastighetsfond increased 65%. We are proud that Morningstar named us Best Overall Fund House in Sweden during the year.

#### **Good can always be better**

A very strong sense of pride is built up within the Länsförsäkringar Alliance from the Swedish Quality Index's customer satisfaction surveys showing year after year that Länsförsäkringar has Sweden's

most satisfied customers. But good can always be better, so we are focusing on even more satisfied customers!

The competition is intense. Backed with our strong earnings and satisfied customers, Länsförsäkringar AB must continuously evolve to become an even more cost-efficient and quick-acting implementer of development, service and shared business. We look ahead from a position of strength – a year of continuous development to meet and, ideally, surpass customer expectations in all four of our business areas: non-life insurance, life assurance and pension insurance, banking and real-estate brokerage.

Stockholm, March 2020

Fredrik Bergström  
*President and CEO of Länsförsäkringar AB*

# Success lies in the balance between local and shared

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

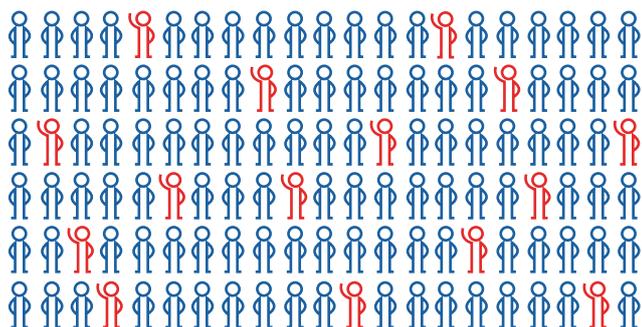
Länsförsäkringar AB is wholly owned by the 23 regional insurance companies, together with 15 local insurance companies. The regional insurance companies impose demands on effective capital use and a balanced, market-based return on equity set according to each subsidiary's operations and risk. The return on equity in 2019 was 10%. In addition to the Parent Company, Länsförsäkringar AB, the Group consists of Länsförsäkringar Sak, Länsförsäkringar Bank, Länsförsäkringar Fondliv, Länsförsäkringar Liv and the subsidiaries of these companies. Länsförsäkringar Liv is not consolidated in the consolidated financial statements, since the company is operated in accordance with mutual principles and the earnings accrue in their entirety to the policyholders.

## Mission

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

## Owner Control

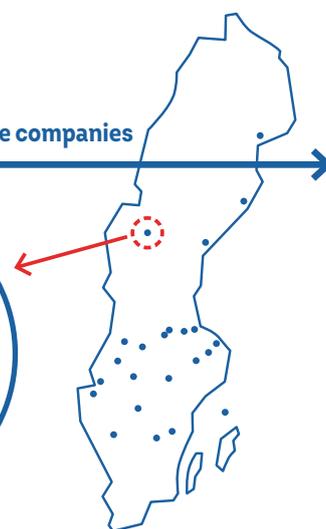
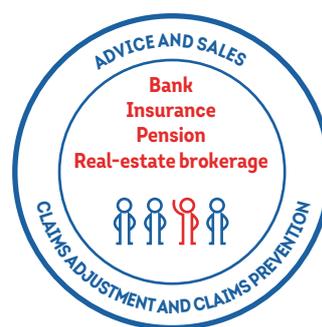
**3.9** million customers/owners



Länsförsäkringar AB is a limited liability company and also the Parent Company of a financial Group, which is individually owned in various holdings by the 23 regional insurance companies and 15 local insurance companies, which in turn are owned by a total of 3.9 million insurance customers. The Boards of Directors of the regional insurance companies are formally responsible for owner control. Based on the federal organisation and the purpose of the ownership of Länsförsäkringar AB, these companies have together created joint forms for owner control that comply both with the requirements usually imposed on owner control and with the federal conditions.

Owner control at Länsförsäkringar AB has clear advantages compared with the owner control of many larger financial groups. This is because all of

**23** regional insurance companies



the regional insurance companies have the same clear purpose for their ownership, are proactive and collectively hold sufficient financial capacity to safeguard long-term ownership.

## Owner control logic

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

### Balance between local and shared

The Länsförsäkringar Alliance has developed a balance between the small- and the large-scale. Cooperation between the regional insurance companies through Länsförsäkringar AB has emerged from a decentralised perspective, not the other way round. The local companies decided to cooperate to achieve economies of scale and to concentrate on the most important issues: meetings with customers and developing close customer relationships.

Certain elements of the Länsförsäkringar Alliance are conducted on a large-scale to generate economies of scale, for example, product development and IT systems. Other areas are better suited to being conducted on a smaller scale, such as personal customer meetings. Success is found in balancing these elements. The basis for cooperation in the Länsförsäkringar Alliance is that as much of the operations as possible are conducted by the local companies and that essentially all customer contact is to take place at this level. For Länsförsäkringar, the core concept is to meet and get to know customers, and this is best achieved on a small scale. Economies of scale arise in the cooperation between the regional insurance companies that takes place through Länsförsäkringar AB and its subsidiaries. Experience shows that local decision-making authority combined with joint strength creates substantial added value for customers.

### Governance of risk-taking and capital use

Länsförsäkringar AB's business activities are conducted to generate a profit so that the company can pay returns on equity at market levels. All capital that is not required for Länsförsäkringar AB's operations is returned, over time, to the owners in the form of dividends. Decisions on dividend payments are based on the Group's capital situation in relation to its combined risks. Länsförsäkringar AB endeavours to maintain a balance between capital strength and risk-taking to justify a minimum credit rating of A.

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

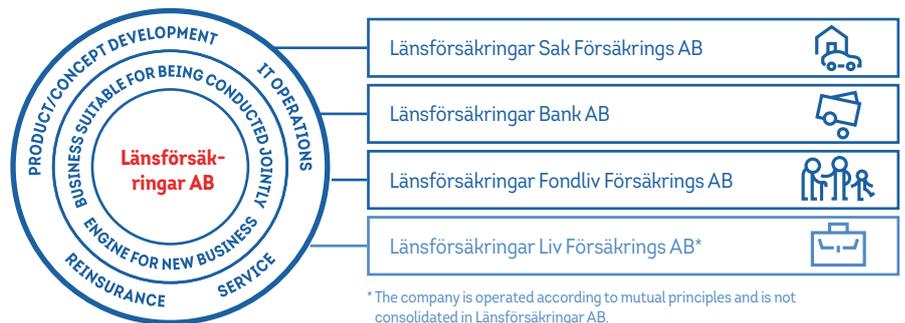
### Owner control of Länsförsäkringar AB



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

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

### Länsförsäkringar AB



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

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

# Joint business

## Companies and offering



### Länsförsäkringar Sak Group

Länsförsäkringar Sak is responsible for the non-life insurance operations, including pet, crop and personal-risk insurance, which have been assigned to Länsförsäkringar AB by the regional insurance companies. Its role is to complement the regional insurance companies' offering with specialist products to meet customer needs, and to start new business that can be channelled out to the regional insurance companies. Pet-insurance operations are conducted in the subsidiary Agria Djurförsäkring. Länsförsäkringar Sak manages the Länsförsäkringar Alliance's joint reinsurance cover and internal Alliance reinsurance with a number of pool solutions, and underwrites some internationally assumed reinsurance.

#### Earnings 2019

Operating profit rose to SEK 851 M (460). Of the Länsförsäkringar Alliance's total premiums earned of SEK 27.9 billion, premiums earned from Länsförsäkringar Sak accounted for SEK 6.2 billion.

#### Combined ratio

# 96%



### Länsförsäkringar Bank Group

Länsförsäkringar Bank offers banking services to private individuals, agricultural customers and small businesses. Sales and service take place at the branches of the regional insurance companies, online and by telephone. Deposits and certain lending operations are conducted in Länsförsäkringar Bank, while most of the lending and funding operations are conducted through the subsidiary Länsförsäkringar Hypotek. The subsidiary Länsförsäkringar Fondförvaltning offers mutual funds. The subsidiary Wasa Kredit offers financing services to corporate customers and private individuals – primarily leasing, renting and hire purchase. Länsförsäkringar Bank is the fifth-largest retail bank in Sweden.

#### Earnings 2019

Operating profit increased to SEK 1,893 M (1,510). Net interest income rose 3% to SEK 4,617 M (4,497).

#### Increase in business volumes to SEK 656 billion

# +17%

## What makes Länsförsäkringar AB the best partner for the regional insurance companies?



” Länsförsäkringar Värmland creates security and makes everyday life in Värmland simpler. We aim to have the best customer experience in the market. We can achieve this with our dedicated employees together with Länsförsäkringar AB's expertise, development activities, service and coordination.

**Ulrika Obstfelder Peterson**  
President of Länsförsäkringar Värmland



” In a time of centralisation, our form of cooperation between 23 local companies close to customers is becoming more and more unique. Cost synergies, specialist expertise, shared development and a national voice that Länsförsäkringar AB delivers will ensure our continued success.

**Christian Bille**  
President of Länsförsäkringar Halland



## Länsförsäkringar Fondliv Försäkrings AB

Länsförsäkringar offers pension savings, primarily occupational pensions. Fund management, guarantee management and personal-risk insurance are offered through Länsförsäkringar Fondliv. Länsförsäkringar Fondliv is a leader in the unit-linked insurance market for individual occupational pensions, commanding a market share of 18% measured in premium income. Länsförsäkringar's fund range comprises 38 of its own funds and 111 external funds.

### Earnings 2019

Operating profit rose to SEK 738 M (673). Premium income increased to SEK 9,478 M (9,010).

### Managed assets

SEK **159** billion



## Länsförsäkringar Liv Försäkrings AB

Länsförsäkringar Liv, which is closed for new business, manages traditional life assurance that was taken out before it was closed in 2011. Länsförsäkringar Liv conducts traditional life assurance for its customers divided into four portfolios: New Trad, Old Trad, New World and Insured Pension. Customers with insurance policies under Old Trad have had the opportunity to transition their existing insurance to New Trad since 2013. Customers with New World and Insured Pension have also received the offer to transition to New Trad since 2018.

### Earnings 2019

Profit increased to SEK 5,567 M (609). Länsförsäkringar Liv's earnings are not consolidated in Länsförsäkringar AB since the company is operated according to mutual principles.

### Managed assets

SEK **114** billion



**”** With its innovation, expertise and drive, combined with the experience and success of the 23 regional insurance companies, Länsförsäkringar AB serves as an important hub that creates opportunities for the regional insurance companies to deliver relevant offerings for customer security.

**Charlotte Barnekow**  
*President of Länsförsäkringar  
Stockholm*



**”** When Länsförsäkringar AB was founded, one of its assignments was to provide specialist expertise to the regional insurance companies, which it delivers at the highest level today. This is essential for the regional insurance companies to deliver customer experiences of the highest quality.

**Anders Långström**  
*President of LF Norrbotten*

# Drivers and trends

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

## The customers' needs in focus

More and more customers are seeking security from a supplier that they have confidence in, making the brand a key cornerstone of the customer experience. To deliver products and services that meet customer expectations, the supplier must understand customer needs and behaviour, and base development activities and customer contact on customer insight. Länsförsäkringar has favourable conditions to best meet customer needs – from cradle to grave – primarily founded on a broad customer base, local knowledge and a unique business model that supports both local and digital customer meetings. Länsförsäkringar's starting point is always the customer, with

all communication based on customer data. However, data-driven business development requires carefully balancing customer privacy with better services. The sharing economy that is emerging involves using resources sustainably and economically. There is also a desire to remove "the middle man" and technology is enabling new consumption models. These new arising needs present new business opportunities for banking and insurance. Länsförsäkringar must be innovative and collaborate within the Länsförsäkringar Alliance – the customer experience must always be local and close, whereas development can be carried out jointly.



## Länsförsäkringar's focus on seven UN Sustainable Development Goals

Länsförsäkringar continuously works to develop its sustainability agenda. The UN Sustainable Development Goals that the Länsförsäkringar Alliance will jointly work on were decided in 2019. Thirteen targets under seven goals were identified as relevant and can be clearly linked to Länsförsäkringar's business.



- 3.4** Reduce premature mortality from non-communicable diseases and promote mental health and well-being.
- 3.6** Reduce the number of global deaths and injuries from road-traffic accidents.

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



- 8.7** Eradicate forced labour, human trafficking and child labour.
- 8.8** Protect labour rights and promote safe and secure working environments for all workers.
- 8.10** Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.

Dialogue with suppliers on labour. Digital offerings that make financial services more available and information on the importance of equal private finances.



- 10.2** Promote social, economic and political inclusion.

Promoting equality and diversity in recruitment processes and the business, through nomination committees in portfolio companies and in social commitment.



## Technology

Rapid technological progress brings with it new banking and insurance solutions and new business opportunities. Traditional competition is being continuously challenged by new and innovative companies. In addition, technological advances can lead to disruptive changes. Continuous development is needed to ensure lasting competitiveness.

Introducing the Lean Agile work method will enhance the efficiency of Länsförsäkringar's development activities and make them more innovative, resulting in rapid product development and testing, so as to provide the new services demanded by customers. Länsförsäkringar successfully implemented a new core banking system in 2019 and launched an Open Banking platform, which will help make services in the digital area even better. Several pilot projects in health and claims prevention were also carried out. Developments of automation, robotisation, AI and the Internet of Things is continuing and this is where Länsförsäkringar's has a major advantage with its broad customer base and product offering.

## Climate

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

Climate risk is the area of sustainability that presents the greatest challenge for Länsförsäkringar. Climate change presents financial risks that can impact companies by altering market conditions and through physical climate change. Climate change leads to higher costs for insurance companies.

Länsförsäkringar's Research Fund will provide SEK 21 M in financing for two new climate research projects in 2020–2023. Länsförsäkringar also participates in a UN project on climate-risk scenarios. Länsförsäkringar AB has been pursuing a climate-smart vision since 2019, with the long-term aim of managing climate risks and adapting investments to the climate targets of the Paris Agreement. Länsförsäkringar AB also published a climate report following TCFD's guidelines, available on the website.

## Society

Turmoil and uncertainty in international politics and economics have risen in recent years. Like in many countries, the pressure on welfare and public resources is increasing in Sweden. An ageing population is challenging the health and social care sector. Continued urbanisation is intensifying demographic challenges, particularly in rural areas. The differences in quality of life are widening due to social-political polarisation, meaning that vulnerable groups are finding it difficult to enter the labour market, buy a home and get a mortgage. The nature of crime and criminality has changed, with organised crime and digital fraud on the rise. Cyberthreat is now one of the main perceived business risks.

Länsförsäkringar works both proactively and reactively to manage and analyse the effects of changes in society and how they impact customers. Measures include financing independent research projects studying social, economic and physical security for customers and society at large. Länsförsäkringar works every day to combat fraud, money laundering and terror financing.



**12.2** Sustainable management and use of natural resources.

**12.4** Environmentally sound management of chemicals and all wastes.

**12.8** Ensure people everywhere have information and awareness for sustainable development.

Setting demands for materials, recycling and reuse for damage repairs, encouraging suppliers and portfolio companies to report on sustainability. Research into construction materials.



**13.1** Strengthen resilience and adaptive capacity to climate-related hazards.

**13.3** Improve awareness-raising and capacity on climate change mitigation.

Reducing the climate impact of Länsförsäkringar's own operations. Research into climate impact, dialogue with customers and policy-makers on climate issues. Making climate-smart investments, such as green bonds.



**16.5** Reduce corruption and bribery.

**16.6** Develop effective, accountable and transparent institutions.

Anti-money laundering and preventing terror financing in the banking and life-assurance operations.



The SDGs can only be realised through global partnership and cooperation.

Partnerships with the Länsförsäkringar Alliance and other external parties, such as research institutions, trade organisations, county administrative boards, the emergency services and local companies.

# Vision, values and targets

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

## Vision

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

*Together we create security and opportunities*

## Targets

Länsförsäkringar AB's target is to be the best partner for its owners, the 23 regional insurance companies, so that they can realise the customer promise of simplifying everyday life for customers and creating a more secure future. To achieve this target Länsförsäkringar AB must:

- Help ensure that Länsförsäkringar has the market's most satisfied customers.
- Have profitability to enable a continued long-term approach.
- Integrate sustainability throughout the operations.
- Be the best employer with proud and dedicated employees.

## The market's most satisfied customers

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

### Outcome 2019

- According to the Swedish Quality Index's 2019 customer satisfaction surveys, Länsförsäkringar has Sweden's most satisfied customers in banking, non-life insurance, private pensions and real-estate brokerage.
- Länsförsäkringar topped the ServiceScore 2019 consumer survey of service in banking and insurance.
- Kantar Sifo's 2019 reputation survey showed that Länsförsäkringar has the highest reputation in the insurance industry.
- Länsförsäkringar position as market leader in Swedish non-life insurance continued, together with strong customer growth in banking and real-estate brokerage.

### Länsförsäkringar's market shares



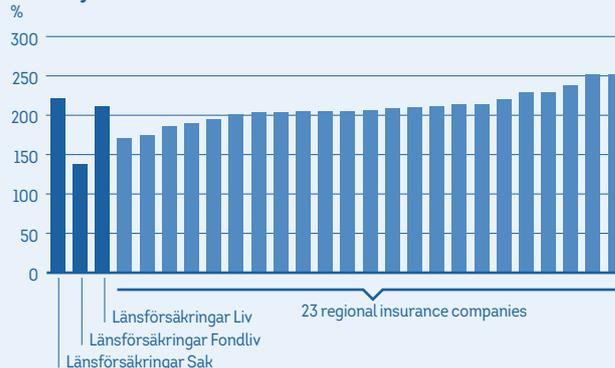
## Profitability for a continued long-term approach

Profitability to enable a continued long-term approach in the customer-owned regional insurance companies is needed to meet future challenges, assume social responsibility and support sustainable development. Länsförsäkringar AB must be a cost-efficient and fast implementer of development, service and business.

### Outcome 2019

- Länsförsäkringar's profitable growth continued for all business areas in 2019.
- Based on the healthy 2019 earnings, the regional insurance companies will pay back a total of SEK 1.9 billion in bonuses and discounts to their owners - the customers.
- The regional insurance companies, the Länsförsäkringar AB Group and each subsidiary remained well-capitalised in 2019.

### Solvency II ratio on 31 December 2019



## Values

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

**Commitment**  
**Trust**  
**Openness**  
**Professionalism**



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

**Sustainability throughout the operations**

### Outcome 2019

- Investments in green bonds tripled to SEK 9 billion during the year, corresponding to 7% of the total capital of the portfolios. The investments are earmarked for climate-smart projects.
- Länsförsäkringar Fondförvaltning launched a sustainable fixed income fund.
- Exclusion criteria for tobacco and oil sand companies were introduced and the criteria for coal companies was made stricter.
- Wasa Kredit launched an environmental financing model tailored to products that reduce environmental impact.
- Länsförsäkringar was named Sweden's most sustainable insurance company by Sustainable Brand Index for the fifth year.



Proud and dedicated employees who drive and develop the operations are vital to achieving business objectives. By focusing on diversity, inclusion, skills development, health and a good work environment Länsförsäkringar can attract new and retain current employees.

**Best employer with proud and dedicated employees**

### Outcome 2019

- Länsförsäkringar AB's internal attractiveness as an employer and employee loyalty are measured according to an Employer Net Promoter Score (eNPS), with a score of 31 for 2019.
- 86% of employees are proud to work at Länsförsäkringar AB and 87% say that they enjoy going to work.
- Länsförsäkringar AB scored 125 out of 180 in Nyckeltalsinstitutet's Gender Equality Index JÄMIX.
- Länsförsäkringar AB scored 125 out of 159 in Nyckeltalsinstitutet's Health Index, the highest result among financial companies.

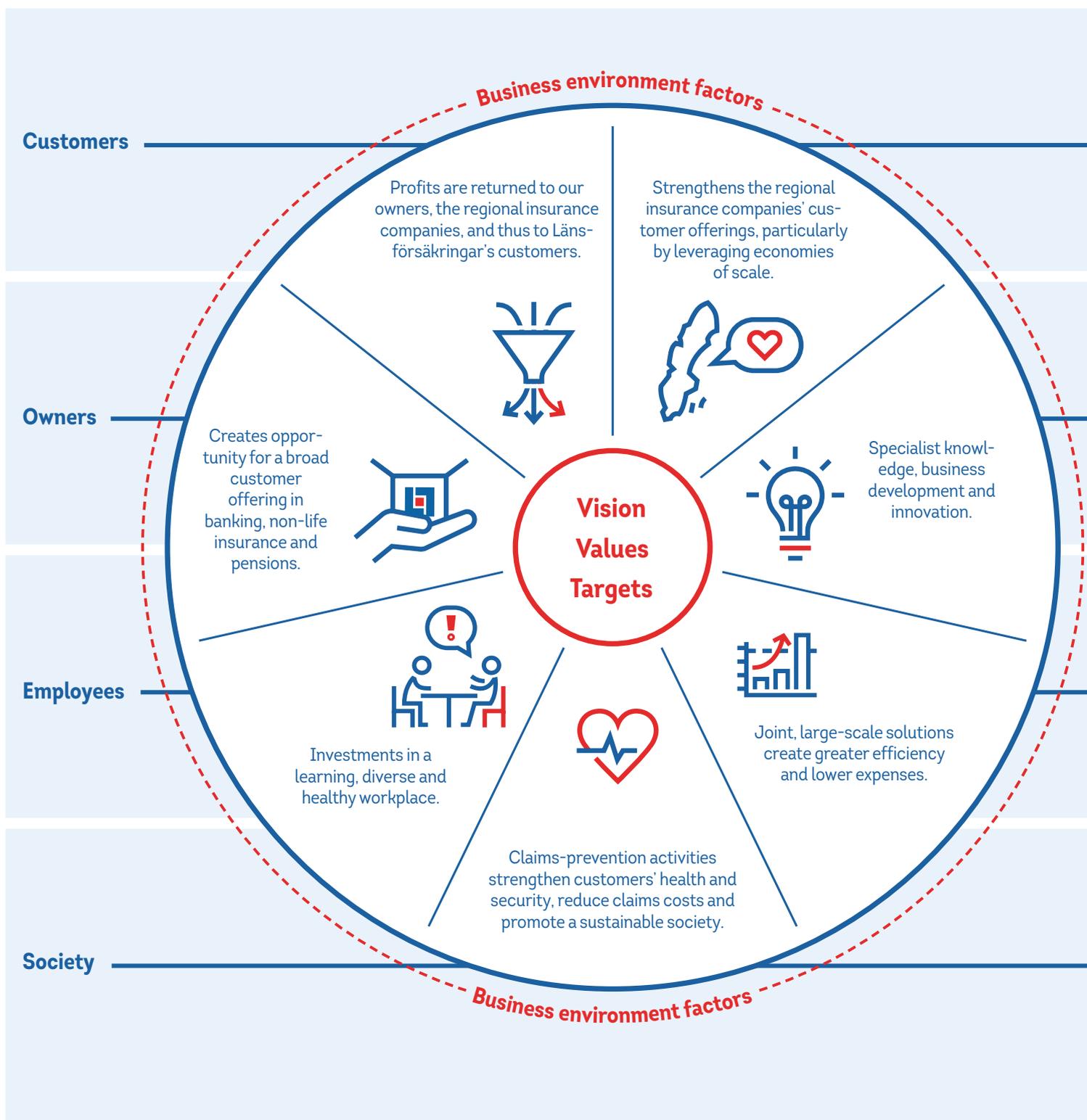


# How we create value

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

**For our stakeholders** →

**...we create value** →



## socially, environmentally... →



### Customers

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



### Owners

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



### Employees

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



### Society

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

## ...and financially

The regional insurance companies' bonuses and discounts to customers

SEK **1.9** bn

Claims payments to customers

SEK **5.4** bn

Salaries and pensions for employees

SEK **2.3** bn

Taxes, social security contributions and bank fees

SEK **1.5** bn

Payments to suppliers

SEK **2.8** bn

Research grants

SEK **50** M

Sponsorship

SEK **0.9** M

# Sustainable business

**Sustainability** > Sustainability is about generating greater value for customers and, at the same time, contributing to the sustainable development of society. Länsförsäkringar AB's sustainability work is based on the vision of "Together we create security and opportunities." By integrating sustainability into the business, Länsförsäkringar AB can offer greater business value and contribute to a sustainable society.

Länsförsäkringar AB can reduce its sustainability risks, increase customer value, contribute to the positive development of society and create business value by taking economic, social and environmental aspects into consideration in its business development and business decisions. Länsförsäkringar AB is a signatory to the principles of the UN Global Compact and works to contribute to the UN Sustainable Development Goals (SDGs).

## Materiality analysis performed

A materiality analysis was performed in 2018 to identify the most important sustainability risks and opportunities for Länsförsäkringar AB based on the business's impact on the environment and society. As part of the analysis, the most important stakeholders (customers, owners, employees, civil society organisations and asset managers) were engaged to provide a better understanding of key stakeholders' expectations of Länsförsäkringar AB's sustainability activities. The update of the key sustainability topics determined the content of 2019 sustainability report.

## Climate risk – the greatest challenge

Climate risk is the area of sustainability that presents the greatest challenge for Länsförsäkringar. Climate change – the result of higher carbon emissions – causes global warming. A warmer climate caused by extreme weather conditions, such as hurricanes, torrential rain, flooding and drought, will have major socio-economic consequences. The adverse effects for insurance companies and banks are obvious.

As stated in the sustainability policy, the Board of Länsförsäkringar AB has identified climate risk as the top priority. Länsförsäkringar AB strives to limit and reduce the risk of climate impact through its activities in several of the priority sustainability topics: dialogues to influence companies and investments in the area of

responsible savings offering, claims-prevention activities in the insurance offering, sustainability requirements on purchases, donations to financing research into climate impact, engagement and claims-prevention activities in long-term environmental efforts and social commitment.

A climate-smart vision for Länsförsäkringar AB was drawn up during the year. The long-term aim of the investment portfolios is to align their investments with the 2030 Paris Agreement and to offer customers more climate-smart and sustainable funds. Insurance terms and conditions will also be revised and work will continue to focus on claims prevention.

Länsförsäkringar AB supports the Task Force on Climate-related Financial Disclosures (TCFD) and strives to apply its recommendations throughout the business. A climate report following TCFD's guidelines was published on the website in January 2020 (only available in Swedish).

## Increased regulation

Requirements to integrate sustainability topics, the implementation of climate scenario analyses and transparency will increase. The European Commission Action Plan for Financing Sustainable Growth, aimed at harmonising standards and assessment criteria for sustainability topics and steering investments towards sustainable solutions, will impact Länsförsäkringar's operations. Länsförsäkringar AB has established a work group to coordinate implementation of the new rules throughout the Länsförsäkringar Alliance.

 More information about Länsförsäkringar's sustainability work is available on pages 129–143. Information is presented on governance, GRI, Index Sustainability Report and Global Compact Index, stakeholder dialogue, statistics and key figures.

” Länsförsäkringar AB has adopted a climate-smart vision that involves the investment portfolios aligning their investments with the Paris Agreement, and offering our customers more climate-smart sustainable funds – one step in creating security and opportunities.

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



# Länsförsäkringar AB and the UN Sustainable Development Goals

Länsförsäkringar AB works on the UN Sustainable Development Goals (SDGs) in all parts of the company to make a difference and contribute to sustainable development - in the customer offering, business operations and the long-term environmental and social commitment.

The Länsförsäkringar Alliance has identified SDGs 3, 8, 10, 12, 13, 16 and 17 as the most relevant to the business and those where Länsförsäkringar can make a positive contribution and reduce its negative impact. This process was based on Länsförsäkringar AB's material sustainability topics, level of engagement, identified risks and opportunities.

Länsförsäkringar AB has supplemented the SDGs shared throughout the Länsförsäkringar Alliance with goals 5, 7, 9, 11 and 15, where Länsförsäkringar AB's operations help make a direct or partial contribution.



 The SDGs that the company works on in each area are stated in the GRI index on pages 141-143.

# Materiality analysis, priority sustainability topics and sustainability targets

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

Material sustainability topics	Important issues	Target description
Overall	Manage climate risks in the operations.	Successfully implement the TCFD guidelines.

## Responsible offering

<b>Responsible savings offering</b>	Investments that incorporate sustainability and climate risks generate higher returns.	Increase the share of investments in green bonds of managed assets in institutional portfolios compared with 2018.
		Increase number of climate-smart/sustainable funds.
		Reduce carbon footprint in institutional portfolios.
		Measure carbon footprint in fixed-income portfolios in institutional portfolios.
<b>Responsible lending offering</b>	Lending that incorporates sustainability and climate risks.	Investigate possibility of issuing green loans and green bonds.
		Offer environmental financing via Wasa Kredit.
<b>Responsible insurance offering</b>	Manage climate risk in the insurance offering through claims prevention and sustainable claims adjustment. Preventive health measures for animals and humans, and early action on illness.	Actively participate in UN projects on climate scenarios and analysis tools.
		Claims prevention efforts and health-promoting activities. Engagement to promote mental health in society.
		Analysis of sustainability aspects in product documentation.

## Responsible business conduct

<b>Responsible employer</b>	Work on diversity, inclusion and equality, skills development, health, and digital and physical work environment to attract and retain skilled employees.	Implement skills-based recruitment that promotes diversity (target from 2020).
		Recruitment training course that promotes diversity for managers.
<b>Business ethics</b>	A corporate culture with a high level of ambition regarding business ethics.	Annual compulsory e-course on security, sustainability and the Code of Conduct.
<b>Responsible purchasing</b>	Sustainability requirements in the supply chain.	Analysis of existing suppliers (target from 2020).
<b>Direct environmental impact</b>	Actions to reduce the operations' direct environmental impact.	Reduce carbon emissions from own operations.

## Environmental and social responsibility

<b>Long-term environmental and social commitment</b>	Research into society's security challenges and engagement to reduce risks of natural catastrophes due to climate change in society.	Finance research and communicate research results.
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2019 targets	Comments	2020 targets
Produce first report. Perform scenario analyses.	First report prepared. Board training started. A climate-smart vision was prepared.	Board training and continued development of TCFD scenario analyses. Implement a climate-smart vision.
4.5% of assets under management.	The outcome was higher than the target and amounted to 7%.	13% of assets under management.
Increase.	The fund platform was expanded through the addition of one own fund and six externally managed funds.	Increase.
Reduce compared with 2018.	The carbon footprint declined 3% measured on 28 June 2019. The year-end 2019 measurement will be completed in April.	Reduce compared with 2019.
Measure government bonds.	The carbon footprint of government, supranational and municipal bonds started to be measured.	Measure all fixed-income portfolios.
Start training.	Investigation started.	Continue investigation.
Start.	Launch of a financing model for products that reduces environmental impact.	Increase share of green financing.
Actively participate.	Participated in project.	Actively participate.
Carry out claims-prevention activities and health-promoting activities.	Claims-prevention activities and health-promoting activities were carried out, and active participation in the Mindshift health movement.	Carry out claims-prevention activities and health-promoting activities.
Start analysis.	Analysis started.	Continue analysis.
		Implement.
Implement.	Training held for new managers.	Carry out training for existing managers.
Implement.	83% of employees completed the course.	Implement.
		10% of existing suppliers to be analysed.
Reduce compared with 2018.	18% reduction compared with 2018.	Reduce by 20% compared with 2019.
Implement.	Granted SEK 40 M in research financing through Länsförsäkringar's Research Fund. Communicated research results through various forums, for example, the company's podcast and in seminars.	Finance research and communicate research results.

# Responsible savings offering

Länsförsäkringar AB strives to create the highest possible value from managing customer savings. The aim of responsible investments in the pension and savings offering is to contribute to sustainable value creation over time.

Companies with an integrated sustainability work method can help reduce risk and identify solutions to the challenges that society faces. Investing responsibly contributes to sustainable value creation. Länsförsäkringar Fondförvaltning (referred to below as “the fund company”) manages Länsförsäkringar’s own funds. Asset Management administers the life-assurance, unit-linked assurance and non-life insurance portfolios (referred to below as the “institutional portfolios”) with the aim of contributing to the sustainable development of society within the framework of asset management targets by 2030, and to the climate target of the Paris Agreement to limit the increase in global warming to 1.5 degrees Celsius.

## Risks and opportunities

Länsförsäkringar AB’s investments have an indirect impact on people, society and the environment through the operations of the portfolio companies. Climate change presents financial risks that can impact companies by altering market conditions and through physical climate change. Conversely, there are investment opportunities in companies that restrict climate change and apply climate-adjustment solutions. Länsförsäkringar AB pursues a climate-smart vision with the long-term aim of managing climate risks and adapting investments to the climate targets of the Paris Agreement.

Work on responsible investments is based on the UN-supported Principles for Responsible Investment (PRI). These principles focus on incorporating sustainability into investment analyses and active ownership. The objective of the integrated work method for sustainability topics is to manage risks and identify investment opportunities. By encouraging these companies to follow the UN Global Compact’s principles for responsible business conduct, Länsförsäkringar AB helps reduce their negative impact and thus also contributes to several of the SDGs.

## Processes for integrating sustainability

Länsförsäkringar AB helps bring about a more sustainable development of society and reduces its indirect impact on people, society and the environment by integrating sustainability into investment decisions and corporate governance. This process comprises five focus areas:

### Investments in responsible companies

This area is based on the UN Global Compact’s principles and international conventions on human rights, labour, the environment, corruption and controversial weapons. Länsförsäkringar AB regularly analyses funds and institutional portfolios in relation to applicable sustainability-related exclusion criteria and to identify companies suspected of contravening the principles for responsible business conduct. These exclusion criteria are applied to direct investments in equities and credit bonds.

### Promoting sustainable investments and savings

The fund company works to offer more sustainability-focused funds. Since the aim is to invest in responsible companies, sustainability

analyses of all internally managed holdings are performed. The objective is for all fund holdings to have a sustainability rating, with the majority being assigned the highest possible rating. The focus of the institutional portfolios is to invest in sustainable and climate-positive solutions through green bonds, environmentally certified forests and properties, and sustainability-focused funds.

### Minimise climate risks in investments

Länsförsäkringar AB seeks to reduce investments in fossil fuels and in sectors with significant greenhouse gas (GHG) emissions. One reason is that GHG emissions increase climate-related risks that result in both physical and financial damage. Another reason is that moving towards a climate-smart society will lead to market and regulatory consequences for carbon-intensive companies.

The company measures the carbon footprint of its equities investments and, since 2019, of government, supranational and municipal bonds, and forestry holdings in the institutional portfolios. Climate scenario analyses of the portfolios are performed to provide a greater understanding of the climate risks in the portfolios in relation to the targets of the Paris Agreement.



The results of carbon footprint and scenario analyses are reported on the website.

### Active corporate governance and engagement

The company pursues active corporate governance and engagement itself and jointly with other investors. Corporate governance includes company dialogues on sustainability topics, active participation in nomination committees and voting at general meetings. One of the aims of the nomination committees is to increase the diversity of company boards. The fund company votes at general meetings of the companies included in its own funds, and in which it has a substantial holding or where it is important to vote for other reasons.

Asset Management and the fund company work together on engagement. Reactive dialogue takes place when a company is suspected of contravening the principles for responsible business conduct and international conventions. The aim is to stop the company from committing breaches and take measures to prevent similar incidents from being repeated. If engaging in a dialogue does not achieve the desired results over time, the holdings in the company may be divested. Individual companies and selected sectors are engaged in preventive dialogues to ensure that they are managing and are transparent in their material sustainability risks.

### Partnership with sustainability-focused external managers

The fund company’s Swedish equities and fixed-income funds are managed internally, as are parts of the fixed-income holdings and unquoted holdings in Asset Management. Other investments are managed by external managers through funds and discretionary mandates. Sustainability requirements are included in the procurement of new managers and their work is graded based on various criteria. The aim is to select 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 receive a low sustainability rating are placed on a watch list and engaged in a dialogue. Managers who do not make any improvements risk having their contracts terminated. If the fund is recommended on Länsförsäkringar's fund platform and no improvement is made, the fund is moved to the extended fund range.

### Activities and targets in 2019

The Board decided on a new policy on responsible investments and corporate governance during the year.

### 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). Three companies were excluded due to convention violations and one company was re-included.

### Promoting sustainable investments and savings

The Länsförsäkringar Hållbar Företagsobligation was launched in 2019. At least 90% of the fund's holdings are green bonds or bonds issued by companies with high sustainability ratings. The company already has the Länsförsäkringar FossilSmart, Länsförsäkringar Global Hållbar and Nordic eco-labelled Länsförsäkringar Sverige Aktiv funds that all invest based on various sustainability criteria.

During the year, Asset Management further developed the implementation of updated guidelines for climate-smart and sustainable management, primarily for listed equity holdings. The aim is to reduce the carbon emissions of the portfolios and to promote investments in more sustainable companies and those undergoing a climate transition. Investments in green bonds tripled during the year to SEK 9 billion at year-end.

### Minimise climate risks in investments

TCFD's investor recommendations were applied, for example, 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 up until 2030 were carried out and compared with the trend in emission reductions required for a climate scenario in line with the Paris Agreement's targets.

A climate-smart vision was adopted in 2019 in order to manage investments in sectors with significant direct and indirect carbon emissions. The aim is also to support companies that have embarked on a business transition and to identify holdings with positive effects on the climate. The objective is that, within the framework of asset management targets, own funds and portfolios are to help limit the increase in global warming to a maximum of 1.5 degrees Celsius. As part of this, the exclusion criteria were made stricter for investments in companies operating in the extraction and energy production of thermal coal and extraction of oil from oil sand, and a total of 192 companies were excluded. Transition criteria were introduced to actively promote in the first instance selected energy companies that support the Paris Agreement and that have started to change their own operations.

### Active corporate governance and engagement

Länsförsäkringar voted at 67 (60) general meetings in 2019. The percentage of women on the boards of the companies where Länsförsäkringar is a member of the nomination committee was 37% (38).

Länsförsäkringar AB took part in several investor initiatives, for example, Climate Action 100, which engages with the 100 largest important GHG emitters in the world, and the Investor Mining & Tailings Safety Initiative, which seeks to engage the global mining sector. The number of reactive and proactive dialogues is presented on pages 137.

### Partnership with sustainability-focused external managers

Six externally managed sustainability-based funds were launched on the fund platform in 2019. Two funds from the recommended range were put on the watch list due to their sustainability shortcomings. One sustainability-focused fund was moved from the extended to the recommended range. The Asset Management developed a new credit fund with a sustainability focus together with a US fund manager. Four external funds were sold from the institutional portfolios during the year, partly due to their sustainability shortcomings.

### Activities and targets in 2020

New methods for measuring and monitoring the funds' sustainability level will be implemented. Efforts to raise the sustainability level of the proprietary fund range will continue, including the development of new fund products and outsourcing of management mandates.

Customers will be offered several sustainable and climate-smart funds. Eco-labelling more funds with the Nordic Swan label will be investigated.

The aim for the institutional portfolios is for sustainable bonds to account for 13% of the total capital and to increase the share of climate-smart investments that support a transition to a low-carbon society. The guidelines on climate-smart and sustainable asset management will be implemented for shareholdings during the year.

 Read more about key figures for responsible savings offering on page 137.

## Green bonds benefit the climate

A focal point for Asset Management is investments in green bonds that finance, for example, the expansion of renewable wind and solar energy, green properties, forestry, water and waste management, and sustainable public transport. These investments generate both returns and measurable climate benefits in terms of avoided climate emissions and a reduction of actual climate emissions. 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.



# Responsible lending offering

For Länsförsäkringar, responsible lending involves contributing to the financial stability of society by limiting credit risk. Lending is primarily directed towards retail mortgages for private individuals, agriculture and a limited number of small businesses, and sustainability risks are included in the credit assessment.

## Risks and opportunities

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

## Low sustainability risks in lending

Länsförsäkringar Bank's loans are granted in Sweden and in SEK. The geographic spread of lending to both retail and corporate customers is well-diversified. Lending to companies mainly comprises small businesses that are deemed to have limited environmental and social risks. The wholly owned finance company Wasa Kredit offers lease and hire purchase financing to companies, and loans and credit card loans to private individuals. The business model for lending has relatively low sustainability risks.

The foundation of lending is the credit policy and the credit instructions, which include criteria for acceptable risk and identify high-risk areas in sustainability that require special consideration. Strict requirements are imposed on customers' repayment capacity and the quality of collateral.

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

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

## Local knowledge reduces credit risk

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

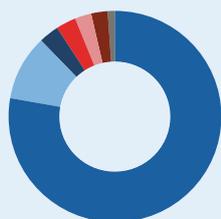
The credit regulations impose strict requirements on customers' repayment capacity and the quality of collateral. In connection with the loan application process, the repayment capacity of borrowers is tested using "left to live on" calculations. These calculations apply a significantly higher interest rate than the actual rate. Both the loan portfolio and value of the collateral are continuously monitored and quality assured.

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

## Funding at low credit risk

Länsförsäkringar Bank's main financing sources are deposits and funding through covered bonds. These covered bonds have the

Loan portfolio 31 December 2019



- Mortgages, 78%
- Agriculture, 10%
- Hire purchase, 3%
- Unsecured loans, 3%
- Multi-family housing, 2.5%
- Leasing, 2.5%
- Other, 1%

## Partnership with ECPAT

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



highest credit rating from Moody's and S&P Global Ratings, which indicates a low credit risk.

### Local branches and digital services

With the 23 regional insurance companies, Länsförsäkringar's customers have access to branches throughout Sweden. Länsförsäkringar also offers digital banking services. As well as serving customers who actively choose digital meeting places, digital banking services are offered to customers who have not previously been able to come to a branch due to long distance or disability, or who require service outside normal office hours. 67% (63) of bank customers use Länsförsäkringar's mobile app or Internet bank. Digitisation reduces the impact on the environment since fewer paper print-outs are sent to customers. The percentage of digitally distributed customer documents was 76% (72) in 2019.

### Activities and targets in 2019

In 2019 Wasa Kredit launched a new financing model tailored to products that reduce environmental impact. Wasa Kredit continues to be an attractive financing partner for companies that work with energy conversion, for example, charging stations for electric and hybrid cars and solar panel and biogas facilities.

The process of clarifying the guidelines on managing sustainability risks in agricultural lending was initiated in 2019 but after a materiality analysis was performed, other activities were assigned a higher priority. The work on sustainability risks in lending will be resumed at a later stage.

The share of green bonds that the bank invested in increased to slightly more than SEK 2,700 M (900) at year-end 2019.

### Activities and targets in 2020

Investigations into the option of offering green mortgages and issuing green bonds will continue in 2020.

The target for Wasa Kredit in 2020 is to evolve environmental financing into "green financing". This model will include more sustainability areas than just green financing.

## Environmental financing with BKtech

Wasa Kredit partners with the industrial company BKtech, which is helping Swedish industry with the transition from fossil fuel to bio-energy. Wasa Kredit's financing solutions via BKtech contributed to carbon savings in 2019 of more than 8,200 tonnes per year, corresponding to the annual emissions from more than 3,600 cars.



# Responsible insurance offering

Preventing insurance claims and reducing the effects of claims incurred has a positive effect on the environment, health and society. This is a matter of security for customers and society, and forms the foundation of our work.

Länsförsäkringar Sak supplements the regional insurance companies' offering with specialist products to meet customer needs, initiates new business that can be channelled through the regional insurance companies, and manages the Länsförsäkringar Alliance's total reinsurance cover. Work is conducted in three business areas: Reinsurance and Special Insurance, Health and Agria Djurförsäkring (pet and crop insurance).

Development and service of the regional insurance companies' existing non-life insurance business is handled by the LB Sak unit, which includes claims prevention and claims adjustment.

## Risks and opportunities

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

Urbanisation, digitisation, migration, an ageing population, a higher rate of mental illness and lifestyle diseases are challenging the welfare system and creating new customer requirements that are fueling demand for new insurance products and services for private individuals, companies and employers. Society, companies and individuals stand to gain great economic and social benefits by taking preventive measures to protect their health and taking early action in the event of an injury or a risk of long-term sick leave.

## Climate risks and natural catastrophes

Länsförsäkringar AB and the regional insurance companies take preventive measures and exchange know-how to reduce the risk of natural catastrophes in society. The reinsurance business – both the business of the regional insurance companies and international business – expose the company to extreme weather conditions and climate change.

The regional insurance companies hold a large market share of forest insurance in Sweden. Länsförsäkringar has access to a comprehensive claims statistics database to continuously assess the risk of natural-damage claims in the forest.

Länsförsäkringar Sak participates in a UN project on climate risks, conducted by PSI and supporting the TCFD's recommendations, together with about 20 other insurance companies. The project will find new methods and approaches for modelling the impact of climate change on the insurance industry and how to tackle it.

Insurance companies need to protect their operations from costs for large individual claims and natural catastrophes and often turn to specialist reinsurance companies in the international market to insure some of their risks. The companies in the Länsförsäkringar Alliance can naturally share risk among themselves. The regional insurance companies pay an annual reinsurance premium to Länsförsäkringar Sak, which manages the Länsförsäkringar Alliance's internal and external reinsurance. This premium is based on, for example, risk exposure to natural catastrophes, claims history and the level of retention chosen by the company. This retention can be compared with the deductible that private individuals and companies

pay for non-life insurance. In this way, most of the reinsurance premium is retained within the Länsförsäkringar Alliance and the costs for external reinsurance are thus lower and more stable, benefiting Länsförsäkringar's customers.

## Claims prevention – a gain for the environment

Preventing a claim is a win for customers, the environment and society – that is why claims prevention is central to Länsförsäkringar. By providing information about common types of claims and claims-prevention measures, Länsförsäkringar can help customers to minimise the risk of claims themselves. Claims prevention leads to lower claims costs and insurance premiums.

Together with the regional insurance companies, Länsförsäkringar AB produces guidelines on claims prevention and on how to make sustainable repairs, centring on reuse and recycling. Natural catastrophe, water and fire damage claims as well as motor insurance claims have the greatest impact on the environment. Claims-prevention activities help reduce the impact on the environment by reducing waste, energy use, new materials, transportation and other resources – for both the claim incident itself and also for restoration and repairs.

A customised claims-prevention programme is implemented for different product areas in Reinsurance and Special Insurance to improve profitability for customers and prevent various claims risks. Motor insurance has a programme featuring claims statistics, analysis and claims-prevention material. Surveyors are trained on a continuous basis and estate agents are trained to prevent seller liability and real-estate broker claims.

## Health-promotion efforts for people

Länsförsäkringar is one of Sweden's leading players in health and health care insurance, with the mission of creating a healthier Sweden by contributing to a sustainable lifestyle, working life and society. Mental illness is the most common cause of sick leave. Preventive and early measures at the workplace are key to breaking this trend. Länsförsäkringar actively participates in the public debate on good health and a sustainable working life, and provides supplementary security solutions to promote good health and reduce sick leave. Länsförsäkringar regularly carries out pilot projects related to preventive measures to increase know-how and awareness of health drivers.

The Health Care and Bo Kvar insurance policies offer customers preventive health-promotion services and personal counselling, as well as support tailored to employers for their work on the organisational and social work environment, including counselling for managers. Länsförsäkringar's health care insurance also includes effective work-oriented rehabilitation and treatment for addiction.

## Health-promotion efforts for animals

Agria operates in Sweden, Norway, Denmark, Finland, the UK and France. Agria develops insurance products that create security for animals and animal owners in close collaboration with animal-owner

organisations. Agria works regularly on claims-prevention information and health-promotion activities for customers' animals in its own digital channels and via digital vet consultations.

Agria has health profiles for breeds of dogs and cats (Agria Breed Profiles) that contain extensive claims statistics that are used by researchers, breeders and breed clubs to improve animal health and sustainable breeding.

### Activities and targets in 2019

#### Claims prevention – a gain for the environment

Studies of the Meps construction calculation programme ended in 2019. Work started on producing an internal calculation model for the carbon footprint of property repairs.

Guidelines for kitchen and bathroom construction were prepared with industry colleagues and Insurance Sweden. Water damage costs the insurance industry SEK 10 billion per year according to statistics from Insurance Sweden. Much of this damage could be avoided if bathrooms and kitchens were renovated correctly.

Länsförsäkringar works together with trade organisations to produce standards for water leak detectors and part repairs of bathroom and developing manifold cabinets.

#### Health-promotion efforts for people

The Swedish Association of Local Authorities and Regions initiated a concerted focus on mental illness in 2019, with the participation of Länsförsäkringar. The aim is to start talking openly about mental illness and find new ways and methods for promoting health and well-being. Länsförsäkringar AB started the Mindshift health movement together with a couple of regional insurance companies, regions and organisations.

Preventive measures were carried out under the framework of the health care insurance in the form of digital activities to raise awareness about the importance of physical activity, life balance and a healthy diet. The use of the Health Portal and preventive services in the health care insurance achieved the target of 40,000 users during the year.

#### Health-promotion efforts for animals

Agria achieved its target of half of the users of digital vet services not needing to physically visit a vet. 75% of 46,000 digital consultations were not referred for physical visits.

A book entitled "Sustainable riding for sustainable horses" was published during the year as of the #stoppahältan project and Agria Naturbana natural riding ground. The book aims to prevent lameness and ultimately more sustainable horses in the future.

Agria's Research Fund aims to improve animal health. The Päls-podden podcast brings research results to a wider audience. Seven (four) episodes were broadcast in 2019 with 127,452 downloads (28,443). Free research seminars were also arranged to make the results available to a broader audience.

An annual charity dog walk took place in 17 towns in six countries in the spring. A total of 6,700 teams took part, with Agria donating SEK 50 per team to dog charities for each team.

### Activities and targets in 2020

Work on producing an internal calculation model for the carbon footprint of property repairs will continue.

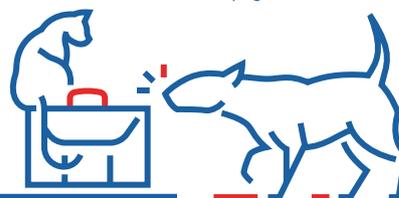
The process of reviewing the sustainability aspects of product documentation, including insurance terms and conditions, will continue in 2020.

Digital services remain a focus area. The target is to retain the high number of visitors (40,000) to the Health Portal's preventive services.

Participation in the UN project on climate risks in insurance industries will continue.

## Agria's Research Fund

Agria has financed animal research for 80 years. The aim is for research to provide a solid basis for successful breeding, better animal health and animal keeping, and enhance knowledge about the importance of pets to humans. More than SEK 10 M was awarded in 2019. More information can be found on page 138.



## UN pilot project on climate risks

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



## UN Principles for Sustainable Insurance (PSI)

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

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

# Responsible employer

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

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

## Risks and opportunities

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

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

## Diversity, inclusion and equality

Länsförsäkringar AB's definitions of diversity and inclusion reflect the law prohibiting discrimination and everything that makes people different and unique. The importance of an inclusive culture is critical for benefiting from diversity and welcoming different perspectives and approaches. Different ways of thinking are a key factor for success when it comes to learning and innovation that add value to the business and strengthen competitiveness and profitability. Diversity initiatives play an important role in broadening the recruitment pool.

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

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

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

The equality and diversity plan describes standpoints, promotion activities, active measures and action plans. Progress is monitored annually.

## Skills development and learning

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

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

## Health and work environment

Länsförsäkringar 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 workloads in accordance with the Swedish Work Environment Authority's provisions (AFS 2015:4).

Health care insurance is offered to all employees that includes medical consultations, counselling, preventive health services and rehabilitation. Occupational health care services provide support for rehabilitation, work-related ill health, as well as ergonomic advice and regular medical check-ups. Länsförsäkringar AB's premises, where the majority of employees work, have a gym and a sustainable staff restaurant. One hour of fitness activities during work hours is granted every week. Employees at other locations are offered fitness subsidies.

Cooperation with trade unions takes place through regular meetings and dialogue. Länsförsäkringar AB follows laws and agreements that govern the operations regarding the Employment Protection Act, Discrimination Act, Work Environment Act and collective and co-determination agreements. Länsförsäkringar AB follows the rules of collective agreements when employees leave the company or resign. All employees, except for Group management, have collective agreements.

## Activities and targets in 2019

### Diversity, inclusion and equality

A new equality and diversity plan was implemented, and all departments and business unit incorporated diversity targets or activities in their business plans. Training courses, inspirational presentations and group exercises on diversity and inclusion were arranged.

Less than 1% of employees were identified as having incorrect salaries in the 2019 salary survey. The deviations were adjusted in consultation with trade union partners.

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

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

During the year, Länsförsäkringar AB became a certified employer by the Swedish Migration Agency, which expedites work permit processing times, thus simplifying recruitment of people without

permanent residence permits. A partnership was started with Swedish for Professionals to offer Swedish lessons to English-speaking employees.

### Skills development and learning

A Group-wide skills supply plan was produced, containing short and long-term objectives and activities. The aim of the plan is to ensure the organisation's future skills supply and support employees in continuously developing their skills.

A decision was made to introduce a framework for the Lean Agile work method in order to deliver more efficient, high-quality development services to the regional insurance companies.

In 2019, 4,545 (5,266) in-house training courses were organised for Länsförsäkringar AB employees. Employees also received training in the form of skills transfers, external courses, training programmes, online courses and seminars.

### Health and work environment

The Work Environment and Equality Committee is responsible for overall monitoring of the equality and diversity plan, sickness absence, occupational injuries and rehabilitation, and the employee survey. Four near-accidents and 17 occupational injuries were reported during the year. These were mainly in the form of accidents on the way to or from the workplace.

Activity-based working started to be rolled out during the year, enabling employees to work in the way, with the technology and in the place that offer the best support for performing their work duties efficiently and sustainably.

### Activities and targets in 2020

A framework for the Lean Agile work method and activity-based workplace will be implemented in various phases starting in 2020, which will involve a new work method for a number of employees.

A course on artificial intelligence will be arranged for a pilot group of employees as part of the skills supply plan. Implementation of a new HR and training system will begin in 2020, which will create a platform for continued skills development.

Skills-based recruitment will be applied, focusing on tests to measure personality, development potential and problem solving, so as to avoid discrimination since all candidates will be evaluated on equal terms. A manager training course in recruitment and diversity will be arranged. Diversity and inclusion activities will continue and remain part of the business plan.



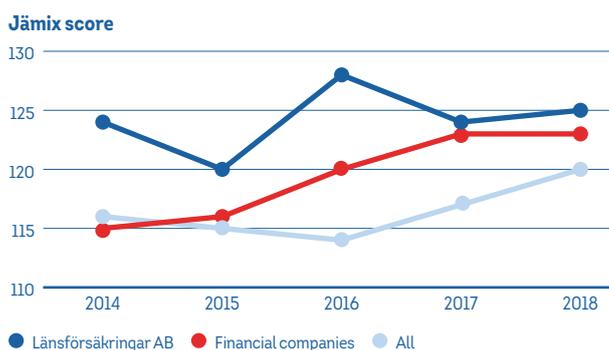
## An attractive employer

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



## Active equality efforts

Länsförsäkringar AB participates in the Nyckeltalinstitutet's (Institute of Human Resource Indicators) annual Gender Equality Index JÄMIX to monitor its equality efforts. Länsförsäkringar AB had a total score of 125 points (124) out of 180, compared with 123 points (123) for financial companies.



## Best Health Index in finance industry

Länsförsäkringar AB had the highest score of all financial companies in Nyckeltalinstitutet's Health Index, with a total of 125 points (135) out of 180. The average score was 120 points (125). Compared with other financial companies, the survey shows that Länsförsäkringar AB is advanced in terms of support structures for work environment and health activities and its efforts in preventive health care.

## Business ethics

The banking and insurance industry is subject to stringent rules and regulatory requirements so as to ensure financial stability and provide protection for customers.

A high level of business ethics is naturally inherent in all of Länsförsäkringar's operations in order to best protect its customers. Every day, Länsförsäkringar works on preventing money laundering and terror financing, which is vitally important for meeting regulatory requirements, contributing to a stable financial system and for Länsförsäkringar to uphold its good reputation.

### Risks and opportunities

Money laundering and terror financing are international problems that pose serious threats to the financial system and its institutions, and ultimately the real economy and national safety. Confidence in the financial system is quickly tarnished if financial institutions are associated with illegal assets and money laundering or used to finance terrorism. The finance industry is subject to regulations that seek to prevent and counteract the financial system being utilised for money laundering and terror financing. Corruption risk is a risk found in all companies regardless of industry and country.

### Anti-money laundering and terror financing

A systematic process based on, for example, in-depth knowledge about customers and their transactions as well as active transaction monitoring reduces the risk of the life-assurance and banking operations being used to launder money, finance terrorism and fraud. A central function for the banking and life-assurance operations monitors and checks compliance with procedures and guidelines. The Länsförsäkringar Alliance has a shared system for reporting deviations. All employees and contractors working in the banking and life-assurance operations must be familiar with the content of the governance documents and the relevant procedures for anti-money laundering and terror financing. Employees in the banking and life-assurance operations undergo mandatory training on the subject and receive additional training. A new risk assessment is carried out when new products, services and distribution channels are introduced and re-organisations are implemented.

This work follows a structured, risk-based approach whereby risk assessments are performed to analyse whether major risks of money laundering and terror financing exist. Customer risk profiles are assessed based on customer knowledge data and ongoing business relationships, and unusual activities or transactions are monitored to identify any deviations. If, after an examination, an activity or individual transaction is suspected of involving money laundering or terror financing, it is immediately reported to the Financial Intelligence Unit of the police.

It is vitally important to Länsförsäkringar AB that issued sanctions are followed. Sanctions that apply as Swedish law comprise the sanctions decided by the EU and/or UN and entail restrictions on freedom of action for a state, group or private individuals. This means that Länsförsäkringar AB is not to maintain a business relationship with the sanctioned parties and is to ensure, through internal guidelines and systems, that payments do not contravene applicable sanctions.

### Anti-corruption

Länsförsäkringar AB takes a stand against all forms of corruption and improper benefits, which is stated in the Code of Conduct and the policy on improper benefits. The Swedish Anti-Corruption Institute's (IMM) recommendations on gifts, rewards and other benefits in business are part of the policy.

The overall aim of Länsförsäkringar AB's anti-corruption work is to guide employees in avoiding giving and receiving gifts and representation that could arouse suspicions of promoting private interests or those of a third party.

The Compliance functions regularly perform a risk and vulnerability analysis within 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.

### Whistle-blowing

To counteract and stop crime in the business, employees can contact their immediate manager or their manager's manager if they suspect any improprieties or wish to make a whistle-blowing report. The informant has the right to anonymity and will not suffer any repercussions due to the report. The report is processed by Compliance and may be referred to internal or external investigators depending on its nature. The whistle-blowing procedure is an alternative to other reporting channels. The Code of Conduct and intranet contain information about the whistle-blowing procedure. Two cases of whistle-blowing were reported in 2019.

### Activities and targets in 2019

A risk and vulnerability analysis was carried out in 2019 and the results showed a low risk of Länsförsäkringar AB and its subsidiaries being exposed to bribery. The annual mandatory e-course on the Code of Conduct, sustainability and security was updated in 2019 and was completed by 83% (84) of employees.

### Activities and targets in 2020

The annual mandatory e-course on the Code of Conduct, sustainability and security will be reviewed in 2020. The aim is to update the course.

# Responsible purchasing

The choice of suppliers is based not only on quality and competitiveness in the products and services, but also on suppliers' compliance with sustainability principles.

Purchases are mainly from service suppliers. The task of the purchasing function is to create the best possible business value in close partnership with the operations through professional supplier relationships. This takes place by conducting business-critical procurement processes and supporting the operations through processes for simplified purchasing and offering active support across the entire lifecycle.

## Risks and opportunities

Länsförsäkringar AB primarily makes purchases from service providers in the areas of IT and telecommunications, consultancy services, health and medical care, marketing and communication, and financial services, banking and investments. Based on responsible procurement, Länsförsäkringar AB can positively influence suppliers in terms of work conditions, healthy competition and a better environment. Environmental and social risks related to country, industry and company are assessed in procurement processes and meetings with suppliers. By not considering sustainability in procurement, purchases could indirectly result in sustainability risks in the supply chain. The largest sustainability risk is deemed to be in the area of work conditions.

## Purchases mainly from service suppliers

Purchases are mainly made from suppliers in Sweden. IT purchases are made from suppliers operating in Sweden, but also other countries, such as India. 100 suppliers account for 77% of the total purchasing volume, which allows for efficient delivery, sustainability and business follow-ups of suppliers.

## Code of Conduct part of purchasing agreements

The Code of Conduct for Suppliers has been included in purchasing agreements with new suppliers since 2016. The Code is based on the ten principles of the UN Global Compact, and defines requirements regarding human rights, labour, environment and business ethics.

The policy also includes general and IT-specific security guidelines and guidelines for managing conflicts of interest. The Code of Conduct is used for both potential and existing suppliers. On 31 December, 74% (73) of the 100 largest suppliers had signed the Code of Conduct.

## Activities and targets in 2019

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.

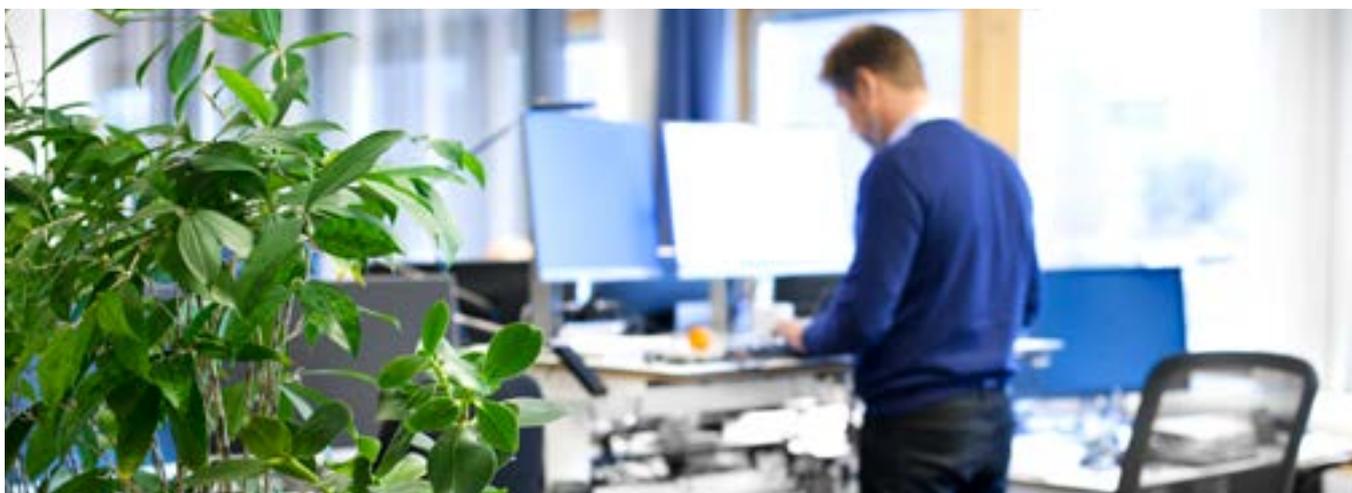
The focus for the year was on introducing sustainability requirements in the procurement process, and a self-assessment form was prepared to help in this. This form serves as a fundamental risk assessment of sustainability aspects.

## Activities and targets in 2020

The Code of Conduct for Suppliers will be revised in 2020. The focus will be on enhancing the efficiency of supplier audits and the aim is for 10% of existing suppliers to be audited.

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

## Purchases in 2019, %



## Direct environmental impact

Efforts are continuously made to reduce the impact on the environment from the company's operations, concentrating on business travel, energy efficiency in offices and sustainable purchasing.

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

Länsförsäkringar AB's offices are environmentally classified as energy efficient. Renewable electricity and district heating are used in these properties. Work methods are continuously reviewed to bring about more energy-efficient electricity consumption and heating. Continuous efforts are made to enhance efficiency in order to reduce the negative environmental impact of the office operations in several areas as regards materials, recycling and waste.

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

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

The Länsförsäkringar Alliance partners with a company that recycles and reuses the computers used in the operations.

### Activities and targets in 2019

Länsförsäkringar AB's offices were BREEAM certified during the year, achieving a rating of Very Good. The installation of LED lighting and energy controls to reduce electricity consumption continued.

99% of computers were re-used in 2019 through sale for re-use. Only 1% was destroyed and recycled due to its condition or because the content could not be re-used.

Several information campaigns and surveys about food waste in the staff restaurant were conducted during the year. Purchases of single-use plastics decreased by about 70% in 2019.

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.

Carbon emissions in 2019 amounted to 812,017 kg, meaning an 18% reduction compared with 2018. A specification of emissions is provided on page 136. Air travel was the largest source of carbon emissions.

Double climate compensation for Länsförsäkringar AB's 2018 emissions was paid in 2019 via South Pole. Emissions for 2019 will be climate compensated.

### Activities and targets in 2020

All departments and business units have established activities to reduce the company's direct environmental impact. Examples include increasing digital communication, reducing travel and setting environmental requirements for purchases. Activities to reduce purchases of plastic, primarily in the staff restaurant, and reduce food waste will continue.

The target for 2020 is to reduce direct emissions from the company's own operations by 20% compared with 2019.

Work will commence on rebuilding the ventilation system for more efficient energy use.

### Sustainability Day for employees

A day of presentations and talks on sustainable savings, insurance, biodiversity, climate issues and sustainable food was arranged in the autumn. Employees declared their own climate promises and shared suggestions on how the business can be more sustainable. 250 kg of clothes were collected for the Red Cross. 660 litres of litter was collected from local nature areas.

### Climate compensation also benefits society

Länsförsäkringar AB climate compensates via South Pole to a tree-planting project aimed at restoring the local ecosystem in northern India where soil erosion, a growing number of landslides and drought have affected 500 million people. The project follows the international Gold Standard.



# Long-term environmental and social commitment

Every year, Länsförsäkringar finances independent research projects studying social, economic and physical security for customers and society at large. The research results are made public and are used widely in society.

Since the 1970s, Länsförsäkringar AB and the regional insurance companies have awarded annual grants to Länsförsäkringar's Research Fund to identify and study current and future security challenges for society. By making the research results available in the public domain, Länsförsäkringar contributes to knowledge-based development of security in society. The research focuses on five areas: Secure homes, tomorrow's society, road safety, climate change and mutual business models. 11 research projects and tests were being carried out at the end of 2019 and are presented on page 138.

## Risks and opportunities

Urbanisation, digitisation and the sharing economy are giving rise to both risks and opportunities in our growing society. Climate adaptation is an important research area where new expertise is needed to understand the changes taking place. Other priorities include research into home security and road safety. A key issue in road safety is to reduce the risk of accidents involving cyclists in cities, and understanding how new vehicles such as electric scooters are making road traffic more complex.

## Research focusing on security

The Research Fund issues calls for proposals to invite researchers at Swedish universities, colleges and independent research institutions to apply for grants. These grants are awarded to projects at a qualified scientific level that are highly relevant to Länsförsäkringar. The Research Fund also finances other scientific tests and feasibility studies that aim to highlight and reduce risks and to advance the development of sustainable and beneficial products.

## Useful research results

The results of this research are used in Länsförsäkringar's own business development and in discussions with customers and various stakeholders in society. An important part of the task of Länsförsäkringar's Research Fund is to communicate research results broadly throughout society and for more parties to make use of the results. Experience shows that the results are used by several different organisations in society, such as the Swedish Transport Administration, police, municipalities and county administrative boards.

One channel for spreading the results is the regular panel talk forum called "Framåtblick" which takes place in various locations across the country. The forum serves as a bridge between research and practice by spreading know-how locally to strengthen the regions. The forum is a partnership between the regional insurance companies and the Research Fund, and the local community is invited to participate.

## Testing highlights new risks

It is common for water pipes to be built into the walls of a home and a manifold cabinet is used for all manifolds to reduce the risk of damage. This safety measure is based on the cabinet remaining completely waterproof. Together with RISE Research Institutes of Sweden, Länsförsäkringar's Research Fund commissioned testing of the manifold cabinets from the four largest manufacturers. The results showed that the manifold cabinets risk leaking despite following the installation instructions to the letter. Based on these tests, Länsförsäkringar is collaborating with the Säker Vatten trade organisation and VVS-fabrikanternas Råd (the Swedish association for manufacturers of heating, plumbing and sanitation products) to improve cabinet designs.



## New climate-related research projects

Länsförsäkringar's Research Fund will provide SEK 21 M in financing for two new projects in 2020-2023.

### Improved climate adjustments to residential areas

Linköping University will carry out research to strengthen property owners' ability to climate-adjust existing buildings. The property owners themselves bear the primary responsibility for climate adjustments but there is a lack of good support to help these owners manage climate risks. More precise vulnerability analyses, proposals on specific countermeasures and better cooperation between housing, municipal and insurance companies are needed to ensure secure homes in the wake of climate change.

### Financial effects of climate policy

The University of Gothenburg plans to study how the finance markets and financial organisations act and react to the climate threat. The transition to a fossil-free society will set major demands for the financial sector, particularly because massive investments are needed to advance towards a more fossil-free society. There is the risk here that if the transition moves too quickly, major fossil assets could become stranded and extensive bankruptcies could then threaten the stability of the financial system. The project will also investigate the motives driving private investors to make sustainable investments.

# Sustainability awards

Länsförsäkringar was very proud to receive a number of awards and high sustainability rankings during the year, which confirm that the work performed is appreciated by customers and future employees.



## Länsförsäkringar is an attractive employer

Länsförsäkringar as an employer won several awards during the year.

- First place as the most attractive insurance company and in 20th place of companies with a deep social commitment in Universum's Company and Career Barometer.
- Top 100 companies in the Young Professional Attraction Index carried out by Academic Work and Kantar Sifo.
- 13th place in Randstad Employer Brand Research's list of attractiveness of Sweden's 150 largest private companies.

## Most sustainable company in the financial sector

The Swedish public ranked Länsförsäkringar as the most sustainable company in 2019 in the Finance category of the Swedish Sustainability Ranking, Sweden's largest sustainability customer survey. The survey is carried out by researchers at Stockholm Business School.



## Länsförsäkringar industry leader on sustainability

Länsförsäkringar was named Sweden's most sustainable insurance company by Sustainable Brand Index - the largest consumer sustainability survey in the Nordics.



# Board of Directors' Report

The Board of Directors and the President and CEO of Länsförsäkringar AB (publ), Corporate Registration Number 556549-7020, hereby submit the Annual Report and consolidated financial statements for the 2019 fiscal year.

## Ownership and Group structure

Länsförsäkringar AB is wholly owned by the 23 regional insurance companies and 15 local insurance companies.

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

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

## Focus of operations

Länsförsäkringar AB has three primary tasks: to conduct business activities in banking, non-life insurance and pensions; to provide business service to the regional insurance companies in areas in which economies of scale and efficiency arise, and to conduct Länsförsäkringar's joint strategic development activities.

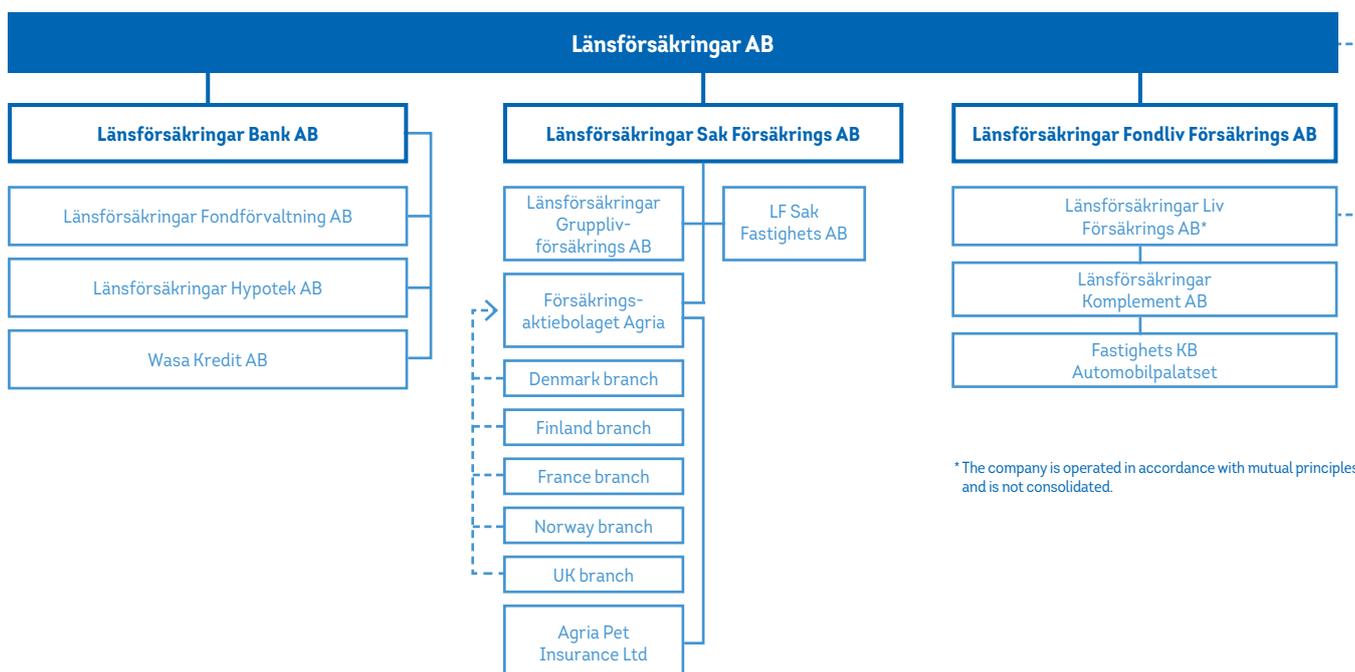
The business activities are carried out in the Non-life Insurance, Banking and Life Assurance business units, whose task is to conduct business and assume responsibility for direct product-related support for the regional insurance companies. Financial governance is primarily based on the owners' requirements for effective capital use and a balanced and market-based return on equity according to each subsidiary's operations and risk.

Business service and Länsförsäkringar's joint development activities for non-life insurance are conducted in the LB Sak unit. The Strategy and Change Management unit is responsible for pursuing and creating the conditions for Länsförsäkringar AB's change agenda to meet the requirements from the regional insurance companies and their customers. The accounting, capital planning and Group controller functions are part of the Economy and Finance unit. The Asset Management unit manages the Parent Company's and insurance operations' investment portfolios. The Customer and Channel Support unit is responsible for ensuring that the regional insurance companies have the prerequisites for delivering high-quality digital and physical customer meetings. The IT unit is responsible for the IT operations conducted within the Länsförsäkringar AB Group and the IT operations that Länsförsäkringar AB outsources to external suppliers.

## Significant events during the year

Länsförsäkringar assumed responsibility for brand insurance and vehicle-damage guarantees for Toyota and Lexus cars in the Swedish market from 1 January 2019. Technological advances are rapid and the motor insurance market will see new needs for insurance solutions. With Toyota as a partner, Länsförsäkringar is even better positioned to understand these new needs and thus can continue to offer relevant insurance solutions. This partnership was highly successful in 2019, contributing to robust growth in motor insurance. Most of brand insurance is reinsured in the regional insurance companies, meaning that the premium volume on a net basis is relatively unchanged for Länsförsäkringar Sak.

## Länsförsäkringar AB Group structure, 31 December 2019



\* The company is operated in accordance with mutual principles and is not consolidated.

A new core banking system was very successfully implemented in April. The system replacement marked a key milestone for Länsförsäkringar's banking operations and the new modern system platform will help make services in the digital area even better, both now and in the future.

On 1 May 2019, Jakob Carlsson became the President of Länsförsäkringar Liv.

Länsförsäkringar's Open Banking platform was launched in June with the aim of building new, innovative services that make everyday life easier and create security and added value for customers.

In 2019, Länsförsäkringar AB continued to work according to a long-term business plan aimed at defining how Länsförsäkringar AB can become even better at helping each regional insurance company to best leverage the strength of the entire Länsförsäkringar Alliance in an increasingly digitised world. Introducing the Lean Agile work method will enhance the efficiency of Länsförsäkringar's development activities and make them more innovative, resulting in rapid product development and testing. This means more efficient deliveries of new services demanded by customers.

Länsförsäkringar AB worked together with the 23 regional insurance companies in 2019 to select the UN Sustainable Development Goals (SDGs) that Länsförsäkringar can support for sustainable development. Seven of these SDGs and 13 targets were identified as most relevant and can be clearly linked to our business.

#### Events after year-end

On 1 February 2020, Mathias Collén became the President of Länsförsäkringar Fondliv.

The COVID-19 outbreak has now been classified as a pandemic. As per 9 March 2020, developments in the financial markets have had a moderately negative impact on the Länsförsäkringar AB Group's capital situation. There is considerable uncertainty, but Länsförsäkringar AB is monitoring developments and is continuously adjusting its operations using contingency and business continuity plans. All growth forecasts are currently highly uncertain, but most forecasters are assuming global growth of 2-2.5% in 2020.

#### Expectations regarding future development

Rapid technological advances are creating new conditions, while at the same time significant changes and innovation are needed to leverage the opportunities that are emerging. Expertise, the technical environment and the organisation must be adapted to support rapid developments so as to meet customers' evolving needs.

Customers demand relevance, flexibility and availability. Accordingly, developments are best driven forward with a high level of customer involvement.

As digitisation increases so do opportunities for packaging the right products and services for customers – understanding the customer's situation and lifestyle choices and offering solutions that cater to these needs are, therefore, essential for winning customer trust and loyalty. For this reason, Länsförsäkringar is pursuing its activities towards achieving the target of being the industry leader in digital services.

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

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

Sustainability is a fundamental element of future developments, and has played a part in Länsförsäkringar's operations since the very beginning when the first regional insurance company was founded more than 200 years ago. Länsförsäkringar's products and services must not only strengthen the business but must also contribute to the sustainable development of society.

#### Earnings and financial position

##### Group earnings

Operating profit for the Länsförsäkringar AB Group increased to SEK 3,003 M (2,351). The return on equity amounted to 10% (9).

The Länsförsäkringar Sak Group's operating profit rose to SEK 851 M (460), benefiting from strong net gains from financial items and divestments of property holdings. Premiums earned after ceded reinsurance increased 5% to SEK 6,211 M (5,891). The combined ratio amounted to 95.8% (93.5).

The Bank Group's operating profit increased to SEK 1,893 M (1,510), primarily driven by higher net interest income and strong underlying net commission. Operating profit in 2018 was impacted by items affecting comparability mainly related to replacing the bank's



core banking system. Net interest income rose 3% to SEK 4,617 M (4,497), mainly attributable to higher volumes.

Operating profit for Länsförsäkringar Fondliv rose to SEK 738 M (673), mainly driven by the favourable stock market trend and positive net flows of premiums and capital from existing and new customers. Managed assets increased 26% in 2019 to SEK 159 billion (126) on 31 December 2019.

The Länsförsäkringar AB Group's investment return attributable to the insurance operations' and Parent Company's assets amounted to 8.3% (2.5). Properties, which totalled 9% of the investment assets at the end of the year, yielded the highest return contributing 3.7 percentage points (3.9). This was mainly driven by positive changes in the market value of property holdings. In November 2019, Länsförsäkringar AB and Länsförsäkringar Sak divested property holdings to Humlegården Fastigheter AB, a property company that is part of the Länsförsäkringar Alliance. Equities also performed strongly during the year, contributing 3.1 percentage points (-0.8). In the fixed-income portfolio, which contributed a total of 1.1 percentage points (-0.2) to investment return, mainly US credits had the most positive contribution. Alternative investments contributed 0.4 of a percentage point, mainly driven by the positive trend in forest holdings.

### The Group's capital situation

The Länsförsäkringar AB Group's equity increased SEK 4,039 M in 2019 to SEK 30,907 M. SEK 1,000 M of this increase comprised the issue of Additional Tier 1 Capital loan (AT1) in Länsförsäkringar Bank.

The Länsförsäkringar AB Group is a financial conglomerate. The Group's companies are encompassed by group solvency regulations in accordance with legislation on financial conglomerates, legislation on insurance operations and legislation on banking operations.

At 31 December 2019, surplus capital for the Länsförsäkringar AB Group under the rules on financial conglomerates was SEK 12.4 billion, up SEK 2.4 billion during the year. Own funds amounted to SEK 50.2 billion and the capital requirement to SEK 37.8 billion. The capital situation under the rules on insurance operations commensurated with the capital situation under the rules on financial conglomerates on 31 December 2019.

The Common Equity Tier 1 capital ratio for consolidated situation\* (the group encompassed by the group rules for banking operations) was 15.4% on 31 December 2019, down 0.3 of a percentage point for the year.

Tier 1 and Tier 2 capital in the consolidated situation were impacted by an interpretation on qualifying own funds published by the European Banking Authority (EBA) in November 2019. The EBA's interpretation clarified the application of the limitation rules on inclusion of own funds for banks in a consolidated situation. This means that as per 31

December 2019 the consolidated situation only includes own funds issued externally by Länsförsäkringar Bank in the portion of capital required to cover the capital requirements of Länsförsäkringar Bank, and not, as previously, also including its subsidiaries' capital requirements. Eligible Tier 1 capital on 31 December 2019 amounted to SEK 743.4 M (1,754.5\*\*) and eligible Tier 2 capital to SEK 768.1 M (2,143.2\*\*). A dialogue is currently being maintained with the Swedish Financial Supervisory Authority to discuss possible options going forward.

The Board of Länsförsäkringar AB proposes that the General Meeting resolve to pay a dividend of SEK 698 M to the owners – the 23 regional insurance companies, together with the 15 local insurance companies.

\* The Länsförsäkringar Bank Group consolidated with Länsförsäkringar AB.  
\*\* The comparative period pertains to 30 September 2019.

The capital situation of the Group and its insurance subsidiaries according to Solvency II is described in greater detail in the Länsförsäkringar AB Group's Solvency and Financial Condition Report. An updated report on the capital situation on 31 December 2019 will be published on Länsförsäkringar's website in May 2020.

### Parent Company earnings

Profit after financial items for the Länsförsäkringar AB Group's Parent Company amounted to SEK 871 M (1,328). Profit was positively impacted by dividends and Group contributions of SEK 660 M from Länsförsäkringar Sak (SEK 460 M from Länsförsäkringar Sak and SEK 850 M from Länsförsäkringar Fondliv), and divestments of property holdings. Net sales increased to SEK 3,577 M (3,235).

### Proposed appropriation of profit

According to the statement of financial position for Länsförsäkringar AB, non-restricted equity totalling SEK 14,438,948,733 is at the disposal of the Annual General Meeting.

The Parent Company's non-restricted equity comprises	SEK
Share premium reserve	5,470,917,955
Fair value reserve	-504,205,135
Retained earnings	8,606,414,586
Net profit for the year	865,821,327
<b>Non-restricted equity, 31 December 2019</b>	<b>14,438,948,733</b>

The Board of Directors proposes that SEK 67 per share of the unappropriated earnings in the Parent Company be paid to the shareholders	698,446,994
To be carried forward	13,740,501,739
	14,438,948,733

The dividend is calculated on 10,424,582 shares.



## Non-life insurance business operation

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

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

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

### Earnings and financial position

Operating profit for the Länsförsäkringar Sak Group rose to SEK 851 M (460), benefiting from strong investment income mainly driven by property and equities holdings. Operating profit was also impacted by a capital gain on the divestment of property holdings. Premiums earned after ceded reinsurance rose 5% to SEK 6,211 M (5,891). Of the non-life insurance operations' three business areas (Agria, Health and Reinsurance and Special Insurance), growth was highest in Agria where the premium volume increased in all business lines, with the highest growth in the international business lines.

The technical result declined to SEK 283 M (402) and the combined ratio amounted to 95.8% (93.5). Claims payments after ceded reinsurance amounted to SEK 4,553 M (4,196) and the claims ratio increased to 73.3% (71.2). The expense ratio was 22.5% (22.3).

The change in technical result was mainly due to higher claims costs in parts of Agria's business and international reinsurance, and to claims that were charged to the Länsförsäkringar Alliance's internal reinsurance, for which Länsförsäkringar Sak contributes a 15% share of assumed reinsurance.

The Länsförsäkringar Sak Group's investment return rose to 8.4% (3.8). Properties, which at the end of the year totalled 16% of investment assets, yielded the highest return, driven by positive changes in market value, contributing 5.1 percentage points (4.9) to investment return. The fixed-income portfolio, which has a short duration, contributed 1.3 percentage points (-0.1), with primarily US credits making the largest contribution. Equities performed strongly during the year, contributing 1.9 percentage points (-0.5).

### Agria

Agria's technical result amounted to SEK 86 M (224). The portfolio grew strongly both in Sweden and in the international business. The change in earnings was primarily due to higher claims costs. Intense hailstorms in southern Sweden in June contributed to a higher level of claims in crop insurance. Agria's largest business line in terms of volume – Swedish pet insurance – reported weaker earnings due to higher claims costs. This was a combination of both a higher claims frequency and higher veterinary care costs. Earnings also included a negative non-recurring effect after adjustment of capitalised acquisition costs and claims adjustment reserves in the UK branch.

Premiums earned after ceded reinsurance increased 8% to SEK 3,788 M (3,496). Volumes increased in all business lines, with the largest growth in the international operations.

Agria has a strong concept with the clear strategy of growing internationally. The six countries served by Agria all have different challenges, but many similarities as well, and this is where value of economies of scale, greater risk diversification and access to international know-how strengthen the business. Agria is the market-leader in the pet insurance segment in Sweden, Norway and Denmark. Agria's insurance for Swedish pets reported strong growth in mainly cat insurance, but also in insurance for small animals. The number of horse insurance policies in Sweden is the highest for ten years and the operations in Norway, Denmark and the UK continued to grow strongly.

The UK left the EU on 31 January 2020. The EU and UK agreed on a transition period in 2020 during which EU rules will continue to apply in the UK. There is still great uncertainty about the permanent withdrawal agreement that is to be negotiated. Agria is closely following developments and taking the necessary actions regarding this transition, focusing on ensuring that the impact on the company's customers is as little as possible.

One of Agria's priority areas is the development of digital channels to enhance the customer experience of meeting Agria and to develop targets sales and more efficient operations. For the second consecutive year, Agria had a high level of customer satisfaction, as measured by the Swedish Quality Index. The UK operations also have a high share of satisfied customers and customer satisfaction is increasing in Norway. Customers who used their insurance to make a claim remained the most satisfied.

### Health

The technical result for the Health business area amounted to SEK 137 M (96). Earnings for accident insurance improved as a result of premium adjustments and a review of conditions. Earnings for group life assurance and health insurance also improved. Earnings for health care insurance were weaker as a result of last year's earnings included positive run-off gains.

Premiums earned amounted to SEK 1,401 M (1,395). Growth was primarily high in group life assurance.

The former full-service offering in health care insurance was expanded during the year and now comprises three components: health care insurance, health care insurance Basic and preventive

and rehab insurance. The portfolio premium in health care insurance rose during the year. Sales of the Bo Kvar product, which comprises an important part of Länsförsäkringar Bank's offering, performed strongly and the portfolio premium has grown steadily. This policy provides financial protection in the event of death, illness or unemployment and is an important component in providing financial security to customers. Loan protection was expanded during the year to also include Wasa Kredit's borrowers who have loans for cars and vacation homes.

Work on data-driven marketing is continuously developed and digital sales performed positively in 2019. Länsförsäkringar believes that it should be easy to find the right insurance cover that matches customer needs, to make use of the policy and to receive service via digital channels.

Regular customer satisfaction surveys of calls to the Customer Service Centre and claims adjustment departments have been carried out since the autumn of 2015 and the outcomes have remained at high levels.

### Reinsurance and Special Insurance

Länsförsäkringar Sak supplements the regional insurance companies' offering to corporate customers through the Reinsurance and Special Insurance business area, which manages the Group's internal and external reinsurance, underwrites a diverse portfolio in assumed international reinsurance and offers specialised liability, cargo, motor, property and credit insurance solutions. This business area is competitive in all segments. Customer satisfaction, measured by Customer NPS, improved in 2019, confirming that the focus on customer care and claims prevention is valued by customers.

The technical result for Reinsurance and Special Insurance amounted to SEK 57 M (84). Internationally assumed reinsurance reported negative earnings following higher claims costs from bad weather in Japan among others. Earnings for the Länsförsäkringar Alliance's internal reinsurance, to which Länsförsäkringar Sak contributes a 15% share of assumed reinsurance, were impacted by increased claims costs, mainly caused by a higher number of larger fire-damage claims and storm Alfrida that impacted parts of eastern Sweden in January. Earnings for liability insurance improved due to lower claims costs.

A number of new agreements resulted in growth in the portfolio premium for cargo insurance in terms of both premium volume and number of policies.

Länsförsäkringar Sak lost two high-profile cases in the Supreme Court during the year. The first case involved the dispute of whether the company Connecta had become liable for customers' damages under the Swedish Insurance Mediation Act or had become liable for damages on the basis of investment fraud without any element of insurance brokerage. The second case involved the dispute of whether the liability insurance for insurance brokers taken out by the company EWMG also covered financial advisory services.

Länsförsäkringar's new partnership with Toyota and Lexus in brand insurance and vehicle-damage guarantees started in January 2019. This business line performed strongly during the year, contributing to a considerable growth in gross premium volumes in motor insurance. Most of brand insurance is reinsured in the regional insurance companies, meaning that the premium volume on a net basis is relatively unchanged for Länsförsäkringar Sak.

### Capital situation

Länsförsäkringar AB and its insurance subsidiaries have had permission from the Swedish Financial Supervisory Authority since May 2016 to calculate the capital requirement for insurance operations using a partial internal model. Capital requirements for most market risks and non-life insurance risks in Länsförsäkringar Sak are calculated using an internal model, whereas other types of risk are calculated by applying the standard formula. Länsförsäkringar Sak's capital situation is expressed and measured in accordance with Solvency II as a ratio of own funds in relation to risk-based capital requirements. Länsförsäkringar Sak's solvency ratio, calculated using the partial internal model, on 31 December 2019 amounted to 221% (228).

Länsförsäkringar Sak's own funds declined SEK 107 M during the year to SEK 3,479 M. Own funds were strengthened by the high earnings during the year, but were negatively impacted at year-end by Group contributions and proposed dividends to the Parent Company totalling SEK 1,340 M, which led to a net decline in own funds. The capital requirement amounted to SEK 1,572 M, in line with the preceding year.

### Market

The non-life insurance market is mature and premium income increased by slightly more than 4% in 2019 according to statistics from Insurance Sweden.

The pet-insurance market remains driven by an increasing number of animal owners becoming aware of the importance of reliable pet insurance, which is influenced by, for example, the greater emotional value of animals for their owners and developments in the veterinarian industry with new technology, new treatment methods and access to veterinary care.

The market for accident and health insurance increased by just over 5% in 2019. Länsförsäkringar's market share was unchanged at just under 20%. Factors impacting the market for personal-risk insurance are the continuing concern that social insurance in Sweden will be insufficient and greater household debt. Personal-risk insurance provides an important supplement for increasing financial security in the event of illness, accident, unemployment and death. Company owners also want to ensure that neither they nor their employees go on long periods of sick leave and health care insurance can thus provide greater security and keep a business's employees healthier.

The fringe-benefit tax on health care insurance paid by employers that was introduced on 1 July 2018 had less of a negative impact than expected.

Competition remains fierce in cargo insurance and the share of business that is managed by insurance brokers in portfolio and group tenders is continuing to grow. The premium volume in the Swedish market shrank slightly. In liability insurance, the trend of an increasing number of players showing interest in the small and medium-sized businesses segment continued.

The total reinsurance capacity in the international reinsurance market remained large, resulting in pressed premiums, but the trend of falling premiums in recent years broke in connection with renewals in 2019.

## Bank business operation

The Bank Group consists of the Parent Company Länsförsäkringar Bank, and the wholly owned subsidiaries Länsförsäkringar Hypotek, Länsförsäkringar Fondförvaltning and Wasa Kredit. Länsförsäkringar Bank is the fifth largest retail bank in Sweden with business volumes of SEK 656 billion.

The banking operations are conducted only in Sweden and business volumes are continuing to grow in all product segments. The strategy is to offer banking services to the Länsförsäkringar Alliance's customers, which is based on Länsförsäkringar's strong brand and local presence through the customer-owned regional insurance companies. The banking operations have a large potential customer base with the Länsförsäkringar Alliance's 3.9 million customers. The main target groups are the 3.2 million retail customers, of whom 2.4 million are home-insurance customers. Other target groups are agricultural customers and small businesses.

According to the 2019 Swedish Quality Index customer satisfaction survey, Länsförsäkringar Bank is the player on the banking market with the most satisfied retail customers, an accolade that Länsförsäkringar Bank has won 14 times in the past 16 years. Länsförsäkringar Bank is also the player with the most satisfied corporate customers and one of the leading players in terms of customer satisfaction for retail mortgage customers, according to the 2019 Swedish Quality Index. The high customer satisfaction is confirmation of Länsförsäkringar's clear customer focus and high quality.

### Earnings

The Länsförsäkringar Bank Group's operating profit increased 25% to SEK 1,893 M (1,510), primarily driven by higher net interest income and strong underlying net commission. Operating profit in 2018 was impacted by non-recurring costs mainly related to replacing the bank's core banking system.

Net interest income rose 3% to SEK 4,617 M (4,497), mainly attributable to higher volumes. Return on equity amounted to 9.5% (8.3).

Net gains from financial items amounted to SEK 15 M (14). The strong trend in underlying net commission, excluding remuneration to the regional insurance companies, continued, increasing to SEK 977 M (807). Net commission amounted to SEK -636 M (-773).

### Expenses

Operating expenses amounted to SEK 1,926 M (2,178). Operating expenses in the preceding year included non-recurring items for replacing the bank's core banking system.

The cost/income ratio before credit losses amounted to 0.48 (0.58).

### Credit losses

Credit losses in the Bank Group remained low and were almost exclusively attributable to Wasa Kredit. Credit losses amounted to SEK 207 M (95), net, corresponding to a credit loss level of 0.06% (0.04). The increase in credit losses in Wasa Kredit was a combined effect of growing volumes and the impact of IFRS 9 Financial Instruments.

Credit-impaired loan receivables (stage 3) before provisions amounted to SEK 932 M (742), corresponding to a share of credit-impaired loan receivables of 0.20% (0.17). The loss allowance for credit-impaired loan receivables was SEK 322 M (242). The reserve ratio for credit-impaired loan receivables amounted to 34.6% (32.6). In addition, SEK 52 M (33) of the remuneration to the regional insur-

ance companies for credit-impaired loan receivables is withheld in accordance with the settlement model for credit losses related to the regional insurance companies' commitments for generated business. Including the withheld remuneration to the regional insurance companies, the loss allowance for credit-impaired loan receivables totalled SEK 374 M (275). The reserve ratio for credit-impaired loan receivables, including withheld remuneration to the regional insurance companies, amounted to 40.2% (37.0).

### Business volumes

Business volumes increased 17% to SEK 656 billion (561). Lending rose 6% to SEK 307 billion (289) with continued high credit quality. Lending in Länsförsäkringar Hypotek rose 9% to SEK 240 billion (221). Deposits rose 10% to SEK 119 billion (108). The fund volume increased 40% to SEK 230 billion (164).

### Customers

The number of customers with Länsförsäkringar as their primary bank increased 9% to 553,000 (507,000) and the average number of products per customer was five. Some 91% of those customers who have the bank as their primary bank are also existing Länsförsäkringar insurance customers. The number of bank cards rose 9% to 783,000 (722,000).

### Deposits and savings

Deposits from the public rose 10% to SEK 119 billion (108). Deposits from businesses amounted to SEK 13 billion (12). The number of deposit accounts increased 8%. On 31 December 2019, the market share for household deposits amounted to 5.1% (4.9) according to Statistics Sweden. Fund volumes increased 40% to SEK 230 billion (164) attributable to increased inflows in the fund business and changes in value. The fund business performed well and 90% of the funds managed under Länsförsäkringar's own brand performed better than their benchmark index in 2019.

### Loans

All loans are granted in Sweden, in SEK and have a well-diversified geographic distribution. Loans to the public rose 6% to SEK 307 billion (289) and maintained a high level of credit quality. Lending in Länsförsäkringar Hypotek rose 9% to SEK 240 billion (221). The percentage of retail mortgages in relation to the total loan portfolio was 78%. The weighted average loan-to-value ratio (LTV) of the mortgage portfolio amounted to 61% (61). On 31 December 2019, the market share of retail mortgages had strengthened to 7.0% (6.7) according to Statistics Sweden.

Agricultural lending increased 5% to SEK 30 billion (28). Agricultural lending primarily comprises first-lien mortgages to family-owned agricultural operations, and the average commitment was low at SEK 2.3 M (2.3). First-lien mortgages for agricultural properties increased to SEK 29 billion (27), corresponding to 96% (95) of agricultural lending. Lending in Wasa Kredit increased 7% to SEK 24 billion (23).

## Funding

The Bank Group has a low refinancing risk and the maturity profile is well diversified. Debt securities in issue increased to a nominal SEK 221 billion (204), of which covered bonds amounted to SEK 182 billion (164), senior long-term funding to SEK 37 billion (40) and short-term funding to SEK 1.5 billion (0.3). The average remaining term for the long-term funding was 3.3 years (3.5) on 31 December 2019.

Covered bonds were issued during the year at a volume of a nominal SEK 34 billion (40). Repurchases of covered bonds amounted to a nominal SEK 8 billion (14) and matured covered bonds to a nominal SEK 8 billion (9). Länsförsäkringar Bank issued senior unsecured bonds of a nominal SEK 6 billion (11) during the year, while maturities amounted to a nominal SEK 7 billion (6).

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

## Liquidity

On 31 December 2019, the liquidity reserve totalled SEK 60.5 billion (54.4). The liquidity reserve is invested in securities with very high credit quality that are eligible for transactions with the Riksbank and, where appropriate, with the ECB. By utilising the liquidity reserve, contractual undertakings can be met for more than two years without needing to secure new funding in the capital market.

The Liquidity Coverage Ratio (LCR) for the consolidated situation on 31 December 2019 amounted to 295% (305). The Net Stable Funding Ratio (NSFR) for the consolidated situation on 31 December 2019 was 131%\* (130).

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

## Capital adequacy, consolidated situation

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

## Capital ratio

Consolidated situation, SEK M	31 Dec 2019	31 Dec 2018
IRB Approach	38,640	35,482
retail exposures	29,951	27,985
exposures to corporates	8,689	7,496
Standardised Approach	19,566	19,154
Operational risks	13,543	12,306
Additional requirements according to Article 458 CRR	48,619	45,019
Total REA	121,827	113,283
Common Equity Tier 1 capital	18,740	17,749
Tier 1 capital	19,484	18,677
Total capital	20,252	20,712
Common Equity Tier 1 capital ratio, %	15.4	15.7
Tier 1 ratio, %	16.0	16.5
Total capital ratio, %	16.6	18.3

## Life-assurance and pension insurance business operations

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

### Länsförsäkringar Fondliv

#### Earnings and financial position

Operating profit for Länsförsäkringar Fondliv rose to SEK 738 M (673). Net flow of premiums and capital from existing and new customers amounted to SEK 2,134 M (2,444). Managed assets increased 26% in 2019 to SEK 159 billion (126) on 31 December 2019. This increase was mainly due to a favourable stock-market trend and positive net flows of premiums and capital.

Total premium income rose to SEK 9,478 M (9,010), of which capital transferred to the company was SEK 1,510 M (1,304). Premium income after ceded reinsurance for insurance risk declined to SEK 204 M (234). Commission and fee income increased to SEK 1,779 M (1,671) due to growing managed assets in 2019.

Operating expenses rose to SEK 1,141 M (1,106), primarily due to higher distribution and administration expenses. The increased administration expenses were largely due to higher IT costs for development.

#### Capital situation

Länsförsäkringar Fondliv's capital situation is expressed and measured in accordance with Solvency II as a ratio of own funds in relation to the risk-based capital requirement. Länsförsäkringar Fondliv's solvency ratio on 31 December 2019 was 137% (135). Own funds were strengthened by a positive value growth trend, but fell due to a planned dividend for 2019.

#### Market and business volumes

Länsförsäkringar strives to offer comprehensible pensions that are considered to be secure and personal. The offering is mainly directed to small and medium-sized businesses and is distributed via the regional insurance companies and independent insurance brokers. The largest portion of Länsförsäkringar's new life-assurance sales is for pension solutions for companies that do not have collective agreements.

The individual occupational pension market for unit-linked insurance is Länsförsäkringar's main market. The sub-market accounted for 73.5% of Länsförsäkringar Fondliv's total premium income. Premium income via pension selection centres accounted for 7.4%, private insurance for 4.8%, endowment insurance for 7.5% and other occupational pensions for 6.8%.

Länsförsäkringar Fondliv's premium income for guarantee management amounted to SEK 641 M (654). Capital transferred strengthened premium income by SEK 136 M (119).

#### The life-assurance market

Premium income in the total life-assurance market amounted to SEK 316 billion in 2019, up 7% compared with 2018. Länsförsäkringar Fondliv's market share of the total life-assurance market is 4%.

#### Occupational pensions - the largest market

The occupational pension market is the largest sub-market, comprising 67% (69) of the total life-assurance market measured in premium income. The market grew 5% over the last year, as it did in the previous year, and amounted to SEK 211 billion. Länsförsäkringar Fondliv holds a market share of 4.6%, making the company the eighth largest.

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

Far from all workplaces have collective agreements and thus employees need to obtain a different occupational pension. This is the case for many small businesses, for example, in industries that do not traditionally have a strong link with trade unions. Länsförsäkringar Fondliv is the leading unit-linked insurance company in this area. Premium income in this sub-market amounted to SEK 39 billion in 2019, up 4% compared with 2018. Länsförsäkringar Fondliv's market share was 17.7%.

#### Transfer market

Mobility in the total transfer market increased again and a total of SEK 42 billion was transferred compared with SEK 36 billion last year. Länsförsäkringar Fondliv reported a negative net transfer of SEK -1,449 M (-1,004) for the year. Capital transferred to the company increased 16% during the year, while capital transferred from the company rose 29%, which is the reason for the deterioration in the net transfer amount.

#### Unit-linked insurance

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 with global stock markets rising sharply.

This trend was also reflected in Länsförsäkringar Fondliv's fund range. Of a total of 149 funds, all but one reported positive returns in 2019, with 41% of funds generating a return of more than 30% and 29% of funds had a return of between 20% and 30%. Funds targeting equities in properties, the US, Europe and small companies were the categories that reported the strongest performance. Länsförsäkringar's Fastighetsfond had the best performance in 2019, increasing 65%.

A high-quality, attractive fund range that generates favourable returns on customers' pension capital is a central part of the Länsförsäkringar offering. The fund range comprises both funds under Länsförsäkringar's own brand and external funds. All funds are carefully analysed and assessed based on criteria including management organisation, return and sustainability. At the end of 2019, 100% of all fund companies in the fund range had signed the UN Principles for Responsible Investment (PRI). Länsförsäkringar Fondliv works continuously on improving the range and offering a greater choice for customers. 23 new funds were launched in 2019, of which seven were sustainability-based funds.

The fund range enjoys a high sustainability ranking, for example in the annual analyses of the major insurance brokers. Länsförsäkringar was one of the first companies in the industry to introduce supplementary criteria for identifying and promoting companies in the climate transition and can thus promote companies that support the climate targets of the Paris Agreement.

#### **Guarantee Management**

Länsförsäkringar Fondliv offers guarantee management, which is a form of pensions savings for customers who want a guarantee in their savings and who need to know the lowest level of their future payments. The guarantee principle is that Länsförsäkringar guarantees a portion of the customer's paid-in insurance capital with the possibility of additional returns. A number of changes were made to this savings form in 2019 to enhance the competitiveness of the offering and to create the conditions for generating secure and long-term returns on pension customers' savings. On 31 December 2019, 50% of the investments comprised interest-bearing investments, 36% equities and 14% alternative investments.

Managed assets amounted to SEK 3.9 billion (3.2).

The return for guarantee management was strong and was among the market's best products at 15.6% (-4.0).

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

Länsförsäkringar Liv, which is closed for new business, conducts traditional life assurance for its customers divided into four portfolios: New Trad, Old Trad, New World and Insured Pension. Total managed assets amounted to SEK 114 billion (109) on 31 December 2019.

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

Profit for Länsförsäkringar Liv increased to SEK 5,567 M (609), 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 return on alternative investments was mainly the result of sales of forest holdings. 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. This sale took place on market-based conditions and realised a gain of SEK 870 M.

In addition to healthy investment income, positive operating profit and transitions to New Trad, through lower technical provisions, contributed to the high earnings in 2019.

Earnings were negatively impacted by Swedish long-term market interest rates falling about 30 basis points in 2019, which resulted in 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. 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 the liability 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 3.90%. Technical provisions declined SEK 0.7 billion (3.4) during the year. Operating expenses totalled SEK 430 M (412).

Investment income was positive for all management forms and totalled SEK 9.9 billion (-0.5). New World contributed SEK 1.6 billion, which did not impact earnings and instead accrued directly to the policyholders.

#### **Capital situation**

Länsförsäkringar Liv's capital situation is expressed and measured in accordance with Solvency II as a ratio of own funds in relation to the risk-based capital requirement. Länsförsäkringar Liv's solvency ratio on 31 December 2019 was 211% (200). The improvement in the solvency ratio was mainly due to own funds strengthening during the year as a result of positive investment income.

Collective consolidation is calculated as the ratio between total capital and insurance capital. Collective consolidation on 31 December 2019 amounted to 112% (105) in New Trad and 131% (124) in Old Trad.

#### **New Trad**

Managed assets in New Trad amounted to SEK 25 billion (22). 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.

Investments as at 31 December 2019 comprised 54% interest-bearing investments, 33% equities, 7% alternative investments and 6% properties. The share of interest-bearing investments was lowered by 5 percentage points in 2019, while the share of alternative investments and properties was raised.

Investment return amounted to 14.9% (-0.6). The average return has been 6.3% per year since the start in 2013.

The bonus rate 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 has been 7.2 per year since the start in 2013.

#### **Old Trad**

Managed assets in Old Trad amounted to SEK 78 billion (77). The current low interest-rate environment presents major challenges for traditional life assurance since in many cases the expected return is

## Life assurance and pension insurance

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 commitments can also be realised in the event of a negative market trend. At the same time, balanced risk-taking is applied to facilitate a reasonable return on customers' savings.

Investments on 31 December 2019 comprised 84% interest-bearing investments, 5% equities, 6% properties and 5% alternative investments.

Investment return amounted to 6.9% (0.9).

The bonus rate on 31 December 2019 was 3% (3).

### **New World**

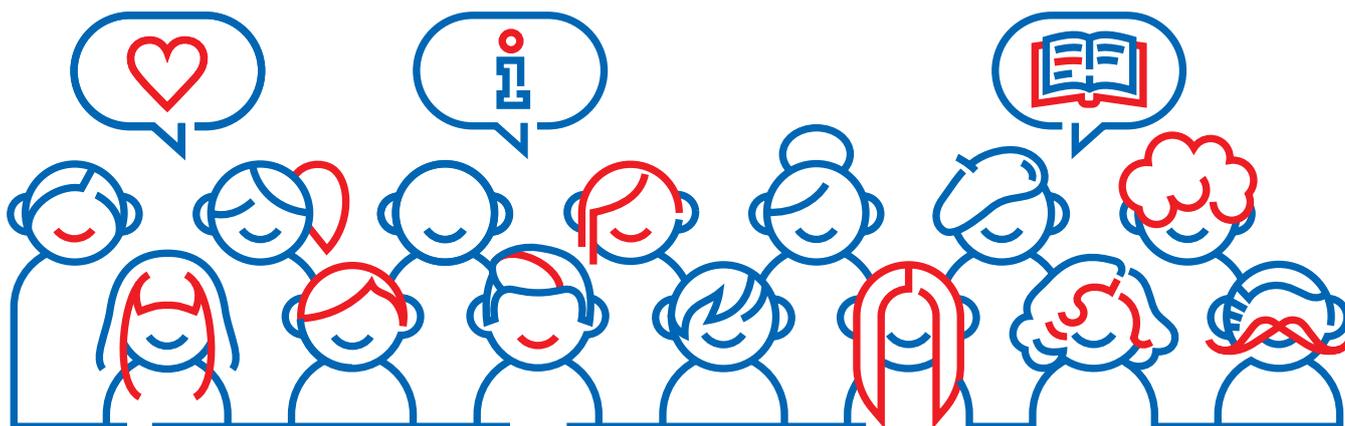
Managed assets in New World amounted to SEK 10 billion (10). New World is a traditional insurance policy whereby customers benefit from changes in value in the equities market, while at the same time are guaranteed to recoup over time at least the premiums paid, after deductions for expenses and yield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

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%.

The investment return amounted to 17.6% (-7.8).

### **Insured Pension**

Managed assets in Insured Pension amounted to SEK 1.2 billion (1.0). This savings form comprises 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 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 capital has been transferred to New Trad.



## Other information

### Risks and uncertainty factors of the operations

The Länsförsäkringar AB Group's banking and insurance operations give rise to various types of risks, with the most prominent risks comprising credit risk in the Bank Group and insurance and market risks in the non-life and unit-linked insurance companies. Alongside these risks, the focus on cyber risks and climate risks has been intensified over time, and the emergence of new types of risk, emerging risks, is continuously monitored.

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

Market risks primarily arise in Länsförsäkringar Fondliv on the basis of indirect exposure to market risk, since future income in the unit-linked insurance operations is dependent on trends in the financial market. However, the direct market risk in unit-linked insurance is borne by the policyholders. The risks in the investment assets managed by the Group's companies for own account are held at a low level and reduced further in 2019 by divesting properties.

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

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

The Parent Company Länsförsäkringar AB's risks are primarily attributable to the company's investments in liquidity and the business-support operations conducted on behalf of the subsidiaries and the regional insurance companies.

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

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

A more detailed description of the risks, and how they are managed, is presented in Group note 2 Risk and capital management.

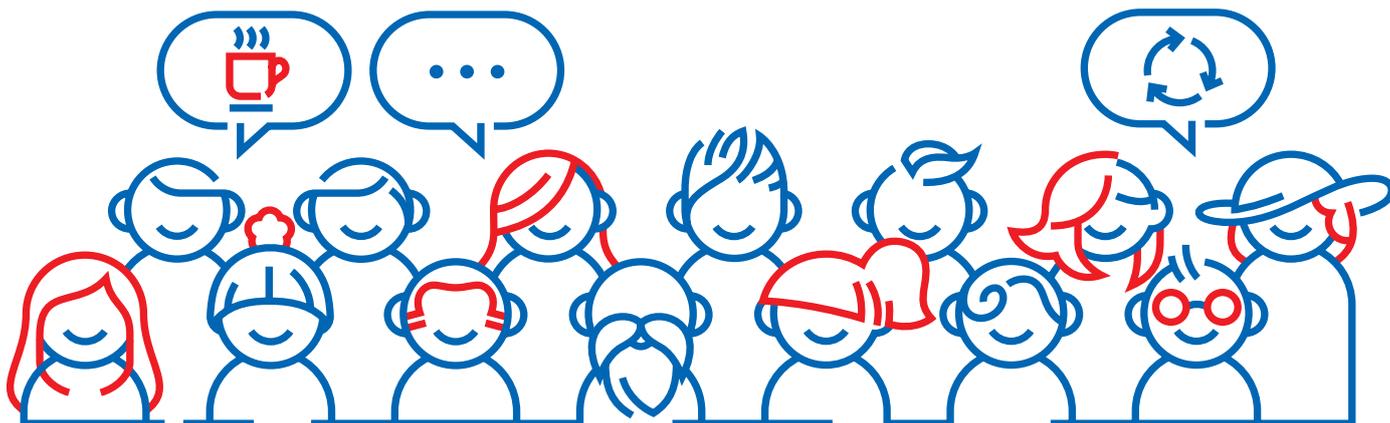
### Employees

Commitment, trust, openness and professionalism are the foundation of Länsförsäkringar's corporate culture. Skilled employees who drive and develop the operations are vital to achieving business objectives. Attracting new and retaining existing employees is of the greatest importance. A focus on diversity, inclusion, skills development, health and a good work environment are key factors in ensuring this. A more detailed description of how the Länsförsäkringar AB Group works as a responsible employer can be found on pages 24–25 and 135–136.

### Sustainability

The Länsförsäkringar AB Group's sustainability activities are based on the vision of "Together we create security and opportunities". The Länsförsäkringar AB Group can reduce its sustainability risks, increase customer value and also contribute to the positive development of society and create business value by taking economic, social and environmental aspects into consideration in its business development and business decisions. Länsförsäkringar is a signatory to the principles of the UN Global Compact and works to contribute to the UN Sustainable Development Goals (SDGs). The Länsförsäkringar AB Group's statutory Sustainability Report in accordance with Chapter 6, Section 11 of the Swedish Annual Accounts Act can be found on the pages listed in the Index ÅRL Sustainability Report on page 139.

*The results of the year's operations and the financial position of the Länsförsäkringar AB Group and the Parent Company at 31 December 2019 are presented in the following financial statements with accompanying notes for the Group and Parent Company.*



# Corporate Governance Report

## Introduction

Länsförsäkringar AB is wholly owned by the 23 customer-owned regional insurance companies, together with 15 local insurance companies. The Länsförsäkringar AB Group comprises the Parent Company Länsförsäkringar AB with a number of directly and indirectly owned subsidiaries. The business operations of the Länsförsäkringar AB Group are those deemed by the Länsförsäkringar Alliance as best suited to be run jointly. Most of the Länsförsäkringar Alliance's development and service activities are coordinated with Länsförsäkringar AB, with shared priorities.

Länsförsäkringar AB is a public limited liability company. Länsförsäkringar AB complies with the applicable parts of the Swedish Corporate Governance Code (the Code). The main reasons for the deviations are the limitations under the rules for financial companies, the federal structure of the Länsförsäkringar Alliance and that Länsförsäkringar AB is not a listed company. Deviations from the provisions of the Code and explanations for such deviations are presented in the Deviations from the Code section.

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

## Description of the corporate governance system

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

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

Länsförsäkringar AB's corporate governance model can be described as the framework upon which the Länsförsäkringar Alliance's strategies and Länsförsäkringar AB's task from the shareholders, long-term direction and governance principles are converted

into business activities in the Länsförsäkringar AB Group and according to which Länsförsäkringar AB organises, governs and controls the operations, taking into account applicable internal and external regulatory frameworks. The foundations of the corporate governance system are:

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

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

The assignment from the owners comprises the regional insurance companies' request for a coherent delivery of the activities within Länsförsäkringar AB and the Länsförsäkringar Alliance's joint strategies, as determined by Länsförsäkringar AB's shareholder consortium. Länsförsäkringar AB's long-term direction is determined by the Board of Länsförsäkringar AB by adopting a long-term plan and within the framework of the annual business planning process in accordance with the Guidelines for Financial and Capital Management and Control.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### ***Fit and proper requirements***

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

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

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

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

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

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

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

### **Regulatory-compliance system**

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

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

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

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

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

### **Risk-management system**

The purpose of the risk-management system is to ensure that Länsförsäkringar AB is continuously able to identify, measure, monitor, manage and report risks and the dependencies between various risks. The system is an integral part of Länsförsäkringar AB's organisational structure and decision process and is designed with appropriate consideration for established organisational and decision processes.

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

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

### **Shareholders and General Meeting**

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

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

At General Meetings, no one may vote using their own or anyone else's shares for more than 99/1,000 votes represented at the Meeting. Motions are passed at General Meetings by a simple majority of

votes unless the Swedish Companies Act prescribes another specific voting majority. Decisions are made at the Annual General Meeting pertaining to: the Annual Report, the election of members of the Board and auditors, remuneration of Board members and auditors and other important matters to be addressed in accordance with laws or the Articles of Association. The remuneration proposal for Board members is specified for the Chairman, Deputy Chairman, other Board members and fees for committee work.

The 2019 Annual General Meeting approved the principles for remuneration and other terms of employment for corporate management.

### **Nomination Committee**

The General Meeting of Länsförsäkringar AB appoints a nomination committee, which is charged with the duty of presenting proposals for members of the Board of Directors and auditors of Länsförsäkringar AB and its subsidiaries and certain other companies, and fees and other remuneration of these members and auditors. The nomination committee follows an instruction adopted by the Annual General Meeting of Länsförsäkringar AB. The nomination committee is responsible for assessing whether proposed Board members are fit and proper. New Board members are recruited in accordance with the nomination committee's instructions and established procedures and processes. The nomination committee is to assess whether the Board is appropriately composed, with respect to the company's operations, stage of development and other circumstances, so that the overall competencies and experience necessary for the company are in place, characterised by diversity in terms of, for example, age, gender and ethnic origin, and educational and professional background that promotes independent opinions and critical questioning within the Board. See also the section Fit and proper assessment of the Board of Directors and President/CEO below.

### **Nomination Committee prior to 2020 Annual General Meeting**

The nomination committee has comprised Otto Ramel as Chairman (Länsförsäkringar Skåne), Henrietta Hansson (Länsförsäkringar Jönköping), Anna-Greta Lundh (Länsförsäkringar Södermanland), Göran Trobro (Länsförsäkringar Göinge 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 2020 Annual General Meeting, the nomination committee will:

- Study the evaluation of the Board's work.
- Listen to the Board Chairman's, Board members' and President's views on operations, the Board's work and requirements in relation to knowledge and experience.
- Review and discuss requirements for knowledge and experience with respect to the needs of the operations and regulatory requirements.
- Evaluate the independence of candidates.
- Nominate Board members, including the Chairman of the Board and, in certain cases, a Deputy Chairman.
- Perform fit and proper assessments of Board members.
- Propose fees and other remuneration of Board members, auditors and other bodies.

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

**External auditors**

The Annual General Meeting appoints the external auditors. Nominations are made to the nomination committee. In accordance with the Articles of Association, Länsförsäkringar AB is to have between one and three auditors and between zero and two deputy auditors. The auditors are appointed for a mandate period of not more than four years. At the 2019 Annual General Meeting, KPMG AB was appointed audit firm with Mårten Asplund as auditor in charge for the period up to the 2022 Annual General Meeting.

The auditors examine Länsförsäkringar AB's Annual Report, Corporate Governance Report, the administration of the Board and the President/CEO and the Sustainability Report. At the Annual General Meeting, the auditor presents the auditor's report and describes the audit process. The auditor presented the audit results and observations to the Board once in 2019. The auditors also participate in meetings of the Audit Committee.

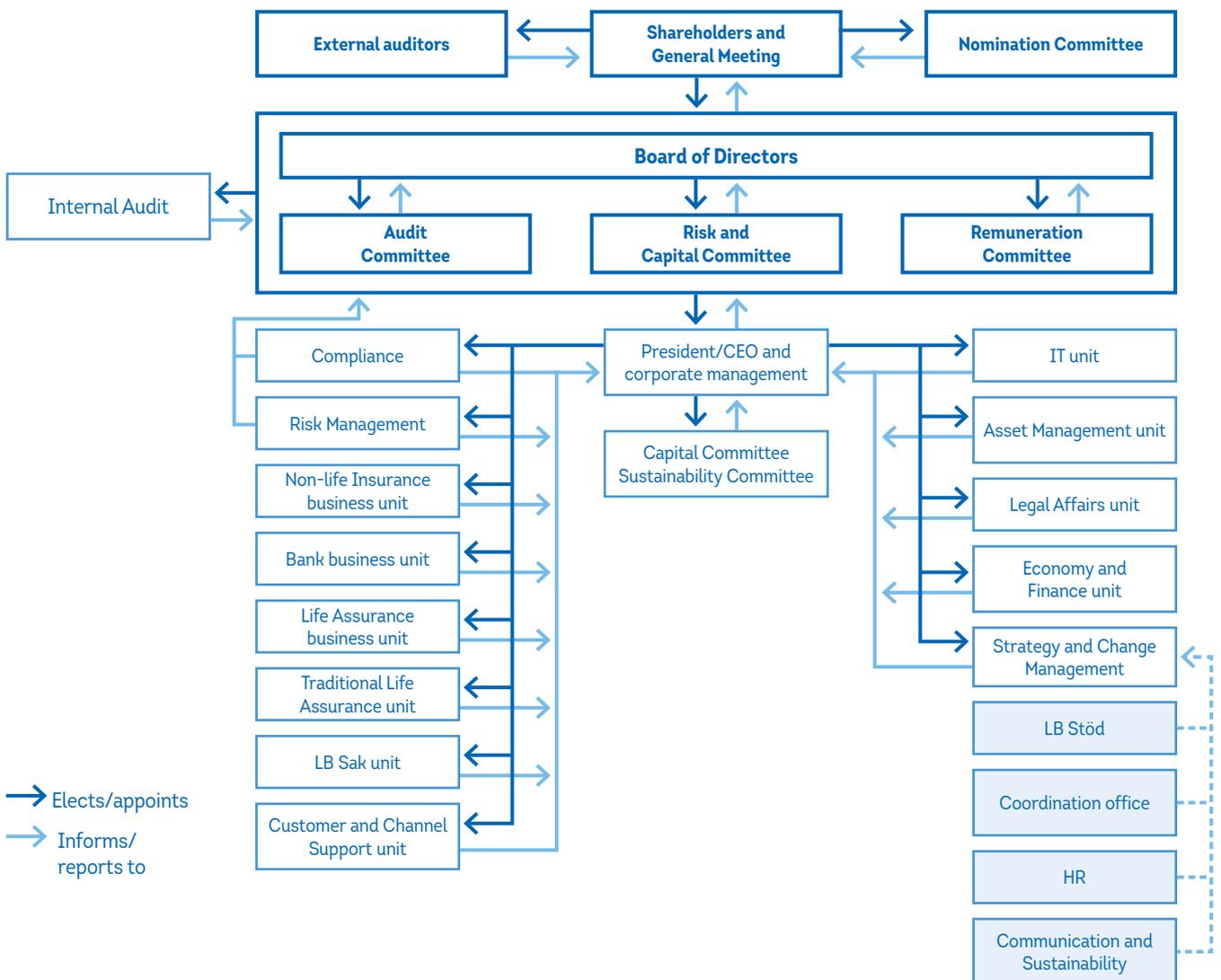
**Board of Directors**

The Board of Directors of Länsförsäkringar AB are appointed by the Annual General Meeting and, in accordance with the Articles of

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

The Board currently comprises 12 regular members and two deputies. Nine of the members were elected by the Annual General Meeting. Three members and two deputies were appointed by the trade unions. A presentation of the Board members can be found on pages 144-145.

**Länsförsäkringar AB's governance structure**



### **Board responsibilities and allocation of duties**

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

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

The Board is to continuously remain informed about the performance of the company to be able to continuously assess the company's financial situation and position.

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

### **Chairman**

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

### **Work of the Board**

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

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

The Board conducts annual strategic seminars and annual evaluations of the President's work and terms of employment. The Board

meets the company's auditors at least once per year (refer also to the Audit Committee section below).

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

The Board held 14 meetings in 2019, three of which per capsulam. In 2019, the Board devoted particular attention to such issues as certain organisational matters, regulatory matters, risk and capital issues, the economic situation in the business environment and its effects on the operations and IT, IT security and digitisation. During the year, the Board underwent several training courses in operational and regulatory issues.

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

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

Every year, the Board Chairman initiates an evaluation of the Board's work. A summary of the findings was presented to the Board for discussion.

### **Audit Committee**

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

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

In addition, the Audit Committee is responsible for preparing the Board's work on monitoring the effectiveness of the company's:

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

At the statutory Board meeting immediately following the 2019 Annual General Meeting, Maria Engholm (Chairman), Bengt-Erik Jansson, Mikael Sundquist and Maria Wallin Wällberg were appointed members of the Audit Committee.

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

### **Risk and Capital Committee**

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

- Risk policy and capital policy.
- The Group's internal models and validation.

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

At the statutory Board meeting immediately following the 2019 Annual General Meeting, Caesar Åfors (Chairman), Susanne Bäck, Hans Ljungkvist and Jonas Rosman were appointed members of the Risk and Capital Committee.

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

### Remuneration Committee

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

At the statutory Board meeting immediately following the 2019 Annual General Meeting, Caesar Åfors (Chairman), Maria Engholm and Jonas Rosman were appointed members of the Remuneration Committee.

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

### CEO/ President and corporate management

Fredrik Bergström has been the President and CEO of Länsförsäkringar AB since September 2018. Fredrik Bergström was born in 1970 and has served as the President of Länsförsäkringar Stockholm and previously held senior positions at companies including SBAB. To ensure that the operations of each subsidiary comply with the overall objective for Länsförsäkringar AB, the President and CEO of Läns-

försäkringar AB, as a general rule, also serves as the Chairman of the Board of each subsidiary.

The Länsförsäkringar AB Group's operations are organised into three business units: Non-life Insurance, Banking and Life Assurance; a Traditional Life Assurance unit; a unit to support the regional insurance companies' non-life insurance business, LB Sak; the six Group-wide units: Asset Management, Economy & Finance, Customer and Channel Support, IT, Legal Affairs, Strategy and Change Management; and the control functions: Internal Audit, Compliance and Risk Control. The latter is part of the Risk Management unit. To ensure the coordination of the operations in each business unit, the head of the business unit is also the President of the unit's Parent Company. Furthermore, the heads of each business unit, as a general rule, also serve as the Chairmen of the Boards of the directly owned subsidiaries.

Länsförsäkringar AB's corporate management comprises the Presidents and heads of the business units and heads of the Group-wide units Economy & Finance, LB Sak, Customer and Channel Support, IT, Legal Affairs, Strategy and Change Management. Corporate management comprises the management team for the entire Länsförsäkringar AB Group. Corporate management discusses and decides on issues concerning the Group's units and the Compliance and Risk Management functions.

Corporate management is presented on pages 146–147.

### Control functions

#### Internal Audit

Internal Audit is an independent review function that supports the Board in the evaluation of the corporate governance system, including the organisation's risk management, governance and controls. Based on its reviews and advice, Internal Audit evaluates and ensures that the operations' overall internal governance and control systems are pursued effectively, that the overall reporting to the Board provides a correct and comprehensive view of the operations,

### Meetings and attendance

The table below shows the number of meetings held in each body in 2019, and the attendance by each Board member:

	Board of Directors	Audit Committee	Risk and Capital Committee	Remuneration Committee
<b>Total number of meetings</b>	<b>14</b>	<b>6</b>	<b>5</b>	<b>5</b>
Maria Engholm	14	6	–	5
Susanne Bäck	14	–	5	–
Tomas Hansson, deputy	0	–	–	–
Bengt-Erik Jansson	14	6	–	–
Susanne Lindberg	11	–	–	–
Göran Lindell	14	–	–	–
Linnéa Niklasson	12	–	–	–
Hans Ljungkvist <sup>1)</sup>	8	–	4	–
Jonas Rosman	13	–	5	5
Anna Sandqvist	11	–	–	–
Mirek Swartz, deputy	0	–	–	–
Mikael Sundquist	14	6	–	–
Maria Wallin Wällberg <sup>2)</sup>	14	4	–	–
Christer Villard <sup>3)</sup>	2	–	–	–
Caesar Åfors <sup>4)</sup>	14	2	5	5

<sup>1)</sup> Board member from AGM on 17 May 2019. Member of the Risk and Capital Committee since 17 May 2019.

<sup>2)</sup> Member of the Audit Committee since 17 May 2019.

<sup>3)</sup> Board member until AGM on 17 May 2019.

<sup>4)</sup> Member of the Audit Committee until 17 May 2019.

that the operations are conducted in accordance with applicable internal and external regulations, and that there is compliance with the Board's decisions. Internal Audit reports to the Länsförsäkringar AB Group's Board of Directors and to the Boards of each subsidiary but is organisationally affiliated under the Chairman of the Audit Committee.

### **Compliance**

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

### **Risk Control**

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

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

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

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

A person not considered suitable according to an assessment will not be appointed or employed. If an already appointed person is considered no longer suitable for his or her duties according to a fit

and proper assessment, the company is to adopt measures to ensure that the person in question either meets the fit and proper criteria or is replaced.

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

### **Deviations from the Code**

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

#### **Notice**

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

#### **Nomination Committee**

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

#### **Composition of Board**

A deviation from the provisions of the Code exists regarding independence of a majority of the Board members elected by the Annual General Meeting in relation to the company, corporate management and that not less than two Board members must be independent in relation to the company's large shareholders. According to the instruction for the nomination committee, the Board of Directors is to be appropriately composed, with respect to the company's operations, stage of development and other circumstances, and characterised by diversity and breadth in terms of the members' competencies, experience and background. It has been decided that these requirements can be fulfilled within the framework of the Länsförsäkringar Alliance.

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

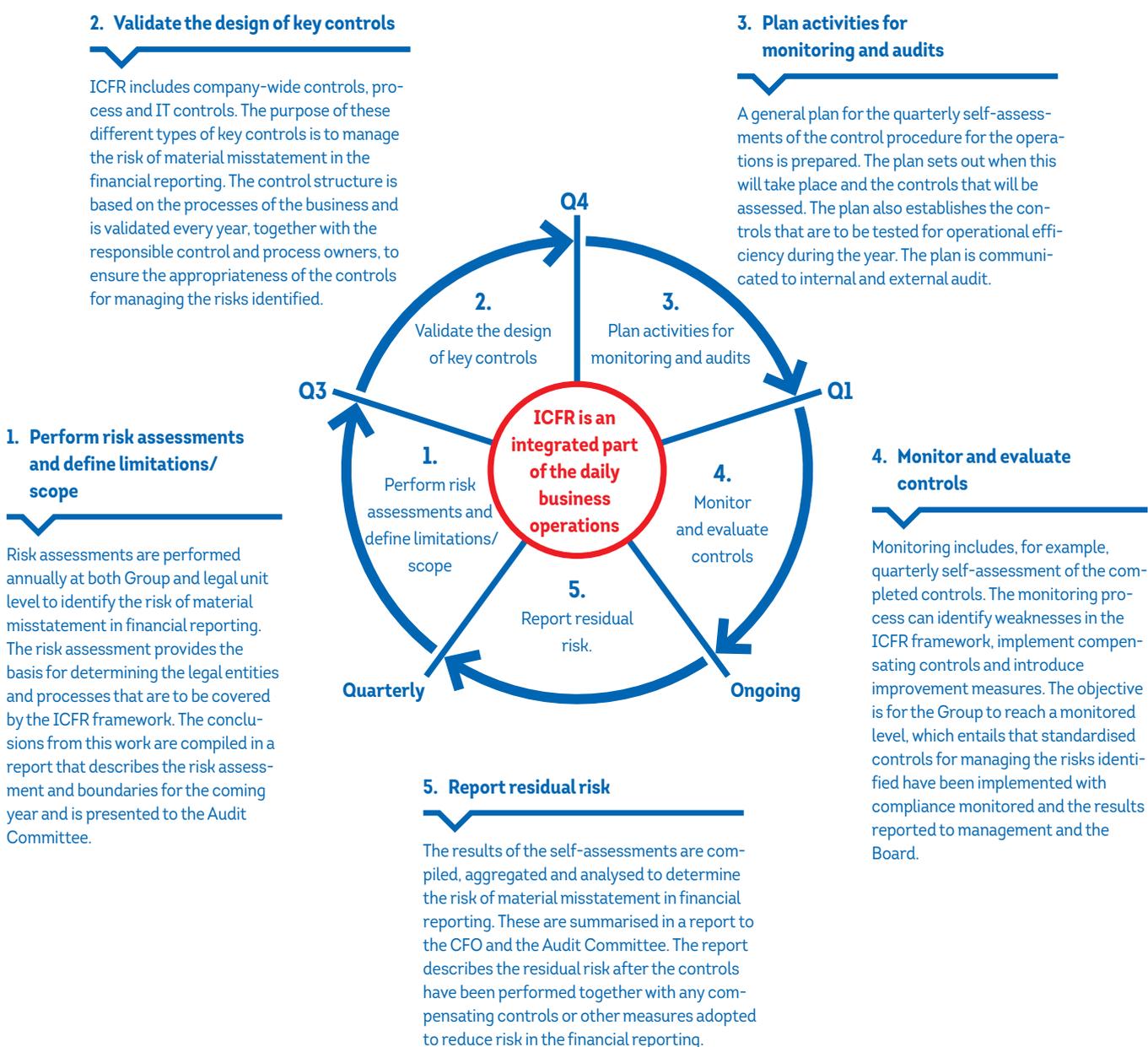
The mandate period for Board members is two years. The company deviates from the Code's provision of a maximum mandate period of one year due to the supremacy of the Annual General Meeting to dismiss and appoint a Board member irrespective of their term. A mandate period of more than one year contributes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

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

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

# Internal control over financial reporting

The Board's responsibility is to ensure that efficient systems are in place to monitor and control the company's operations and financial position. Internal control over financial reporting (ICFR) is a 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.

## Five-year summary

Länsförsäkringar AB Group. Amounts in SEK M unless otherwise stated.	2019	2018	2017	2016	2015
<b>GROUP</b>					
Operating profit	3,003	2,351	2,825	2,286	2,155
Net profit for the year	2,957	2,190	2,250	1,845	1,765
Return on equity, % <sup>1)</sup>	10	9	11	10	11
Total assets, SEK billion	573	507	474	422	385
Number of shares, 000s	10,425	10,425	10,425	10,425	10,425
Equity per share, SEK	2,754	2,462	2,269	2,046	1,858
<b>Solvency capital</b>					
Equity	30,907	26,867	24,857	22,529	20,538
Tier 1 capital issued	-2,200	-1,200	-1,200	-1,200	-1,173
Subordinated debt	2,595	2,593	2,596	2,595	2,300
Deferred tax	753	1,313	1,486	1,320	1,109
<b>Total solvency capital</b>	<b>32,056</b>	<b>29,573</b>	<b>27,740</b>	<b>25,244</b>	<b>22,774</b>
Solvency margin, % <sup>2)</sup>	488	479	467	452	428
Own funds for the group (FRL) <sup>3)</sup>	50,220	43,870	44,172	40,602	36,905
Solvency capital requirement for the group (FRL) <sup>3)</sup>	37,776	33,874	33,441	30,121	28,233
Own funds for the financial conglomerate <sup>4)</sup>	50,220	43,870	44,172	40,352	-
Capital requirement for the financial conglomerate <sup>4)</sup>	37,776	33,874	33,441	30,121	-
Own funds for the financial conglomerate <sup>5)</sup>	-	-	-	-	21,548
Necessary capital requirement for the financial conglomerate	-	-	-	-	15,897
Average number of employees	2,125	1,972	1,915	1,786	1,676
<b>INSURANCE OPERATIONS<sup>6)</sup></b>					
<i>Non-life insurance operations</i>					
Premiums earned (after ceded reinsurance)	5,928	5,623	5,353	5,090	4,836
Investment income transferred from financial operations	22	23	26	15	44
Claims payments (after ceded reinsurance) <sup>7)</sup>	-3,966	-3,666	-3,272	-3,336	-2,776
<b>Technical result for non-life insurance operations<sup>8)</sup></b>	<b>218</b>	<b>344</b>	<b>916</b>	<b>390</b>	<b>808</b>
<i>Premium income, non-life insurance</i>					
Premium income before ceded reinsurance	7,852	7,302	7,124	6,753	6,534
Premium income after ceded reinsurance	6,108	5,703	5,498	5,195	4,959
<i>Life-assurance operations</i>					
Premium income after ceded reinsurance	495	510	477	432	383
Fees pertaining to financial agreements	794	755	724	659	649
Investment income, net	512	-133	121	144	-21
Claims payments (after ceded reinsurance)	-254	-271	-266	-267	-262
<b>Technical result, life-assurance operations</b>	<b>802</b>	<b>734</b>	<b>700</b>	<b>541</b>	<b>540</b>
<b>Operating profit for insurance operations<sup>9)</sup></b>	<b>1,670</b>	<b>1,130</b>	<b>1,628</b>	<b>1,194</b>	<b>1,424</b>
<i>Key figures</i>					
Cost ratio <sup>10)</sup>	30	29	27	27	27
Expense ratio <sup>11)</sup>	23	23	21	21	21
Claims ratio <sup>12)</sup>	74	72	67	71	63
Combined ratio	97	94	88	93	84
Management cost ratio, life-assurance operations <sup>13)</sup>	0.8	0.9	0.9	0.9	1.0
Direct yield, % <sup>14)</sup>	9.6	1.1	-0.2	1.4	0.7
Total return, % <sup>15)</sup>	10.1	1.5	4.3	4.2	3.9
<i>Financial position</i>					
Investment assets, SEK billion <sup>16)</sup>	14	14	14	14	12
Unit-linked insurance assets for which the policyholder bears the risk, SEK billion	155	122	125	112	100
Technical provisions (after ceded reinsurance), SEK billion	9	9	8	8	8
Own funds for the insurance group <sup>17)</sup>	-	-	-	-	9,436
Solvency margin for the insurance group <sup>17)</sup>	-	-	-	-	6,072

## Five-year summary, cont.

Länsförsäkringar AB Group	2019	2018	2017	2016	2015
<b>BANKING OPERATIONS</b>					
Net interest income	4,617	4,497	3,996	3,464	2,994
Operating profit	1,893	1,510	1,599	1,467	1,175
Net profit for the year	1,440	1,182	1,237	1,137	911
Return on equity, % <sup>18)</sup>	9.5	8.3	10.0	10.1	8.9
Total assets, SEK billion	381	350	315	276	251
Equity	18,479	16,106	14,328	13,182	12,057
Cost/income ratio before credit losses <sup>19)</sup>	0.48	0.58	0.49	0.48	0.57
Investment margin, % <sup>20)</sup>	1.21	1.30	1.32	1.28	1.22
Core Tier 1 ratio, Bank Group	13.9	14.2	24.3 <sup>24)</sup>	24.8 <sup>24)</sup>	23.7 <sup>24)</sup>
Tier 1 ratio, Bank Group, % <sup>21)</sup>	16.0	15.5	26.8 <sup>24)</sup>	27.5 <sup>24)</sup>	26.6 <sup>24)</sup>
Capital adequacy ratio, Bank Group, % <sup>22)</sup>	18.5	18.2	32.1 <sup>24)</sup>	33.4 <sup>24)</sup>	32.0 <sup>24)</sup>
Core Tier 1 ratio, consolidated situation, %	15.4	15.7	23.3 <sup>24)</sup>	21.2 <sup>24)</sup>	21.4 <sup>24)</sup>
Tier 1 ratio, consolidated situation, % <sup>21)</sup>	16.0	16.5	24.8 <sup>24)</sup>	23.2 <sup>24)</sup>	23.7 <sup>24)</sup>
Capital adequacy ratio, consolidated situation, % <sup>22)</sup>	16.6	18.3	28.1 <sup>24)</sup>	27.6 <sup>24)</sup>	28.2 <sup>24)</sup>
Credit losses in relation to loans, % <sup>23)</sup>	0.06	0.04	0.02	0.02 <sup>25)</sup>	0.00 <sup>25)</sup>

<sup>1)</sup> Operating profit and revaluations of owner-occupied property less standard tax at 21.4% (22.0) in relation to average equity, adjusted for items in equity recognised in other comprehensive income excluding revaluations of owner-occupied property, and adjusted for Additional Tier 1 Capital loans.

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

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

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

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

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

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

<sup>8)</sup> The Länsförsäkringar Sak Group's technical result amounted to SEK 283 M (402) in 2019. The Länsförsäkringar Sak Group includes Länsförsäkringar Gruppliv Försäkrings AB, which is recognised in the life-assurance operations. The technical result for Länsförsäkringar Gruppliv Försäkrings AB amounted to SEK 64 M (58) in 2019.

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

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

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

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

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

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

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

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

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

<sup>18)</sup> Operating profit plus less standard tax at 21.4% (22.0) in relation to average equity adjusted for changes in value of financial assets recognised in equity and for Additional Tier 1 Capital loan.

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

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

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

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

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

<sup>24)</sup> The risk weight floor for mortgages in Pillar II.

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

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<b>Consolidated income statement</b>			
<b>SEK M</b>	<b>Note</b>	<b>2019</b>	<b>2018</b>
Premiums before ceded reinsurance		7,968	7,690
Reinsurers' portion of premiums		-1,573	-1,590
<b>Premiums after ceded reinsurance</b>	4	<b>6,396</b>	<b>6,100</b>
Interest income	5	5,986	5,229
Interest expense	6	-1,363	-729
<b>Net interest income</b>		<b>4,624</b>	<b>4,500</b>
Change in unit-linked insurance assets policyholder bears the risk		30,453	-4,539
Dividends in investment assets for which the policyholder bears the risk		13	8
Investment income, net	7	1,006	-26
Commission income	8	3,250	2,937
Other operating income	9	2,407	2,346
<b>Total operating income</b>		<b>48,150</b>	<b>11,327</b>
Claims payments before ceded reinsurance		-4,069	-4,769
Reinsurers' portion of claims payments		-128	854
<b>Claims payments after ceded reinsurance</b>	10	<b>-4,197</b>	<b>-3,915</b>
Change in life-assurance reserve		-8	-9
Change in unit-linked insurance liabilities policyholder bears the risk		-30,985	4,668
Commission expense	11	-3,161	-3,216
Staff costs	12	-2,476	-2,228
Other administration expenses	13, 14	-4,112	-4,182
Credit losses	15	-207	-95
<b>Total expenses</b>		<b>-45,146</b>	<b>-8,976</b>
<b>Operating profit</b>		<b>3,003</b>	<b>2,351</b>
Tax	16	-46	-162
<b>Net profit for the year</b>		<b>2,957</b>	<b>2,190</b>
Earnings per share before and after dilution, SEK	17	284	210

<b>Consolidated statement of comprehensive income</b>			
<b>SEK M</b>	<b>Note</b>	<b>2019</b>	<b>2018</b>
<b>Net profit for the year</b>		<b>2,957</b>	<b>2,190</b>
<b>Other comprehensive income</b>	34		
<b>Items that may subsequently be transferred to profit or loss</b>			
Translation differences for the year from foreign operations		31	4
Cash-flow hedges		-22	-58
of which change in value for the period		5,341	3,489
of which reclassification to profit or loss		-5,364	-3,547
Change in fair value of available-for-sale financial assets		2	-50
of which change in value for the period		6	-44
of which reclassification of realised securities to profit or loss		-4	-6
Tax attributable to items that may subsequently be transferred to profit or loss		3	24
<b>Total</b>		<b>14</b>	<b>-80</b>
<b>Items that cannot be transferred to profit or loss</b>			
Revaluation of owner-occupied property		148	393
Change in fair value of equity instruments measured at fair value		25	-10
Tax attributable to items that cannot be reversed to profit or loss		-36	-74
<b>Total</b>		<b>138</b>	<b>309</b>
<b>Total other comprehensive income for the year, net after tax</b>		<b>151</b>	<b>229</b>
<b>Comprehensive income for the year</b>		<b>3,109</b>	<b>2,418</b>

## Consolidated statement of financial position

SEK M	Note	2019-12-31	2018-12-31
<b>ASSETS</b>			
Goodwill	18	558	542
Other intangible assets	19	4,309	4,200
Deferred tax assets	38	128	122
Property and equipment	20	344	69
Owner-occupied property	21	1,161	3,232
Shares in Länsförsäkringar Liv Försäkrings AB	22	8	8
Shares and participations in associated companies	23	62	54
Reinsurers' portion of technical provisions	36	9,504	10,553
Loans to the public	24, 26	307,099	289,426
Unit-linked insurance assets for which the policyholder bears the risk	25	154,563	122,340
Shares and participations	27	4,634	2,700
Bonds and other interest-bearing securities	28	52,618	43,950
Treasury bills and other eligible bills	29	9,934	10,847
Derivatives	2, 49	8,290	6,090
Change in value of hedge portfolios	30	5	125
Other receivables	31	5,393	4,523
Prepaid expenses and accrued income	32	2,321	1,977
Cash and cash equivalents	33	11,661	6,075
<b>Total assets</b>		<b>572,594</b>	<b>506,835</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	34		
Share capital		1,042	1,042
Other capital contributed		10,272	10,272
Additional Tier 1 instrument		2,200	1,200
Reserves		-573	697
Retained earnings, including net profit for the year		17,965	13,656
<b>Total equity</b>		<b>30,907</b>	<b>26,867</b>
Subordinated liabilities	35	2,595	2,593
Technical provisions	36	18,860	19,465
Unit-linked insurance liabilities policyholder bears the risk	37	155,950	123,135
Deferred tax liabilities	38	882	1,435
Other provisions	39	125	119
Debt securities in issue	40	226,661	210,304
Deposits from the public	41	118,305	106,854
Due to credit institutions	42	6,565	5,992
Derivatives	2, 49	511	787
Change in value of hedge portfolios	30	1,241	1,058
Other liabilities	43	5,524	3,638
Accrued expenses and deferred income	44	4,468	4,587
<b>Total equity and liabilities</b>		<b>572,594</b>	<b>506,835</b>

For information about pledged assets and contingent liabilities, see note 45 Pledged assets and contingent liabilities.

## Consolidated statement of changes in shareholders' equity

SEK M	Share capital	Other capital contributed	Additional Tier 1 instruments	Translation reserve	Revaluation reserve	Fair value reserve	Hedging reserve	Retained earnings, including net profit of the year	Total equity
Opening balance, 1 January 2018 after adjustment for change in accounting policy	1,042	10,272	1,200	-65	985	-347	-106	11,787	24,770
<b>Comprehensive income for the year</b>									
Net profit for the year	-	-	-	-	-	-	-	2,190	2,190
Other comprehensive income	-	-	-	4	319	-49	-45	-	229
<b>Comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>319</b>	<b>-49</b>	<b>-45</b>	<b>2,190</b>	<b>2,418</b>
Dividends paid	-	-	-	-	-	-	-	-300	-300
Realised gain from sale of shares	-	-	-	-	-	-	-	13	13
Tier 1 capital issued	-	-	-	-	-	-	-	-34	-34
<b>Closing equity, 31 December 2018</b>	<b>1,042</b>	<b>10,272</b>	<b>1,200</b>	<b>-61</b>	<b>1,304</b>	<b>-397</b>	<b>-151</b>	<b>13,656</b>	<b>26,867</b>
Opening balance, 1 January 2019 after adjustment for change in accounting policy	1,042	10,272	1,200	-61	1,304	-397	-151	13,656	26,867
<b>Comprehensive income for the year</b>									
Net profit for the year	-	-	-	-	-	-	-	2,957	2,957
Other comprehensive income	-	-	-	31	117	22	-19	0	151
<b>Comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31</b>	<b>117</b>	<b>22</b>	<b>-19</b>	<b>2,958</b>	<b>3,109</b>
Dividends paid	-	-	-	-	-1,421	-	-	1,421	-
Realised gain from sale of shares	-	-	-	-	-	-	-	-	-
Tier 1 capital issued	-	-	1,000	-	-	-	-	-69	931
<b>Closing equity, 31 December 2019</b>	<b>1,042</b>	<b>10,272</b>	<b>2,200</b>	<b>-30</b>	<b>-</b>	<b>-374</b>	<b>-170</b>	<b>17,966</b>	<b>30,907</b>

## Consolidated statement of cash flows

SEK M	Note	2019	2018
<b>Operating activities</b>			
Operating profit		3,003	2,351
Adjustment for non-cash items	52	1,936	3,269
Tax paid		-658	-542
<b>Cash flow from operating activities before changes in working capital</b>		<b>4,282</b>	<b>5,079</b>
<b>Cash flow from changes in working capital</b>			
Change in shares and participations, bonds and other interest-bearing securities and derivatives		-10,830	-2,864
Increase (-)/Decrease (+) in operating receivables		-18,596	-28,695
Increase (+)/Decrease (-) in operating liabilities		12,315	11,201
<b>Cash flow from operating activities</b>		<b>-12,829</b>	<b>-20,358</b>
<b>Investing activities</b>			
Change in shares and participations in associated companies		3	3
Purchase of intangible assets		-483	-595
Purchase of property and equipment		-16	-34
Investment in property and equipment		-	-37
Divestment of property and equipment		6	8
Divestment of subsidiaries (incl. owner-occupied property)		3,385	-
<b>Cash flow from investing activities</b>		<b>2,895</b>	<b>-655</b>
<b>Financing activities</b>			
Change in debt securities in issue		14,682	21,142
Amortization of lease liability		-104	-
Distributions in Tier 1 Capital instruments		931	-34
Dividends paid		-	-300
<b>Cash flow from financing activities</b>		<b>15,508</b>	<b>21,142</b>
Net cash flow for the year		5,574	4,875
Cash and cash equivalents, 1 January		6,075	1,196
Exchange-rate differences in cash and cash equivalents		11	4
<b>Cash and cash equivalents, 31 December</b>		<b>11,661</b>	<b>6,075</b>

# Notes to the consolidated financial statements

Amounts are stated in SEK M unless specified otherwise.

## Note 1 Accounting policies

### Compliance with standards and legislation

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

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

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

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

Assets and liabilities are recognised at cost, with the exception of owner-occupied property and the Group's holding of financial instruments that are either measured at fair value or at amortised cost. The accounting policies for the Group stated below have been applied to all periods presented in the consolidated financial statements, unless otherwise stated.

The statement of financial position has been presented based on liquidity.

### Judgements and estimates

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

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

Länsförsäkringar AB's holding in Länsförsäkringar Liv Försäkringsaktiebolag (publ) (referred to below as "Länsförsäkringar Liv") is not classified as a holding in a subsidiary in accordance with the definition in IFRS 10 Consolidated Financial Statements and thus is not consolidated. The company is wholly owned by the Länsförsäkringar AB. The life-assurance operations, which are conducted according to mutual principles through Länsförsäkringar Liv and whose earnings accrue in their entirety to the policyholders, are not recognised in accordance with the purchase method since Länsförsäkringar AB does not have control of the company, is not entitled to variable returns and cannot influence returns. Instead, Länsförsäkringar Liv is recognised and valued as unlisted shares.

### Significant sources of estimation uncertainty

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

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

Important assessments are also carried out when considering forward-looking information and in the choice of macroeconomic scenarios for calculating expected credit losses. Expected credit losses are to be estimated in a manner that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. The estimate is to include information about past events, current conditions and forecasts of future economic conditions. The forward-looking information used to estimate expected credit losses is based on the Group's internal macroeconomic forecasts. These macroeconomic forecasts take into account both internal and external information and correspond to the forward-looking information used for other purposes, such as forecasts and financial planning. At least three potential macroeconomic scenarios are considered when calculating expected credit losses: a base scenario, a more positive scenario and a more negative scenario. A deterioration in the forecast macro variables in each scenario or an increase in the probability of a negative scenario would generally entail an increase in the estimated loss allowance. An improvement in the forecast macro variables or an increase in the probability of a positive scenario would instead have the opposite effect on the estimated loss allowance. The loss allowance that would arise in the event of a negative and a positive scenario, assigned a probability of 100%, is presented in note 15 Credit losses.

When calculating the life-assurance reserve, assumptions are made regarding the discount rate, mortality, morbidity and expenses. When calculating technical provisions, an actuarial estimate of anticipated additional costs for claims incurred and expenses for claims that may be incurred during the remaining term of the insurance policy is made.

There is some uncertainty in the estimates for the depreciation period for deferred acquisition costs for unit-linked insurance contracts. The assumption for the depreciation period is based on statistics relating to the terms of the insurance contracts.

### Amended accounting policies applied from 1 January 2019

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

#### IFRS 16 Leases

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

#### Assessment of leases

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

#### Application of exemption rules

There are exemptions for short-term leases and leases for which the underlying asset has a low value. The Group has decided not to recognise leases in the statement of financial position for which the underlying asset has a low value or has a lease term (including periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option) of 12 months

or less or that will end within 12 months from the date of initial application of 1 January 2019.

#### *Reclassification of leases*

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

#### **Effect of transition to IFRS 16**

The Group has applied the modified retrospective approach, which entails that comparative information is provided in accordance with IAS 17 and IFRIC 4. The transition to IFRS 16 entails that the Group has recognised new assets and liabilities for its operating leases as the lessee for primarily rent for premises and various forms of equipment, cars and servers. On transition, the Group recognised the present value, discounted at the Group's incremental borrowing rate, of the lease payments outstanding as lease liabilities in the amount of SEK 179 M. Right-of-use assets were recognised on transition at an amount corresponding to the lease liabilities (after adjustment for prepaid lease payments recognised on 31 December 2018). No adjustment to equity in the opening balance for 2019 has arisen. The effect of the transition to IFRS 16 on the consolidated statement of financial position is presented in its entirety in note 55 Financial effect of change in accounting policy from IAS 17 Leases to IFRS 16 Leases. The expenses for the Group's leases have changed since the Group recognises depreciation for right-of-use assets and interest expenses for lease liabilities. The Group previously recognised operating lease expenses on a straight-line basis over the lease term and recognised assets (prepaid lease payments) and liabilities (accrued lease payments) only to the extent that a difference existed between the actual lease payments and the expenses recognised.

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

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

The amendments provide temporary relief from applying specific hedge accounting requirements for hedging relationships directly affected by the IBOR reform. The relief also means that the IBOR reform will not generally mean that hedge accounting needs to be discontinued. In brief, the transition relief entails the following:

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

Note 2 Risk and capital management provides disclosures on the uncertainty caused by the IBOR reform.

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

The new or revised standards and interpretations, as adopted by the IASB, described below come into effect for fiscal years beginning on or after 1 January 2020 and have not been applied in advance when preparing these financial statements. Other than those stated below, no other new or revised IFRSs and interpretations that had been adopted by the IASB on the closing date but that have not yet come into effect, 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 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. IFRS 17 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 an 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.

The Authority announced on 19 December that a rules review project will be initiated in 2020 aimed at eliminating the requirement that unlisted insurance companies and occupational pension companies are to apply full IFRS in their consolidated financial statements. The amendments are scheduled to come into effect on 1 January 2021.

Länsförsäkringar AB is carrying out a project in the Group to analyse the potential effects on the financial statements of IFRS 17 and the elimination of the requirement for full IFRS in the consolidated financial statements.

#### **Description of significant accounting policies**

##### **Consolidation principles**

###### **Subsidiaries**

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

###### **Associated companies**

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

###### **Operating segments**

The Group's division of operating segments corresponds to the structure of the internal reports that the company's chief operating decision maker uses to monitor the operations and allocate resources between operating segments. The Group identified Group management as the company's chief operating decision maker. Accordingly, for the Länsförsäkringar AB Group, the reports on the earnings of the various segments of the operations that are received by Group management form the basis of segment reporting. This means that the accounting policies in the operating segments may deviate from the policies applied in the consolidated financial statements. The follow-

ing accounting policies applied in the operating segments differ from those in the consolidated financial statements. Changes in the fair value of owner-occupied property in segments in the Länsförsäkringar AB Group are recognised in operating profit instead of in other comprehensive income.

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

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

### **Foreign currency**

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

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

Monetary assets and liabilities in foreign currency are translated by applying the exchange rates on the balance-sheet date. Exchange-rate differences arising due to translations in the statement of financial position in foreign currency are recognised in profit or loss as investment income, net.

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

The Group has small foreign operations in the form of branches in Denmark, Finland, Norway and France, one subsidiary and one branch in the UK, and one associated company in Switzerland. Assets and liabilities in branches, associated companies and subsidiaries are translated to SEK at the exchange rate on the balance-sheet date. Income and expenses are translated to the Group's presentation currency at an average exchange rate comprising an approximation of the exchange rate applicable on the date of the transaction. Translation differences arising in the translation of branches', associated companies' and subsidiaries' currencies are recognised in the Group in other comprehensive income as a translation reserve.

### **Impairment**

The carrying amounts of the Group's assets are regularly tested to determine whether there are any indications of impairment.

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

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

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

### **Reversal of impairment losses**

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

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

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

### **Commission income and other operating income**

Income from contracts with customers is recognised in profit or loss when the following criteria has been fulfilled:

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

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

#### ***Payment mediation commission and card business***

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

#### ***Lending commission***

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

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

#### ***Securities commission***

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

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

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

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

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

#### **Rebating of commissions**

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

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

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

#### **Fees pertaining to financial agreements - unit-linked insurance**

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

#### **Commission expense**

##### **Remuneration to the regional insurance companies**

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

#### **Deferred acquisition costs**

Acquisition costs that have a clear connection to underwriting insurance contracts and financial agreements are recognised as deferred acquisition costs in the statement of financial position and are depreciated over their useful lives. A condition for capitalisation is that the acquisition costs are attributable to a certain insurance contract, or homogeneous groups of contracts that can be followed up, and are deemed to generate a margin that covers at least the acquisition costs capitalised. These acquisition costs pertain to such costs as commission and expenses for sales that are directly related to acquisitions or renewals of insurance contracts. Acquisition costs in Länsförsäkringar Fondliv are depreciated straight line over seven years. The assumption for the depreciation period is based on statistics relating to the terms of the insurance contracts. The asset is impairment tested every year. In the non-life insurance operations, the capitalised cost is allocated in a manner corresponding to the allocation of unearned premiums. The depreciation period does not exceed 12 months.

#### **Premiums**

##### **Premium income**

Premium income in the non-life insurance operations is recognised as the total gross premium for direct insurance and assumed reinsurance that has fallen due for payment or can be credited to the company for insurance contracts for which the insurance period commenced prior to the end of the fiscal year. Gross premium is the contractual premium for the entire insurance period after deductions for standard customer discounts. Renewal premiums for contracts with renewal before the end of the fiscal year but that are not confirmed by the policyholder and premiums for recently signed insurance contracts for which the insurance period begins before the end of the fiscal year are included at the amounts at which they are expected to be received. Can-

cellations reduce the premium income as soon as the amount is known. Additional premiums are included at the amounts at which they are expected to be received. Premiums for insurance periods commencing after the end of the fiscal year are also recognised as premium income, if according to contract they fall due for payment during the fiscal year. Premium income is recognised excluding tax and other public fees charged to the insurance premium.

The insurance component in the life-assurance operations is classified in the financial agreements as insurance contracts. Premium income is recognised on a cash basis, meaning that the premiums paid are recognised as income when they are received regardless of whether these wholly or partly refer to a later fiscal year.

#### **Premiums earned**

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

#### **Interest income and interest expense**

Interest income and interest expense presented in profit or loss comprise interest in the Bank Group calculated according to the effective interest method on financial assets and liabilities measured at amortised cost, and interest from financial assets classified as measured at fair value through other comprehensive income. The effective interest rate includes fees that are deemed to be an integrated part of the effective interest rate for a financial instrument (usually fees that are received as compensation for risk). The effective interest rate corresponds to the rate used to discount contractual future cash flows to the carrying amount of the financial asset or liability. Interest on derivatives that hedge interest-rate and foreign-currency risk is recognised as interest income if the derivative hedges an asset and as interest expense if the derivative hedges a liability. Interest compensation for early redemption of fixed-rate lending and deposits is recognised in Investment income, net.

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

Negative interest on assets is recognised as a decrease in interest income. Negative interest on liabilities is recognised as a decrease in interest expense.

#### **Investment income, net**

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

Realised gains or losses are calculated as the difference between the purchase consideration received and the cost of the asset. Unrealised gains or losses comprise changes for the year in the difference between cost and fair value. In the event of a sale, the accumulated unrealised change in value is reversed as a realised gain or loss, except for shares and participations that we have decided to measure at fair value through other comprehensive income.

In the insurance operations, provision for claims outstanding is dis-counted on annuities; the effect of interest-rate revaluations on annuities is recognised as Investment income, net.

#### **Claims payments**

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

## Remuneration of employees

### Current remuneration

Current remuneration of employees is calculated without discount and recognised as an expense when the related services are received. The anticipated cost of commission is recognised when there is a legal or informal duty to make such payments as a result of services received from employees and the obligation can be reliably calculated.

### Remuneration after termination of employment

#### Pension plans

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

#### Defined-contribution pension plans

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

The largest pension plan of which the company's employees are part is the FTP plan, 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 the necessary information, which is why the pension plan above is recognised as a defined-contribution plan. Nor is any information available on surpluses and deficits in the plan or whether these would then affect the annual contributions to the plan in future years.

All pension plans in the Group's branches are defined-contribution and follow either collective agreements or, if there are no collective agreements, the recommended premium levels in the labour market.

#### Credit losses

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

#### Taxes

Income tax comprises current tax and deferred tax. Income tax is recognised in profit or loss, except when the underlying transaction is recognised in other comprehensive income or against equity with the related tax effect recognised in other comprehensive income or equity. Additional income tax arising on dividends is recognised at the same time as when the dividend is recognised as a liability.

#### Current tax

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

#### Deferred tax

Deferred tax is calculated based on temporary differences between carrying amounts and tax bases of assets and liabilities. Temporary differences are not

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

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

#### Yield tax

Yield tax is a tax paid by Länsförsäkringar Fondliv Försäkrings AB on behalf of the policyholders. Tax objects comprise the market value of the net assets managed on behalf of the policyholders at the start of the fiscal year. The yield tax attributable to the period is recognised in the consolidated statement of income under change in provision for life assurance for which the policyholder bears the risk.

#### Intangible assets

##### Goodwill

Goodwill represents the difference between the cost of the acquisition of operations and the net of the fair value of acquired identifiable assets, assumed liabilities and contingent liabilities.

##### Other intangible assets

Other intangible assets comprise proprietary and acquired intangible assets with determinable useful lives. These assets are recognised at cost less accumulated amortisation and impairment. Amortisation is commenced when the asset becomes available for use.

The Group's proprietary intangible assets are recognised only if the expenses for the asset can be reliably calculated, it is technically and commercially usable and sufficient resources exist to complete development and thereafter use or sell the intangible asset.

The carrying amount of proprietary intangible assets includes all directly attributable expenses. Other development expenses are recognised as an expense when they arise.

The amortisation period is determined based on the expected useful life, commencing when the asset becomes available for use. Amortisation takes place through profit or loss according to the straight-line method. Impairment requirements are tested annually as described in the section on Impairment above.

Additional expenses for capitalised intangible assets are recognised as an asset in the statement of financial position only when these expenses increase the future financial economic benefits of the specific asset to which they pertain.

#### Property and equipment

##### Equipment

Equipment is recognised at cost less accumulated depreciation and accumulated impairment. Depreciation takes place according to the straight-line method over the asset's expected useful life, commencing when the asset becomes available for use. Depreciation and scrapping and divestments are recognised in profit or loss. The useful life for computer equipment is estimated to be three years and five years for office equipment and cars. The depreciation method and the residual values and useful lives of the assets are re-tested every year-end.

Impairment requirements are tested annually according to the principles described in the section on Impairment above.

##### Owner-occupied property

Owner-occupied property that does not refer to right-of-use assets is recognised according to the revaluation technique.

Land and buildings owned by the Länsförsäkringar AB Group and that are used for administrative purposes are recognised at their revalued amounts, which comprises the fair value on prior revaluation dates less accumulated depreciation and adjustments due to revaluations on the date of revaluation. Fair value is based on the prevailing prices in an active market for similar properties in the same location and of the same standard, supplemented by a cash-flow statement. The valuation is performed twice a year by an external

independent appraiser on 30 June and 31 December. Increases in value are recognised in other comprehensive income and accumulated after tax in the revaluation reserve in equity. If the increase comprises a reversal of a previously recognised decrease in value of the same asset, the increase is recognised as a reduced cost in profit or loss. If revaluation results in a reduction in the carrying amount, the reduction is recognised through profit or loss. However, the reduction is recognised in other comprehensive income to the extent that a revaluation reserve is attributable to the asset.

Owner-occupied property comprises a number of components with various useful lives. The main division is land and buildings. The land component is not depreciated since its useful life is deemed to be unlimited. The useful lives of these components are deemed to vary between ten and 100 years. The following main groups of components have been identified and form the basis of the depreciation of buildings.

Frame	100 years
Roof, façade, windows	50 years
Frame supplementation	40 years
Fixtures and fittings	40 years
Exterior surface	20 years
Permanent equipment, service facilities etc., in buildings	10 years

The depreciation methods used and the residual values and useful lives of the assets are re-tested every year-end.

An additional expense is to be added to the cost if the expense pertains to the replacement of identified components, or parts thereof, in which case such expenses are capitalised. The expense is also added to the cost in the case of the creation of a new component.

Carrying amounts of replaced components, or parts of components, that have not been depreciated are discarded and expensed in conjunction with the replacement. Repairs are continuously expensed.

## Financial assets and liabilities

### Recognition and derecognition in the statement of financial position

A financial asset or financial liability is recognised in the statement of financial position when the company becomes party to the agreement in accordance with the conditions of the instrument. A financial asset is derecognised from the statement of financial position when the rights in the contract are realised, expire or – when the assets are transferred – the company no longer has any significant risks or benefits from the assets and loses control of the assets. A financial liability is derecognised from the statement of financial position when the obligation in the contract is met or extinguished in another manner.

Business transactions in the monetary, bond and equities markets are recognised in the statement of financial position on the transaction date, which is the time when the significant risks and rights are transferred between the parties. Deposits and lending transactions are recognised on the settlement date.

Loan receivables are recognised in the statement of financial position when the loan amount is paid to the borrower. Loan commitments are recognised as a commitment, see note 45 Pledged assets and contingent liabilities.

### Offsetting financial assets and liabilities

Financial assets and liabilities are offset and recognised in the statement of financial position on a net basis only when there is a legally enforceable right to offset the carrying amounts and an intent to settle them with a net amount or to simultaneously realise the asset and settle the liability. The legally enforceable right should not be contingent on a future event and must be legally binding for the company and the counterparty in the normal course of business, and in the event of default, insolvency or bankruptcy.

### Recognition of repurchase transactions

In genuine repurchase transactions (a sale of interest-bearing securities with an agreement for repurchase at a predetermined price), the asset continues to be recognised in the statement of financial position and payment received is recognised as Due to credit institutions. Sold securities are recognised as pledged assets. For a reversed repurchase transaction (a purchase of inter-

est-bearing securities with an agreement for resale at a predetermined price), the securities are not recognised in the statement of financial position. The payment received is recognised instead in Loans to the public.

## Classification and measurement

Financial assets and liabilities are measured at fair value upon initial recognition in the statement of financial position. Subsequent measurement and recognition take place depending on the measurement category to which the financial instrument belongs.

The Group's financial assets comprise:

- Debt instruments
- Derivative instruments
- Equity instruments

### 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 held in the Group meet these cash flow characteristics. The Group regularly checks that cash flows for the debt instruments measured at amortised cost and fair value through other comprehensive income meet the requirements.

### Amortised cost

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

### Fair value through other comprehensive income

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

### Fair value through profit or loss

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

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

### **Derivative instruments**

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

### **Equity instruments**

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

### **Financial liabilities**

The Group measures all financial liabilities that are not derivatives at amortised cost.

### **Derivatives used in hedge accounting**

The Group's derivatives, which comprise interest-rate and cross-currency swaps and purchased interest caps, have been acquired in their entirety to hedge the risks of interest and exchange-rate exposure arising during the course of operations. All derivatives are measured at fair value in the statement of financial position. Changes in value are recognised depending on whether the derivative is designated as a hedging instrument and the type of hedging relationship that the derivative is included in. The Group applies both cash flow hedges and fair value hedges. To meet the demands of hedge accounting in accordance with IAS 39, an unequivocal connection with the hedged item is required. In addition, it is required that the hedge effectively protects the hedged item, that hedge documentation has been prepared and that the effectiveness can be measured reliably. Hedge accounting can only be applied if the hedging relationship can be expected to be highly effective. In the event that the conditions for hedge accounting are no longer met, the derivative instrument is measured at fair value together with the change in value through profit or loss. Hedging relationships are evaluated monthly. Each identified hedging relationship is expected to be effective over the entire lifetime of the relationship. Effectiveness is tested by applying a forward-looking (prospective) assessment and a retrospective evaluation. Ineffectiveness is recognised in profit or loss.

### **Cash flow hedges**

The aim of cash flow hedges is to protect the Group from variations in future cash flows attributable to recognised assets and liabilities due to changed market factors. Interest and cross-currency interest rate swaps that are hedging instruments in cash flow hedging are measured at fair value. The change in value is recognised in other comprehensive income and accumulated in equity to the extent that the change in the value of the swap is effective and corresponds to future cash flows attributable to the hedged item. Changes in value recognised in equity impact profit or loss at the same time as the hedged item impacts profit or loss.

### **Fair value hedges**

Fair value hedges entail hedging the risk of changes in fair value of a financial asset or a financial liability. When applying fair value hedges, the hedged item is measured at fair value regarding its hedged risk. The changes in value that arise are recognised in profit or loss and are offset by the changes in value arising on the derivative (the hedging instrument).

Länsförsäkringar Bank applies the fair value hedge method to specific portfolios of funding, deposits and loans bearing fixed interest rates. Länsförsäkringar Bank also applies the fair value hedge method to assets in the liquidity portfolio that are classified in the measurement category of fair value through other comprehensive income. The change in the value of the derivative is recognised in profit or loss together with the change in the value of the hedged item in Investment income, net. Unrealised changes in the value of hedging instruments are also recognised in the item Investment income, net. Interest coupons, both unrealised and realised, are recognised as interest

income if the hedged item is an asset or portfolio of assets, or as interest expense if the hedged item is a liability or portfolio of liabilities.

### **Expected credit losses**

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

### **Model and definitions**

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

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

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

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

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

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

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

The estimates of expected credit losses for loans to the public, and issued financial guarantees and loan commitments, are based on existing internal ratings-based models and take into account forward-looking information. The loss allowance is achieved by estimating the expected credit loss for the assets' contractual cash flows. The present value of the expected credit loss is calculated for every date in each cash flow by multiplying the remaining exposure with the probability of default (PD) and the loss given default (LGD). For stage 1, the loss allowance is estimated as the present value of the 12-month ECL, while the credit loss for stages 2 and 3 is estimated as the present value of the full lifetime expected credit losses. All estimates of the loss allowance including estimates of exposure, PD and LGD take into account forward-looking information and are based on a weighting of at least three different possible macroeconomic scenarios. A number of statistical macro models have been developed to determine how each macroeconomic scenario will affect the expected future exposure, PD and LGD. The estimates of expected credit losses for cash and cash equivalents, and debt instruments measured at fair value through other comprehensive income, start from PD based on the external rating and LGD based on the regulatory amounts under the capital adequacy rules, Regulation (EU) No 575/2013 (CRR). This is because these items are not encompassed by existing, internal ratings-based models.

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

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

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

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

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

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

#### **Confirmed losses**

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

#### **Modified loans**

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

#### **Leases**

##### **Reporting as lessee**

The Group recognises all leases (with certain exemptions) in the statement of financial position as follows: the obligation to make future fixed lease payments as a lease liability, and the right to use an underlying asset as a right-of-use asset. When a contract is signed, the Group assesses whether it includes a lease. A contract is, or contains, a lease if it conveys the right for the Group to control the use of an identified asset for a period of time in exchange for consideration. The Group has decided to only identify the lease components in the Group's leases and does not include non-lease components in its calculation of the lease liability.

##### *Measurement of lease liabilities*

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

- fixed payments (including in-substance fixed payments);
- variable lease payments that depend on an index or rate, initially measured using the index or rates on the commencement date;

- amounts expected to be payable by the lessee under residual value guarantees; and lease payments that will be paid for extension options that it is reasonably certain will be exercised are also included in the measurement of the liability.

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

To calculate the lease liability, lease payments are discounted by the interest rate implicit in the lease. If this rate cannot be readily determined, which is normally the case for the Group's leases, the lessee's incremental borrowing rate is to be used, which is the that rate that an individual lessee would have to pay to borrow over a similar term, with a similar security, the funds necessary to obtain the right-of-use asset in a similar economic environment.

##### *Measurement of right-of-use assets*

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

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

##### *Application of exemption rules*

The Group has decided not to recognise leases in the statement of financial position for which the underlying asset has a low value or has a lease term (including periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option) of 12 months or less. The Group recognises lease payments for leases subject to exemption rules as a lease expense straight-line over the term.

##### *Reclassification of leases*

The Group recognises its leases in the statement of financial position as a right-of-use asset and a lease liability. Right-of-use assets are classified as the corresponding underlying asset that would have been presented if they had been owned, either as tangible assets or as owner-occupied property.

##### *Recognition of sale and leaseback transactions*

When the Group assumes an asset from another company and then leases the asset back from the purchaser/lessor, the Group as seller/lessee recognises the transfer agreement and the lease as a sale and leaseback transaction. The sale of the asset is recognised when the performance obligations in the transfer agreement has been satisfied. If the transfer of an asset meets the requirements for recognition as a sale, the asset is recognised at the portion of the previous carrying amount retained by the Group as the seller/lessee. As seller/lessee, the Group thus only recognises a gain or loss attributable to the rights transferred to the purchaser/lessor.

##### **Reporting as lessor**

The lessor classifies leases in the consolidated financial statements as either finance or operating leases. A finance leases exist if the financial risks and rewards of ownership have substantially been transferred to the lessee. All other leases are operating leases.

The Bank Group's assets that are leased under finance leases are recognised as loans to the public since the risks associated with ownership are transferred to the lessee. Initially, an amount corresponding to the present value of all minimum lease payments to be paid by the lessee is recognised

and any guaranteed residual value accrues to the lessor. Payments received from these leases are recognised in part as repayment of lease receivables and in part as interest income.

#### **Leases according to IAS 17**

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

#### **Issued equity instruments**

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

#### **Insurance contracts**

Insurance contracts are contracts in which the insurance company undertakes a significant insurance risk for the policyholder by agreeing to compensate the policyholder if a predetermined, insured event were to occur. Insurance contracts are divided into insurance contracts or non-insurance contracts according to insurance risk. Insurance products without significant insurance risk are to be classified as non-insurance contracts. A review of all contracts in the insurance companies was performed focusing on the insurance risk in these contracts and the financial impact of an insurance event on the financial statements. The financial impact must be significant to be considered an insurance contract. The Group's non-life insurance companies have classified all insurance contracts as with contracts containing insurance risk. Some insurance contracts of minor financial impact were identified for which the risk is not transferred to another party. Since these are of marginal value, all contracts have been classified according to the concept of materiality as insurance contracts.

The unit-linked insurance operations have insurance contracts with significant insurance risk and contracts with limited insurance risk. The insurance component of the financial agreements and pure risk insurance are classified as insurance contracts.

#### **Financial agreements**

Insurance contracts that contain limited insurance risk are classified as financial agreements in Länsförsäkringar Fondliv Försäkrings AB. In the reporting, these contracts are divided into a financial component and an insurance component. This method is known as unbundling. To provide more relevant information, the financial component and the insurance component are recognised separately for all contracts, both those classified as insurance contracts and those classified as financial agreements.

Premiums for the financial component are recognised as a deposit in the insurance operations through the statement of financial position. Correspondingly, payments of claims payments for insurance contracts with limited risk are recognised as withdrawals from the insurance operations in the statement of financial position. The fees paid by customers are recognised as income and the costs for insurance risk are recognised as expenses. The various types of fees charged to customers for the management of financial agreements are recognised as income in line with providing the management services to the policyholders. The provision of services is evenly distributed over the term of the contracts.

#### **Reinsurance**

Contracts signed between the Group's insurance companies and reinsurers through which the company is compensated for losses on contracts issued by the company and that meet the classification requirements for insurance contracts as stated above are classified as ceded reinsurance. Assumed reinsurance is classified in the same manner when the company assumes risks from other companies' insurance contracts.

For ceded reinsurance, the benefits to which the company is entitled under the reinsurance contract are recognised as the reinsurers' portion of technical provisions and deposits with companies that have ceded reinsur-

ance. Receivables from and liabilities to reinsurers are valued in the same manner as the amounts linked to the reinsurance contract and in accordance with the conditions of each reinsurance contract. Liabilities in reinsurance primarily comprise settlements against regional insurance companies and premiums to be paid for reinsurance contracts.

The reinsurers' portion of technical provisions corresponds to the reinsurers' liability for technical provisions in accordance with signed contracts. If the recoverable amount is lower than the carrying amount of the asset, the asset is impaired to the recoverable amount and the impairment loss is expensed in profit or loss.

#### **Technical provisions**

Technical provisions consist of Unearned premiums, Unexpired risks, Life-  
insurance reserves and Claims outstanding.

Changes in technical provisions for the period are recognised in profit or loss. Changes attributable to the translation of the provisions to the exchange rate on the balance-sheet date are recognised as exchange-rate gains or exchange-rate losses in Investment income, net. The insurance companies in the Group perform a liability adequacy test of their technical provisions to ensure that the carrying amount of the provisions is sufficiently high in regard to expected future cash flows.

#### **Unearned premiums**

Provision for unearned premiums is intended to cover the expected claims and operating expenses during the remaining term of insurance contracts. The calculation includes an estimate of the expected costs for claims that may occur during the remaining term of the insurance policies and the administration costs during the period.

Normally, the provision is strictly proportional to time, referred to as a pro rata temporis calculation.

The cost estimate is based on experience, but consideration is also given to both the observed and forecast trend in relevant costs.

#### **Unexpired risks**

Unexpired risks refers to the risk that the payment requirements of the insurance contracts and the costs will not be covered by unearned premiums and expected premiums after the end of the fiscal year. If the premium level of insurance contracts already entered into is deemed to be insufficient, a provision is made for unexpired risks.

#### **Claims outstanding**

The provision for claims outstanding in the unit-linked insurance operations comprises provision for annuities and disability annuities, established claims and non-established claims. The provision for annuities and disability annuities corresponds to the discounted capital value of commitments in accordance with the insurance contract. The provision for established claims corresponds to the discounted, expected capital value of future expenses due to the incurred health claim. This includes reported and approved claims that have not yet been paid, future operating expenses as well as the fixed-income operations. The discount rate is determined based on current market interest rates in accordance with satisfactory practice.

The provision for non-established claims pertains to claims that have not yet been reported but which have been made using statistical methods based on previous experience for the respective products. For disability annuities at fixed amounts, the nominal interest-rate assumption was determined based on the yield curve used for the life-  
insurance reserves. Similarly, a real yield curve was applied to index-linked disability annuities.

In the non-life insurance operations, these provisions should cover anticipated costs for claims for which final settlement has not been completed, including claims that have occurred but have not yet been reported to the company. The provision includes anticipated future cost increases plus all expenses for claims adjustment and is based on statistical methods for most claims. An individual assessment is made in the case of major claims and claims involving complex liability conditions. With the exception of annuities, the provision for claims outstanding is not discounted. The provision for annuities is estimated in line with customary life-  
insurance methods and discounted to market interest rates. The effect of interest-rate revaluations is recognised as a financial expense or income.

For motor third-party liability insurance, provisions are made for claims adjustment costs according to the unit cost principle. Provisions for claims adjustment costs for other insurance classes are made proportionally against the provision for claims incurred.

The provision for claims incurred but not reported (IBNR) encompasses costs for claims that have been incurred but are unknown to the company. The amount is an estimate based on historical experience and claims outcomes.

Changes in claims outstanding for the period are recognised in profit or loss. Changes attributable to the translation of the provisions to the exchange rate on the balance-sheet date are recognised as exchange-rate gains or exchange-rate losses under Investment income, net.

#### **Life-assurance reserve**

The life-assurance reserve, pertaining to contracted benefits for guarantee management in the unit-linked insurance operations, corresponds to the anticipated capital value of the company's guaranteed commitments. The life-assurance reserve is calculated per insurance policy in accordance with standard actuarial principles based on assumptions regarding interest rates, mortality, cancellations, expenses and yield tax. The discount rate is based on market rates on the measurement date and any future transaction is measured with consideration for the interest rate that corresponds to the duration of the transaction in relation to the calculation date. Mortality assumptions are based on statistical data representing the target group for which Länsförsäkringar Fondliv offers insurance solutions. The statistical data is based on Länsförsäkringar's insurance portfolio, but generally available information has been taken into account for comparison with observations in Länsförsäkringar's portfolio. Cancellation assumptions are based on the historical outcome in Länsförsäkringar. Yield tax will be removed from current tax legislation.

#### **Provisions for which the policyholder bears the risk**

Financial liabilities in the unit-linked insurance operations whereby the liability has a direct link to the value of a financial asset for which the company does not have any risk in the change in value of the fair value of the asset. Provisions for life assurance for which the policyholder bears the investment risk correspond to the redemption value of the fund units held on the policyholders' behalf.

The unit-linked insurance operations have chosen to attribute unit-linked insurance commitments to the measurement category of Financial liabilities measured at fair value through profit or loss. This means that the provision matches the linked assets measured at fair value.

#### **Other provisions**

A provision is recognised in the statement of financial position when the Group has an existing legal or informal obligation as a result of a past event and it is probable that an outflow of financial resources will be required to settle the obligation and a reliable estimate of the amount can be made. Where the effect of when a payment is made is significant, provisions are calculated by discounting the expected future cash flow at a pre-tax interest rate that reflects current market assessments of the time value of money and, where appropriate, the risks related to the liability.

#### **Contingent liabilities**

A contingent liability is recognised when there is a possible commitment originating from past events and whose existence is confirmed only by one or more uncertain future events, or when there is a commitment that is not recognised as a liability or provision because it is probable that an outflow of resources will be required, or cannot be measured with sufficient reliability. Contingent liabilities are measured at the amount corresponding to the best estimate of the amount required to settle the commitment on the balance-sheet date. The measurement accounts for the expected future date of settlement.

#### **Loan commitments**

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

Loan commitments are not recognised in the statement of financial position. Issued irrevocable loan commitments are valid for three months and are recognised as a commitment under the note entitled Pledged assets and contingent liabilities.

#### **Financial guarantees**

Guarantee agreements issued by the Group mainly comprise leasing and credit guarantees. These entail a commitment to compensate the holder when the holder incurs a loss due to a specific debtor not making due payments to the holder in accordance with applicable contractual terms.

Financial guarantee agreements are initially measured at fair value, which normally means the amount that the company received as compensation for the guarantee issued. In the subsequent measurement, the liability for the financial guarantee is recognised at the higher of the allocated premium, and the amount representing the expected cost of settling the commitment incurred by the guarantee.

## **Note 2 Risk and capital management**

Conducting insurance and banking operations involves risk-taking. Knowledge about risks is a core area of expertise in the banking and insurance industries. The ultimate owners of the Länsförsäkringar Alliance are also its customers and, accordingly, efforts to govern, manage and control risks as well as management of the Group's capital are of immediate importance to customers and provide clear customer value.

The Länsförsäkringar AB Group's operations include non-life insurance, life assurance and pension insurance and banking activities. The traditional life-assurance operations are found in a wholly owned subsidiary, Länsförsäkringar Liv Försäkrings AB (referred to below as "Länsförsäkringar Liv"), which is operated according to mutual principles. The company is not consolidated in the consolidated financial statements and thus the company's risks are not included in the description provided in this note. For more information, see Länsförsäkringar Liv's Annual Report.

### **RISKS AND RISK MANAGEMENT**

The Länsförsäkringar AB Group has established a shared risk-management system, defined as the strategies, processes, procedures, internal rules, limits, controls and reporting procedures needed to ensure that the companies in the Group are able to continuously identify, measure, monitor, govern,

manage, report and have control over the risks to which the companies are, or could be expected to become, exposed to, and the interdependence of these risks. Based on this Group-wide risk-management system, each subsidiary has prepared more detailed rules for managing company-specific risks. Coordinated risk control within the Group ensures that the risk-management system is consistently implemented in all of the companies in the Group and means that the targets for the operations can be achieved with a higher degree of certainty.

The Länsförsäkringar AB Group's risk strategy is an integrated component of operational governance that, given the business strategy, aims to control risk-taking. The overall risk strategy is that the operations are to be conducted following a conscious risk-taking approach. The Länsförsäkringar AB Group's mission is to conduct profitable business in non-life insurance, life assurance, unit-linked insurance and banking, which means that insurance risk, credit risk and market risk are consciously assumed as part of carrying out the business strategy. Liquidity risk is limited by robust handling of liquidity flows in the operations. The counterparty risks that arise from conducting the business activities are kept at a low level by selecting counterparties with high credit ratings. Concentration risks are kept at a low level by limiting exposure to individual counterparties, types of investment, etc. and by the

Group conducting well-diversified operations encompassing non-life insurance, life assurance, health insurance and banking. Climate risks are limited by taking proactive measures regarding the climate impact of the company's own operations and climate risks in the management of the Group's investment assets. Operational risks are managed such that the customer confidence and that of other stakeholders in Länsförsäkringar AB and its subsidiaries remains high. The estimated risk level and the organisation's expertise in managing specific risks are taken into consideration in decisions on, for example, the products that the company offers, the customer groups to which sales are directed, the instruments that the company's assets are invested in and how the operations are otherwise conducted.

Prospective analyses in the form of own risk and solvency assessments (ORSA), recovery plans and internal capital and internal liquidity adequacy assessment processes are performed every year. Ongoing activities include handling known risks and identifying new risks. Internal models are used in the first instance to quantitatively measure risks. Länsförsäkringar AB has developed a partial internal model to measure risk and has received approval from the Swedish Financial Supervisory Authority to use the model to calculate capital requirements under the Swedish Insurance Business Act for Länsförsäkringar AB and its insurance subsidiaries. The internal model measures risk as Value at Risk at a 99.5% confidence level over a 1-year time horizon, based on historical simulation. The model is used to manage and calculate capital requirements for all risks corresponding to the standard formula in Chapter 8 of the Insurance Business Act, of which market risk excluding concentration risk, premium risk, reserve risk and, to a certain extent, catastrophe risk are modelled internally. Risks not encompassed by the model, such as business risk and liquidity risk, are monitored following internally established policies. Länsförsäkringar Bank has developed an internal ratings-based model for measuring credit risk and has received approval from the Financial Supervisory Authority to use the model to calculate capital requirements in accordance with the Swedish Special Supervision of Credit Institutions and Investment Firms Act.

The regulatory capital requirements are also supplemented with other risk measures and stress tests. Operational risk and business risk are mainly assessed on a qualitative basis. Qualitative risk measurement makes use of an overall assessment of the risk's potential consequences for the operations and the probability or frequency of the risk occurring. The management and

monitoring of individual risks in the operating activities takes place within the frameworks established by the Board in governance documents and are broken down into more detailed regulations regarding authorisation to take risks and obligations to monitor risk. Control activities are performed regularly and incidents are continuously reported and monitored.

A complete report of all risks in the company's operations is submitted every quarter to, where appropriate, the Risk and Capital Committee, Audit Committee and Board.

### Risk-management organisation

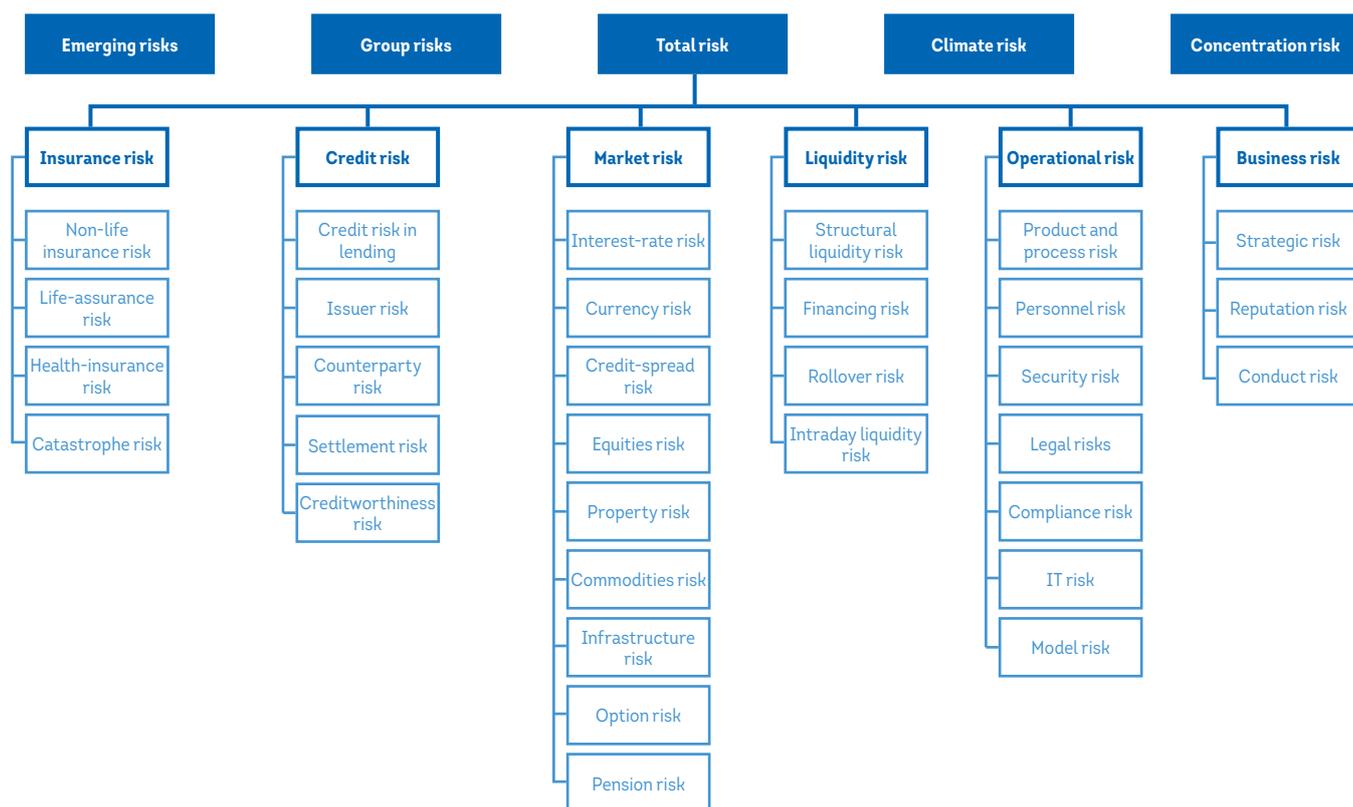
The risk-management system is a integrated part of the Länsförsäkringar AB Group's organisational structure and decision-making processes. In addition to risk management in the operations, it also encompasses the independent risk-management function.

The Board is ultimately responsible for ensuring that an effective risk-management system is in place and adopting frameworks for the Länsförsäkringar AB Group's risk-management system in the Group's risk policy. The risk policy defines the risks to which the Group's operations are exposed and how these risks are identified, measured, monitored, governed, managed and reported. The Board expresses its risk appetite in the risk policy by stating the risk levels and focus that can be accepted to achieve strategic targets. The Board also states in the risk policy the strategies that are to be applied for significant types of risk. Furthermore, the Board adopts an annual permissible level of capitalisation following recommendations from the Chief Risk Officer Group (CRO Group).

The President is responsible for incorporating the governance documents adopted by the Board into the operations. The CRO Group is responsible for the design of the risk-management system and coordination within the Länsförsäkringar AB Group, while each manager in the Länsförsäkringar AB Group is responsible for the risks in their own operations. All employees also have an individual responsibility for working towards a healthy risk culture by complying with internal rules on the Group's risk-management system.

The risk management function has the operational responsibility for the independent risk control, which includes identifying, measuring, monitoring and reporting risks in the company's and the Group's operations. The function controls the risk management in the operations to ensure that they are conducted with satisfactory risk management and risk control, and reports the

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



results of its controls directly to the President, management and, where appropriate, the Risk and Capital Committee, Audit Committee and the Board. This function is affiliated to Länsförsäkringar AB in the organisation and is independent from the operations that are controlled. The CRO Group reports directly to the President. Länsförsäkringar Bank has a separate Risk Management function, where the head of the function, CRO Bank, reports to the President.

The Actuarial function helps ensure the efficient operation of the risk-management system, for example, by ensuring that data for calculating capital requirements for insurance risks correctly reflects the operations. The Compliance function identifies and reports on risks that may arise as a result of non-compliance with regulations.

### Risk profile

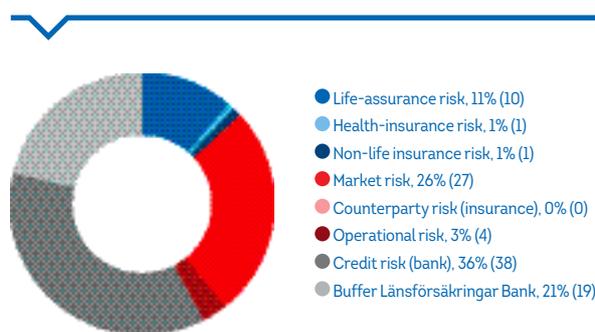
Länsförsäkringar AB's risk profile is dominated by the banking operations' credit risk from lending and the market risk in the unit-linked insurance operations. The unit-linked insurance operations also bring a certain level of life-assurance risk, while the non-life insurance risk deriving from the non-life insurance operations is moderate after applying reinsurance. Operational risk is inherent in all type of operations and specific group risks are also found in the Group's risk profile since Länsförsäkringar AB comprises a group that also includes both banking and insurance operations. Climate risk is a relatively new type of risk that has been added to the risk profile and the emergence of new types of risk, emerging risks, is continuously monitored.

The following factors characterise the Länsförsäkringar AB Group's current risk-taking:

- The operations are conducted in Sweden, except for Agria, which has pet insurance business in the Nordic countries, UK and France. All 23 regional insurance companies broker the Group's products, which thereby creates a geographic distribution throughout Sweden. The operations primarily focus on private individuals and small and medium-sized businesses, directly or mediated by the regional insurance companies, and have few major commitments entailing risk with large companies.
- In the unit-linked insurance operations, the policyholders primarily bear the market risks, but since the trend in insurance capital is governed by the company's earnings, the company is also exposed to market risk. The risks inherent in the investment assets managed by the Group's companies for own account are kept at a low level and were reduced further in 2019 by divesting a large property holding in Stockholm.
- Loans in the banking operations primarily pertain to households and to a smaller extent to agriculture and businesses. Low loan-to-value ratios, combined with a well-diversified geographic spread and local presence, are the core pillars in ensuring that the loan portfolio maintains high credit quality. The regional insurance companies cover 80% of the provision requirement in the Bank Group (excluding Wasa Kredit) on the date when an impairment is identified, by means of an off-set against accrued distribution remuneration. See note 15 Credit losses for more information.
- If unit-linked life assurance customers buy back or transfer their insurance policies to other companies, the long-term profitability of the unit-linked life assurance operations will be negatively affected.
- The non-life insurance operations are well-diversified, including pet insurance, health care, accident and health insurance, some commercial insurance and international reinsurance. The risks taken in non-life insurance are reinsured and extensive reinsurance operations are conducted on behalf of the Länsförsäkringar Alliance.
- Climate risk represents a financial risk in the form of potential impact on the insurance business, lending and investments for the Länsförsäkringar AB Group. Länsförsäkringar AB works on climate risk based on both the impact of the operations on the climate and the climate's impact on the operations.

The risk profile for the Länsförsäkringar AB Group excluding Länsförsäkringar Liv, measured as a capital requirement in accordance with the Insurance Business Act and the Swedish Special Supervision of Financial Conglomerates Act are presented in figure 2. The capital requirement is calculated using the internal model:

Figure 2. Länsförsäkringar AB Group regulatory capital requirements per risk type including diversification on 31 December 2019. (Figures in parentheses pertain to 2018.)



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

The following section describes the Länsförsäkringar AB Group's total risks and how they are controlled and managed. Information is provided on the size of the exposure for specific risks. The disclosures in this note refer to the Länsförsäkringar AB Group. The Parent Company has a separate note on risk and risk management found under the Parent Company's financial statements.

### Insurance risk

Insurance risk (underwriting risk) refers to the risk of loss or negative change in the value of underwriting liabilities due to incorrect tariffs and provisions assumptions. The Länsförsäkringar AB Group's insurance risk includes non-life insurance risk, life-assurance and health-insurance risks that arise in insurance subsidiaries.

- Non-life insurance risk refers to the risk of losses arising due to claims costs being higher than expected.
- Life-assurance risk refers to the risk of losses in connection with the insurance of a specific person's life and health.
- Health-insurance risk refers to the risk of losses arising due to the insured's disability and morbidity being higher than assumed.
- Catastrophe risk refers to the risk of losses arising due to natural disasters, epidemics or disasters caused by human activities leading to very large claims payments.

### Risk exposure

The Group's non-life insurance risk arises in the Länsförsäkringar Sak Group. Premium risk is the largest risk in non-life insurance risk, followed by reserve risk. Catastrophe risk comprises minor exposure since the low retention of the reinsurance cover limits catastrophe exposure.

The exposure to life-assurance risks primarily derives from the operations in Länsförsäkringar Fondliv and to a lesser extent from group life assurance in Länsförsäkringar Gruppliv and annuities in Länsförsäkringar Sak. Länsförsäkringar Fondliv's product range has two different management forms: fund management that entails that customers decide the investment orientation and risk level themselves; and guarantee management which is traditional management whereby the company is responsible for the investment orientation and a portion of the customer's savings are guaranteed. Unit-linked insurance operations comprise 96% of total managed assets.

The dominating life-assurance risk derives from the unit-linked insurance operations and the risk of customers choosing to transfer their insurance capital. The ongoing legislative process on the conditions for transfers of insurance policies could result in a higher level of transfers in the unit-linked insurance market and thus have a material impact on the capital requirement for this life-assurance risk. Increased mobility in the labour market could entail an increase in the number of occupational pensions with paid-up policies, where premium payments cease.

The Länsförsäkringar AB Group's exposure to health-insurance risk derives from health care insurance and group health and group accident insurance in Länsförsäkringar Sak, and from health and premium exemption and accident and invalidity benefit insurance in Länsförsäkringar Fondliv.

The Group has low exposure to catastrophe risk for own account. The Group manages common reinsurance cover for the Länsförsäkringar Alliance with respect to storms and natural disasters where Länsförsäkringar Sak

assumes a certain level of risk for own account. The other operational area where Länsförsäkringar Sak, for own account, is exposed to a certain level of catastrophe risk is in the internationally assumed reinsurance.

### Risk concentrations

The Länsförsäkringar AB Group conducts diversified operations in non-life, life assurance and health insurance. The market for Länsförsäkringar AB's insurance subsidiaries is primarily Sweden, but Agria has branches and conducts sales in the Nordic region, France and UK.

The Länsförsäkringar Sak Group conducts well-diversified business, including pet insurance, health care, accident and health insurance, some commercial insurance and international reinsurance. The business is divided into 25 reporting classes that make the operations highly diverse with few or minor elements of risk concentration inherent in non-life insurance risk. The subsidiary Agria's business comprises insurance for pets (dogs, cats and other pets), horses, farm animals and crop insurance. Operations are conducted in Sweden, Denmark, Finland, Norway, France and the UK. Operations in the Länsförsäkringar Gruppliv subsidiary are concentrated to purely death benefit insurance that, with well-differentiated groups of policyholders, represents all of society. Länsförsäkringar Sak's main risk concentration in insurance risk comprises assumed reinsurance from individual regional insurance companies. Länsförsäkringar Sak assumes reinsurance from these individual companies in a number of pools and subsequently immediately retrocedes the risk back to the regional insurance companies. Examples of claims that are reinsured through pool arrangements are property damage, accidents and motor insurance.

Länsförsäkringar Fondliv conducts unit-linked insurance operations and offers various forms of pension savings and risk insurance that can be taken out together with savings insurance. Länsförsäkringar Fondliv primarily targets private individuals and small and medium-sized businesses. A geographic distribution throughout Sweden is created since all 23 regional insurance

companies broker the company's products. As a result, Länsförsäkringar Fondliv's individual concentrations of life-assurance and health-insurance risk are considered to be limited.

### Risk management and risk-reduction techniques

Reinsurance agreements with both internal reinsurers within the Länsförsäkringar Alliance and external reinsurers are used to cover the companies in the event of insurance claims. Länsförsäkringar AB's subsidiary Länsförsäkringar Sak manages the Länsförsäkringar Alliance's joint reinsurance cover and internal Alliance reinsurance via a number of pool solutions. The system ensures a stable solution at low cost by distributing risk within the Länsförsäkringar Alliance and procuring external cover for large claims. Reinsurance cover as regards retention and level of protection is adapted based on each subsidiary's reinsurance needs. The Länsförsäkringar Alliance has shared catastrophe reinsurance cover for accident and life assurance. Länsförsäkringar Sak has reinsurance for risk and disaster claims. Agria's reinsurance cover comprises an important tool in providing protection from large individual claim incidents and high total claims costs in the more volatile businesses in the company. Morbidity and mortality risks in Länsförsäkringar Fondliv are reinsured. The efficiency of reinsurance cover is monitored by the Actuarial function and reported to the Board every year. Other factors that affect risks are the product composition including diversification, structure of insurance terms and conditions, underwriting limits, risk selection rules and risk inspections.

### Risk sensitivity

Table 1 shows the sensitivity in the Länsförsäkringar AB Group's profit before tax and equity to a number of actuarial assumptions. Table 2 shows the Länsförsäkringar Sak Group's estimated claims costs before and after reinsurance per claim year and table 3 shows the Länsförsäkringar Sak Group's estimated claims cost after ceded reinsurance.

Table 1. Sensitivity analysis, insurance risk

SEK M		31 Dec 2019		31 Dec 2018	
		Impact on profit before tax	Impact on equity	Impact on profit before tax	Impact on equity
Länsförsäkringar Fondliv	10% increase in operating expenses	-58	-58	-51	-51
Länsförsäkringar Fondliv	10% lower mortality per year	-6	-6	-5	-5
Länsförsäkringar Fondliv	10% momentary external transfer	-158	-158	-129	-129
Länsförsäkringar Fondliv	10% increase in morbidity	-56	-56	-49	-49
Länsförsäkringar Fondliv	10% lower income	-184	-184	-173	-173
Länsförsäkringar Sak Group	10% lower premium level	-640	-503	-598	-467
Länsförsäkringar Sak Group	10% increased claims frequency/average claim	-455	-358	-420	-328
Länsförsäkringar Sak Group	1% higher annual claims inflation	-153	-120	-164	-128
Länsförsäkringar Sak Group	10% higher mortality per year	-11	-9	-11	-8

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

SEK M	2013	2014	2015	2016	2017	2018	2019	Total
At end of claim year	3,703	4,239	3,812	3,868	4,098	4,799	5,121	-
One year later	3,653	4,137	3,645	3,625	4,006	4,483	-	-
Two years later	3,689	4,055	3,609	3,529	3,900	-	-	-
Three years later	3,628	3,988	3,620	3,462	-	-	-	-
Four years later	3,556	4,005	3,573	-	-	-	-	-
Five years later	3,550	3,775	-	-	-	-	-	-
Six years later	3,526	-	-	-	-	-	-	-
Estimated claims costs	3,526	3,775	3,573	3,462	3,900	4,483	5,121	-
Accumulated claims payments	3,162	3,135	3,112	2,978	3,307	3,672	3,397	-
Provision for claims payments	364	640	461	484	594	812	1,724	5,079
Provision for claims payments, older year classes	-	-	-	-	-	-	-	4,772
Provision for claims payments for assumed reinsurance, gross	-	-	-	-	-	-	-	917
<b>Total provision for claims payments, gross</b>	-	-	-	-	-	-	-	<b>10,768</b>
Annuity reserve, gross	-	-	-	-	-	-	-	1,564
Claims adjustment reserve, gross	-	-	-	-	-	-	-	186
<b>Provision for claims outstanding, gross</b>	-	-	-	-	-	-	-	<b>12,519</b>

**Table 3. Estimated claims costs after ceded reinsurance for the Länsförsäkringar Sak Group, per claim year**

SEK M	2013	2014	2015	2016	2017	2018	2019	Total
At end of claim year	2,444	2,631	2,837	3,100	3,254	3,590	3,830	-
One year later	2,312	2,458	2,666	2,837	3,198	3,468	-	-
Two years later	2,341	2,559	2,631	2,843	3,177	-	-	-
Three years later	2,353	2,477	2,650	2,815	-	-	-	-
Four years later	2,311	2,481	2,652	-	-	-	-	-
Five years later	2,309	2,476	-	-	-	-	-	-
Six years later	2,308	-	-	-	-	-	-	-
Estimated claims costs	2,308	2,476	2,652	2,815	3,177	3,468	3,830	-
Accumulated claims payments	2,253	2,378	2,564	2,704	3,022	3,214	3,034	-
Provision for claims payments	55	98	88	112	155	254	795	1,557
Provision for claims payments, older year classes	-	-	-	-	-	-	-	796
Provision for claims payments for assumed reinsurance, gross	-	-	-	-	-	-	-	625
<b>Total provision for claims payments after ceded reinsurance</b>	-	-	-	-	-	-	-	<b>2,978</b>
Annuity reserve	-	-	-	-	-	-	-	236
Claims adjustment reserve	-	-	-	-	-	-	-	186
<b>Provision for claims outstanding after ceded reinsurance</b>	-	-	-	-	-	-	-	<b>3,401</b>

For a more detailed description of premium and reserve risk, mortality risk, longevity risk, disability and morbidity risk, expenses risk, cancellation risk and catastrophe risk, refer to the annual reports of the subsidiaries.

### Market risk

Market risk pertains to the risk of loss arising that is directly or indirectly caused by changes in the level or volatility in the market price of assets, liabilities and financial instruments, including losses caused by shortcomings in the matching between assets and liabilities.

### Risk exposure

Market risk arises in the Länsförsäkringar AB Group due to investment decisions made concerning management of the insurance companies' and the Parent Company's investment assets. Market risk also arises in the Länsförsäkringar Bank Group's operations to a certain extent in the form of differences in fixed-interest periods between assets and liabilities, although such market risks comprise a small portion of the Länsförsäkringar AB Group's total market risks.

Market risks in the Länsförsäkringar AB Group's investment assets for own account are moderately high and derive from Länsförsäkringar Sak's and the Parent Company's investments in mainly bonds and equities funds. Länsförsäkringar Fondliv is also exposed to market risk from the fund units that the company holds to facilitate customer fund trading in the trading book, and there is also a sensitivity to market risk since earnings in the unit-linked insurance operations and in Länsförsäkringar Fondförvaltning's operations are sensitive to trends in fund values that are largely affected by the performance of equity indexes. Market risk is also inherent in insurance liabilities by provisions being discounted by the market interest rate. However, in the following, only the market risk that occurs through direct exposures in the Group's assets and liabilities is quantified. This risk is recognised in the Consolidated statement of financial position for the Group above, with accompanying notes.

### Risk concentrations

The dominating portion of the Group's market risk is found in the insurance subsidiaries' investment assets. Market risks can also be found to a lesser extent in the Parent Company's investment assets and in the Länsförsäkringar Bank Group. The main asset classes in portfolio management are interest-bearing securities, equities, property and alternative investments. During the year, the Group divested the property holding that previously comprised a risk concentration, and concentration risk in market risk is otherwise deemed to be low in relation to other market risks.

However, from time to time, there may be individual investments that may comprise a certain concentration of market risk.

### Risk management and risk-reduction techniques

Insurance assets are invested in the best interests of the policyholders and the management of the companies' own assets is conducted in the best interests of the owners, meaning ultimately the interests of the customers of the

local regional insurance companies. In turn, this imposes demands on ensuring adequate expertise and following clear, structured and documented processes that take into account prudence, risk diversification and the situation in the financial markets.

Investments are made only in assets that can be fairly valued and whose risks can be identified, measured, managed, monitored and reported. Investment assets that are not traded on a regulated market, that contain a significant element of model valuation or that show a lack of liquidity or transparency are kept at prudent levels. The main asset classes are interest-bearing securities, equities, alternative investments, property and a large portion of the holdings are owned indirectly via funds.

The main risk-reduction technique applied to the management of assets is diversification. The companies' investments are spread over several classes of assets and segment in these classes, leading to exposure to various risk factors that react in different ways to fluctuations in the financial markets. This means that as a whole the portfolio is less sensitive to market fluctuations than its portfolio components.

Insurance contracts in Länsförsäkringar Fondliv's guarantee management form extend over long periods and provisions are thus less sensitive to interest-rate fluctuations. The degree of matching between assets and commitments together with forecasts of the insurance operations' performance are therefore taken into account and assets are invested with respect to the nature and term of the commitments.

The Länsförsäkringar Bank Group has established a limit for the highest permissible interest-rate risk, which is relatively low compared with the normal total interest-rate risk in the entire Group. Firstly, fixed-interest periods are matched and secondly interest-rate derivatives are used.

### Use of derivative instruments

Derivative instruments are utilised in the management of investment assets in order to reduce risks or enhance management efficiency. Each new type of derivative instrument undergoes an approval process before it can be used in management. In connection with this, assurances are made that there is understanding of the characteristics of the instruments in the relevant parts of the organisation, that valuations, risk measurement and follow-ups are satisfactory and that risks are adequately identified.

Fixed-income futures and interest-rate swaps are used in management to reduce interest-rate risk. Using these instruments helps to enhance the efficiency of portfolio management by reducing the interest-rate sensitivity without selling the underlying bonds, and thus any coupons and excess returns can be kept. The effect of these derivative strategies is continuously monitored by measuring the interest-rate duration and interest-rate sensitivity of the portfolio.

Management uses equity index forward contracts when it needs to temporarily reduce equities risk. In this way, the portfolio is protected from sharp price drops in the equities market without needing to sell the underlying equities and equities fund holdings, which improves the efficiency of the portfolio management. The effect of this risk-reducing strategy is measured by equities allocation (including derivatives) being reconciled on a daily basis.

Management makes regular use of derivative instruments to reduce currency risk in the portfolio. This means that established limits on currency exposure can be considered without having to refrain from investing in desirable assets that have a different currency risk than SEK. Currency exposure (total and to individual currencies) is monitored on a daily basis.

#### Hedge accounting

In the Group, the Länsförsäkringar Bank Group applies hedge accounting. A description of the content of the Bank Group's hedge accounting is provided below. The Bank Group's hedge accounting is presented in tables 19 and 20 at the end of this note.

#### Risks and hedging instruments

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

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

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

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

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

The Bank Group applies the fair value hedge method to specific portfolios of funding, deposits and loans bearing fixed interest rates. The Bank Group also applies the fair value hedge method to assets in the liquidity portfolio that are recognised in the category of Fair value through other comprehensive income. The following terms have been identified as critical in a fair value hedge of interest-rate risk:

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

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

For hedging relationships to which portfolio hedging is applied, each portfolio and the hedging instruments that hedge the portfolio are divided into time brackets. The volume in the hedged item (the portfolio) and the volume in the hedging instrument are compared in each time bracket.

If the current volume of the hedged item is less than the volume of the hedging instrument, the difference is removed from the hedging relationship. If the current volume of the hedged item exceeds the volume of the hedging instrument, the surplus portion is not included in the hedging relationship and thus is not remeasured. Hedging relationships are reconciled monthly.

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

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

#### Cash flow hedging of currency risk

The Bank Group applies cash flow hedges for hedging currency risk in the Bank Group's debt securities issued in foreign currency. The following terms have been identified as critical in a cash flow hedge of currency risk:

- Nominal amount
- Maturity date
- Benchmark interest rate

- Interest reset date
- The swap swaps the hedged item's currency flows to the Group's functional currency.

If the terms correspond, an economic relationship is expected to exist between the hedged item and the hedging instrument.

The nominal amount of the hypothetical derivative and the hedging instrument are to be the same (a hedge ratio of 1:1). The hedge ratio corresponds to the actual risk management. The derivative counterparties all have a high credit rating (normally AA) and, as long as this does not change, the credit risk is not deemed to dominate the change in the value.

#### Sources of ineffectiveness

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

- Fair value hedges of interest-rate risk: The variable leg of the swap does not have a counterpart in the hedged item.
- Cash flow hedging of currency risk: Ineffectiveness arises if the terms of the hypothetical derivative deviate from the hedging instrument at the same time as the change in the value of the hedging instrument exceeds the change in the value of the hypothetical derivative.

#### IBOR and Interest Rate Benchmark Reform

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

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

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

**Table 4. Exposure to IBORs in the Group's hedge accounting on 31 December 2019**

SEK M	Nominal amount per IBOR			Total nominal amount
	Stibor	Euribor	CHF Libor	
<b>Cash flow hedge</b>				
<i>Currency risk</i>				
Cross-currency interest rate swaps	-	47,010	4,834	51,843
<b>Fair value hedge</b>				
<i>Interest-rate risk</i>				
Interest-rate swaps	282,798	54,526	4,834	342,157

## Risk sensitivity

Table 5. Sensitivity analysis, market risks

SEK M		31 Dec 2019		31 Dec 2018	
		Impact on profit before tax	Impact on equity	Impact on profit before tax	Impact on equity
Interest-rate risk assets and liabilities net <sup>1)</sup>	100 bp higher nominal market interest rates	-90	-82	-172	-167
Credit-spread risk <sup>2)</sup>	100 bp increased credit spread	-242	-242	-212	-212
Equities risk	10% lower share prices including hedge funds	-448	-463	-251	-270
Property risk	10% lower property prices	-	-	-	-323
Currency risk <sup>3)</sup>	10% strengthening of SEK	-152	-152	-155	-155

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

<sup>2)</sup>Credit-spread risk in the Group's insurance companies and Länsförsäkringar AB Parent Company. For credit risk exposure in the Bank Group, refer to table 9.

<sup>3)</sup>Currency risk is presented including indirect exposure via a look-through approach of funds.

### Interest-rate risk

The interest-bearing asset portfolio includes interest-rate risk from covered bonds, government bonds, corporate bonds, fixed-income funds and derivative instruments. Interest-rate risk is also inherent in insurance liabilities by provisions being discounted by the market interest rate. The interest-rate risk presented in table 5 does not include any assumptions regarding the effects of future changes in reference interest rates.

### Credit-spread risk

The Group has exposure to credit-spread risk in Swedish mortgage bonds, green bonds of primarily investment grade quality, and based on its holdings in mainly global and US investment grade funds and public and private loan funds.

Tables 7 and 10 show that vast majority of the Group's interest-bearing holding have an AAA rating.

### Equities risk

The Group's primary equities exposure is to Swedish, European and US equities but also Japanese equities and equities in emerging markets. Länsförsäkringar Fondliv's exposure regarding directly owned assets derives from the guarantee management form and fund units in the trading book. Since about 80% of the unit-linked insurance capital is exposed to equities risk, Länsförsäkringar Fondliv is also exposed to equities risk in future earnings.

### Property risk

The Group is exposed to property risk mainly through Länsförsäkringar Sak and Länsförsäkringar Fondliv's units in Humlegården Fastigheter AB.

### Currency risk

The Group faces currency exposure from insurance liabilities and investment assets as well as from the Länsförsäkringar Bank Group's funding in other currencies. Currency risk is managed using currency and cross-currency interest rate swaps.

### Option risk

Option risk refers to the risk of losses arising due to opportunities to change the level and timing of cash flows. Option risk is included as part of other market risks.

Table 6. Impact on earnings in Länsförsäkringar AB Group on 31 December 2019 of SEK strengthening 10% against foreign currencies.

Currency	Impact on earnings before tax, SEK M <sup>1)</sup>	
	2019	2018
BRL	-2	-1
BSD	2	0
CHF	-6	-1
CNY	1	-3
DKK	-7	-11
EUR	-19	-18
GBP	-20	-56
HKD	-4	-5
INR	-1	-3
JPY	2	0
KRW	-1	-4
MXN	-1	-1
NOK	-4	-13

Currency	Impact on earnings before tax, SEK M <sup>1)</sup>	
	2019	2018
PLN	1	0
TWD	-2	-2
USD	-91	-30
ZAR	-1	-3
Other currencies	-1	-5
<b>Total</b>	<b>-152</b>	<b>-155</b>

<sup>1)</sup>The table presents the earnings impact including indirect exposure via a look-through approach of funds.

### Credit risk in the Parent Company and insurance subsidiaries

Credit risk pertains to the risk of losses arising due to counterparties being unable to fulfil their undertakings and of any collateral provided not covering the receivable. The Parent Company and insurance subsidiaries are exposed to credit risk from ceded reinsurance, counterparties in financial derivatives and from bank balances and issuers of securities.

### Risk exposure

The Länsförsäkringar AB Group's exposure to credit risk primarily arises through holdings of bonds in the investment portfolios that, in the same way as for credit-spread risk, are mainly attributable to holdings in Swedish mortgage bonds, green bonds of primarily investment grade quality and, to a certain extent, global and US investment grade funds as well as public and private loan funds with mainly high yield ratings.

The insurance subsidiaries are also exposed to credit risk from reinsurers. The insurance subsidiaries take out reinsurance to avoid assuming greater individual liability than that stated in the insurance guidelines and reinsurance policy of each subsidiary. Reinsured risks instead become the responsibility of the reinsurers. However, there is the risk that the reinsurer is unable to fulfil its obligations, which in such a case revert to become a liability for the company to meet.

In addition, counterparty risk arises through the use of financial derivatives in the insurance subsidiaries' investment portfolios. Derivatives are purchased to enhance the efficiency of the portfolio management in the investment portfolio and to protect the balance sheet against, for example, interest-rate risk, equities risk and currency risk and entail that the counterparty undertakes, through derivative contracts, to compensate for negative results arising from changes in, for example, market interest rates, share prices or exchange rates. As a result, a receivable from the counterparty may arise in the event of market changes. Counterparty risk pertains to the risk of losses arising due to counterparties being unable to fulfil their undertakings and that part of the receivable can thus not be paid.

Länsförsäkringar AB's and the insurance subsidiaries' holdings of bonds and other interest-bearing securities and financial derivatives per credit quality step are presented in table 7.

**Table 7. Parent Company's and insurance subsidiaries' interest-bearing securities per credit quality step**

Bonds and other interest-bearing securities <sup>1)</sup>	31 Dec 2019	31 Dec 2018
AAA – Swedish Government	30	1
AAA – other	9,057	5,546
AA	112	100
A	264	353
BBB	434	665
BB or lower	467	560
No rating available	535	409
<b>Total</b>	<b>10,900</b>	<b>7,634</b>
<b>Derivatives</b>		
AA	3	0
A	2	23
BB	1	0
<b>Total</b>	<b>6</b>	<b>23</b>

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

On 31 December, the Group had no pledged assets for bonds, derivatives or repurchase agreements and had not pledged any securities.

### Risk management and risk-reduction techniques

The credit risk that arises through counterparties in financial derivatives is primarily reduced by diversifying the counterparties that the company used for trading in financial derivatives, and is managed by applying limits to derivative exposures per counterparty and by signing standardised collateral agreements with all counterparties for OTC derivatives. The size of the permitted exposure depends on the credit rating of the counterparty.

Credit risk from counterparties in ceded reinsurance is limited in the first instance by selecting counterparties with high credit ratings and by applying limits for maximum exposure to each counterparty.

### Risk sensitivity

Table 8 presents the exposure of the Parent Company and insurance subsidiaries to credit risk from counterparties in financial derivatives and ceded reinsurance both excluding and including collateral received. Exposure to credit risk in other receivables is not deemed to be material since the past history of these receivables shows a low incidence of default receivables and no losses have been confirmed. The method for calculating expected credit losses is described in note 1 Accounting policies.

**Table 8. Parent Company and insurance subsidiaries' counterparty risk to derivatives and reinsurance with respect to collateral received**

Derivatives	31 Dec 2019				31 Dec 2018	
	Maximum credit risk exposure	Collateral			Net exposure	Net exposure
		Cash and cash equivalents	Securities	Other		
AA	16	13	-	-	3	-
A	22	21	-	-	2	23
BBB or lower	1	-	-	-	1	-
<b>Total</b>	<b>39</b>	<b>33</b>	<b>-</b>	<b>-</b>	<b>6</b>	<b>23</b>
<b>Reinsurance</b>						
Regional insurance companies	5,593	-	-	-	5,593	6,253
AA	310	-	-	-	310	376
A	459	-	-	-	459	279
BBB or lower	91	-	-	-	91	45
<b>Total</b>	<b>6,453</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,453</b>	<b>6,953</b>

### Credit risks in the Länsförsäkringar Bank Group

Credit risk is defined as the risk of losses arising due to a counterparty not being able to fulfil its commitments to entities in the consolidated situation and the risk that the counterparty's collateral provided will not cover the

company's receivables. Credit risk in the lending operations pertains only to the Bank Group.

The lending operations of the Bank Group are conducted only with borrowers in Sweden and mainly comprise mortgages, loans to agricultural customers, hire purchase and leasing operations. The vast majority of the Bank Group's loan portfolio comprises loans for residential properties in the form of single-family homes and tenant-owned apartments. First-lien mortgages with loan-to-value ratios up to 75% of the market value at the time the mortgage is granted account for the largest percentage of retail mortgages. Low loan-to-value ratios, combined with a well-diversified geographic spread and local presence, are the core pillars in ensuring that the loan portfolio maintains high credit quality.

The banking operations carry out balanced and consistent lending, with advanced system support. The maximum lending levels for various types of loans and limits for the local regional insurance companies' lending are stipulated in the guidelines of the bank's Board of Directors. The banking operations impose strict requirements in terms of customer selection, customers' repayment capacity and the quality of collateral.

The Bank Group calculates all retail exposures in accordance with the advanced Internal Ratings-based Approach (IRB), which corresponds to predominant proportion of the Bank Group's loan portfolio. This means that a considerable portion of its credit risk exposure is calculated using a method that aims to identify and classify risk for each individual counterparty. The Länsförsäkringar Bank Group's credit risk exposure is shown in table 9.

**Table 9. Bank Group's credit risk exposure**

Credit risk exposure, SEK M	31 Dec 2019	31 Dec 2018
<i>Credit risk exposure for items recognised in the statement of financial position</i>		
Cash and balances with central banks	9,831	22
Treasury bills and other eligible bills, etc.	9,934	10,847
Loans to credit institutions	408	4,486
of which collateral in repurchase agreements	-	-
Loans to the public	307,668	289,851
of which collateral in properties and tenant-owned apartments	278,454	257,773
Bonds and other interest-bearing securities	42,673	36,790
Derivative instruments	8,224	6,056
Other assets	559	561
<i>Credit risk exposure for contingent liabilities and other commitments</i>		
Guarantees	28	35
Loan commitments and other credit commitments	21,846	20,842
<b>Total</b>	<b>401,171</b>	<b>369,490</b>

**Table 10. Credit risk exposure in the Bank Group by external risk classification**

	Gross carrying amount, SEK M	
	31 Dec 2019	31 Dec 2018
<b>Treasury bills and other eligible bills</b>		
AAA-AA	9,934	10,847
<b>Total</b>	<b>9,934</b>	<b>10,847</b>
<b>Bonds and other interest-bearing securities</b>		
AAA-AA	42,673	36,790
<b>Total</b>	<b>42,673</b>	<b>36,790</b>
<b>Loans to credit institutions</b>		
AAA-AA	131	4,131
A	277	355
Not risk classified	-	0
<b>Total</b>	<b>408</b>	<b>4,486</b>
<b>Derivatives</b>		
AAA-AA	2,443	1,627
A	4,884	3,896
BBB-BB	64	-
Not risk classified	834	533
<b>Total</b>	<b>8,224</b>	<b>6,055</b>

Table 11. Credit risk exposure in the Bank Group by internal risk classification

SEK M	31 Dec 2019			
	Not credit-impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
<b>Loans to the public</b>	<b>Gross carrying amount</b>	<b>Gross carrying amount</b>	<b>Gross carrying amount</b>	<b>Gross carrying amount</b>
Internal rating 1-3	177,126	5	14	177,145
Internal rating 4-6	112,372	185	17	112,574
Internal rating 7-9	6,365	5,451	41	11,858
Internal rating 10-11	112	1,491	16	1,618
Defaulted	-	-	784	784
Not risk classified	2,895	734	59	3,689
<b>Total</b>	<b>298,869</b>	<b>7,867</b>	<b>932</b>	<b>307,668</b>

### Credit risk exposure by internal risk classification

Loan commitments and other credit commitments	Credit risk exposure	Credit risk exposure	Credit risk exposure	Credit risk exposure
Internal rating 1-3	9,775	0	0	9,775
Internal rating 4-6	7,427	15	-	7,442
Internal rating 7-9	856	168	0	1,025
Internal rating 10-11	8	22	0	30
Defaulted	-	-	3	3
Not risk classified	3,476	95	0	3,572
<b>Total</b>	<b>21,542</b>	<b>301</b>	<b>3</b>	<b>21,846</b>

### Credit risk exposure by internal risk classification

SEK M	31 Dec 2018			
	Not credit-impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
<b>Loans to the public</b>	<b>Gross carrying amount</b>	<b>Gross carrying amount</b>	<b>Gross carrying amount</b>	<b>Gross carrying amount</b>
Internal rating 1-3	170,841	5	26	170,871
Internal rating 4-6	98,636	282	29	98,947
Internal rating 7-9	5,510	4,972	20	10,502
Internal rating 10-11	84	1,341	27	1,452
Defaulted	-	-	595	595
Not risk classified	6,756	683	45	7,484
<b>Total</b>	<b>281,827</b>	<b>7,283</b>	<b>742</b>	<b>289,851</b>
<b>Loan commitments and other credit commitments</b>	<b>Credit risk exposure</b>	<b>Credit risk exposure</b>	<b>Credit risk exposure</b>	<b>Credit risk exposure</b>
Internal rating 1-3	9,468	2	0	9,470
Internal rating 4-6	7,096	28	0	7,125
Internal rating 7-9	829	199	-	1,028
Internal rating 10-11	14	17	0	32
Defaulted	-	-	7	7
Not risk classified	3,090	90	0	3,180
<b>Total</b>	<b>20,497</b>	<b>337</b>	<b>8</b>	<b>20,842</b>

The Bank Group's credit portfolio largely comprises mortgages to private individuals and in other respects primarily comprises other loans to private individuals and agricultural customers. Concentration risk primarily comprises the lending segment and geographic distribution. Most exposures are relatively small, with a well-diversified geographic spread, meaning that the Bank Group does not have any significant exposure to concentration risk.

Figure 3. Bank Group loans by segment

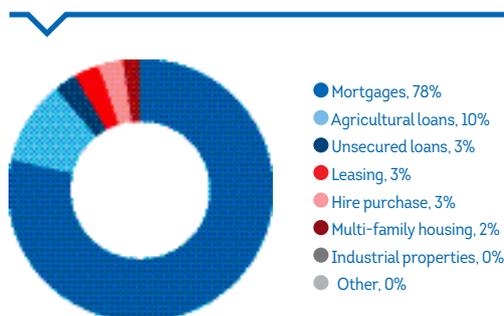
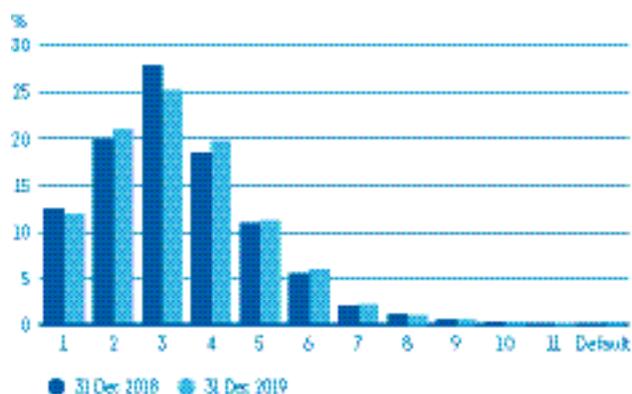


Figure 4 presents the Group's credit exposure according to risk class. The results show a distribution of exposure, with 78% (79) found in the lowest grades 1-4.

Figure 4. Credit exposure by risk class



In addition to the above credit exposure, SEK 4,279 M (7,484) is included in loans to the public which are not graded under the IRB Approach, and which include a time-limited exemption that pertains to exposure in Wasa Kredit.

The average loan commitment for each borrower is low and the relationship between the loan portfolio and the underlying assets expressed as the weighted average loan-to-value (LTV) ratio was 60% (61).

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

A non-performing loan receivable has a non-performing payment that is more than nine days overdue and that is not classified as credit-impaired. Table 13 below shows non-performing receivables by the number of days overdue.

**Table 12. Bank Group's credit-impaired loan receivables by collateral**

SEK M	31 Dec 2019	31 Dec 2018
Residential properties, including tenant-owned apartments	168	135
Commercial immovable property	243	207
Other physical collateral	134	105
Guarantees	8	4
Unsecured loans	378	290
<b>Total credit-impaired loan receivables</b>	<b>932</b>	<b>742</b>

**Table 13. Bank Group's non-performing loan receivables that are not credit-impaired**

SEK M	31 Dec 2019	31 Dec 2018
Receivables overdue by 1-30 days	36	126
Receivables overdue by 31-60 days	458	348
Receivables overdue by 61-90 days	77	69
<b>Total</b>	<b>571</b>	<b>543</b>

A condition for full payment of the regional insurance companies' distribution remuneration by the Bank Group is that the loans generated by each company for the Bank Group (excluding Wasa Kredit) are of high quality. If this is not the case, up to 80% of any credit losses is off-set against the accrued commission. This model for settlement of credit losses is kept separate and is taken into consideration by Länsförsäkringar Bank when the provisions are established.

#### Sensitivity in calculation of loss allowances

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

Expected credit losses are to be estimated in a manner that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. The estimate is to include information about past events, current conditions and forecasts of future economic conditions. The forward-looking information used to estimate expected credit losses is based on the Group's internal macroeconomic forecasts. These macroeconomic forecasts take into account both internal and external information and correspond to the forward-looking information used for other purposes, such as forecasts and financial planning. Three potential macroeconomic scenarios are considered when calculating expected credit losses: a base scenario that is currently weighted at 60%, and a more positive scenario and a more negative scenario that are both weighted at 20%. A deterioration in the forecast macro variables in each scenario or an increase in the probability of a negative scenario would generally entail an increase in the estimated loss allowance. An improvement in the forecast macro variables or an increase in the probability of a positive scenario would instead have the opposite effect on the estimated loss allowance. Table 14 below shows the loss allowances that would have been recognised on 31 December 2019 if a positive or a negative macroeconomic scenario assigned a probability of 100% had been used. The sensitivity analysis includes loss allowance for loans to the public, commitments and guarantees.

**Table 14. Sensitivity analysis of loss allowance in a 100% weight negative and positive scenario**

Recognised probability-weighted loss allowance, SEK M	Scenario	Loss allowance according to sensitivity analysis, SEK M	Change compared with probability-weighted loss allowance, %
591	Positive scenario	500	-16%
	Negative scenario	798	35%

#### Counterparty risk

Counterparty risk in derivative transactions and repurchase agreements is managed by the company having a number of swap counterparties, all with high ratings and with whom collateral agreements have been signed. Each counterparty is also assigned a maximum exposure amount. Table 15 shows the Bank Group's counterparty risk with respect to collateral received.

**Table 15. Credit risk exposure for derivatives regarding collateral received and other forms of credit enhancement**

SEK M	31 Dec 2019				31 Dec 2018	
	Maximum credit risk exposure	Collateral		Net exposure	Net exposure	
		Cash and cash equivalents	Securities Other			
AAA-AA	2,443	980	-	-	1,159	1,061
A	4,884	4,445	-	-	213	12
BBB-BB	64	65	-	-	-	-
Not risk classified	834	932	-	-	-	-
<b>Total</b>	<b>8,224</b>	<b>6,421</b>	<b>-</b>	<b>-</b>	<b>1,371</b>	<b>1,074</b>

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

#### Liquidity risk including financing risk

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

#### Risk exposure

For the Länsförsäkringar AB Group's companies, the lack of liquidity could lead to the companies not being able to fulfil their commitments to customers and stakeholders or that these commitments can only be fulfilled by raising funding at significantly higher costs than usual or by divesting assets below their market value. The Länsförsäkringar Bank Group's cash flow is characterised by small flows where the customers are primarily retail customers together with well-known, larger flows in the financing activities. The Bank Group's management of liquidity risk is based on highly diversified funding regarding investor base, instruments, currencies and maturities, and a satisfactory liquidity reserve comprising securities with very high liquidity and credit quality, and deposits with the Riksbank and the Swedish National Debt Office. The business activities of the insurance companies are based on premiums being paid in advance and being managed until insurance compensation is to be paid out. The liquidity risk in the insurance subsidiaries is closely related to the investment assets in the companies' investment portfolios, including liquidity requirements for signed derivative agreements.

#### Risk management and risk-reduction techniques

Management of liquidity risk is based on management taking place in each subsidiary and in the Parent Company, rather than at group level. The nature of the operations differs between the banking and insurance operations and there are legal restrictions on for the scope of internal loans. The subsidiaries also clear rules regarding how assets are to be deposited to ensure that they are readily available to the company and can thus be realised as needed. In practice, liquidity risk is primarily an issue for the Länsförsäkringar Bank Group.

Länsförsäkringar Sak's liquidity risks are low since premiums are received in advance and large individual claims and payouts outside normal cash flows are known well in advance of when they fall due.

Länsförsäkringar Fondliv's liquidity is relatively stable, since fund units are divested in line with payments being made to policyholders. The company's liquidity was primarily affected by fund changes and costs for sale. Liquidity risk is managed by continuously adjusting the need for cash and surplus liquidity based on established liquidity forecasts for the payment of securities transactions and claims payments and, where necessary, other inward and outward payments, such as premiums and operating expenses. The majority of the funds in the trading book are liquid in the short term and purchases on behalf of the insured are not performed until payment has been received for the sales transaction.

The Länsförsäkringar Bank Group conducts active liquidity risk management to ensure that the Group's commitments can be fulfilled under both normal and stressed market conditions. The aim is to attain a favourable spread of financing sources. Liquidity is continuously planned and a satisfactory liquidity reserve ensures that sufficient liquidity is always available. The liquidity reserve is invested in securities with very high credit quality, the vast

majority of which are eligible for transactions with the Riksbank and, where appropriate, with the ECB or the Federal Reserve. All in all, this means that the reserve can be quickly converted to cash and cash equivalents. On 31 December 2019, the liquidity reserve amounted to SEK 60.4 billion (54.3) and 48% (49) of the reserve comprised Swedish covered bonds.

The Länsförsäkringar Bank Group's funding takes place in a manner that creates a sound maturity profile and avoids maturity concentrations. The refinancing activities are based on broad diversification in terms of a variety of investors and markets. Diversification is achieved, for example, through proactive work on creating long-term investor relations. Funding takes place primarily with covered bonds, primarily in SEK, EUR, CHF and NOK, since the majority of the Bank Group's assets comprise Swedish mortgages. The Bank Group endeavours to regularly launch issuances in these markets to create long-term confidence in the international capital markets.

The Parent Company's liquidity is mainly affected by dividends and Group contributions from subsidiaries, any requirements for contributions to be made to subsidiaries and dividends to owners. To meet liquidity requirements, the Parent Company's maintained cash and cash equivalents, which at year-end amounted to SEK 221 M (209).

**Table 16. Maturity analysis for financial assets and liabilities and insurance undertakings**

The table shows the actual cash flows that will occur in each period, based on the remaining contractual maturities. The amounts presented in maturities are undiscounted cash flows.

SEK M	2019					2018				
	<3 months	3 months-1 year	1-5 years	>5 years	Total	<3 months	3 months-1 year	1-5 years	>5 years	Total
<b>Assets</b>										
Loans to the public	4,027	10,167	35,934	256,971	307,099	7,575	9,320	31,681	240,851	289,426
Bonds and other interest-bearing securities <sup>1)</sup>	1,542	12,955	32,158	923	47,579	1,539	7,352	31,357	676	40,924
Treasury bills and other eligible bills	3,783	1,356	4,006	300	9,445	5,500	-	4,749	-	10,249
Other assets	1,570	790	2,631	6,649	11,640	5,305	669	2,218	7,375	15,567
<b>Liabilities</b>										
Subordinated liabilities	-	-	-	2,600	2,600	-	-	-	2,600	2,600
Technical provisions <sup>2)</sup>	1,684	3,415	4,916	8,844	18,860	1,468	2,935	3,756	8,151	16,309
Debt securities in issue	3,812	27,077	153,819	37,757	222,465	1,874	14,478	156,515	33,759	206,626
Deposits from the public	116,360	1,435	510	0	118,305	105,009	2,695	438	-	108,142
Lease liabilities	63	185	871	434	1,552	-	-	-	-	-
Due to credit institutions	6,565	-	-	-	6,565	5,993	-	-	-	5,993
Other liabilities	1,298	3	8	-	1,309	268	-	-	-	268
<b>Total cash flows, net</b>	<b>-118,860</b>	<b>-6,847</b>	<b>-85,395</b>	<b>215,209</b>	<b>4,107</b>	<b>-94,693</b>	<b>-2,768</b>	<b>-90,704</b>	<b>204,392</b>	<b>16,227</b>
Loans approved but not disbursed	21,807	-	-	-	21,807	20,839	-	-	-	20,839
Derivatives, in and outflows, net	123	1,710	6,496	926	9,255	207	1,224	5,708	1,043	8,182
<b>Total cash flows for financial assets and liabilities and insurance undertakings</b>	<b>-96,930</b>	<b>-5,137</b>	<b>-78,899</b>	<b>216,135</b>	<b>35,169</b>	<b>-73,648</b>	<b>-1,544</b>	<b>-84,995</b>	<b>205,435</b>	<b>45,248</b>

<sup>1)</sup> Bonds and other interest-bearing securities in the statement of financial position include fixed-income funds. These have no contractual maturities and have been excluded from the table.

<sup>2)</sup> Technical provisions are recognised gross, before ceded reinsurance.

Table 16 shows the actual cash flows that will occur in each period, based on the remaining contractual maturities. The amounts presented in maturities are undiscounted cash flows.

### 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

Operational risk comprises a central part of the Group's risk profile. The day-to-day operations include a variety of process risks and the subsidiaries' products and services may be associated with different types of product 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. Compliance risks are continuously in focus, particularly risks associated with money laundering and terror financing, mainly in the banking operations but also in the insurance operations, which requires active management.

### Risk management and risk-reduction techniques

Work on operational risk is based on Group-wide methods that encompass business-critical processes and key controls as well as reported incidents and the operations' self-assessment of operational risk. All employees are responsible for actively managing operational risk within their individual operations. The department that takes the risk owns the risk, which means that the daily management of operational risk primarily takes place in the business operations. Risks are minimised by proactive preventive measures and awareness of operational risk in every decision-making situation.

The process of managing and controlling operational risk includes identifying, measuring, monitoring, managing and reporting. Business-critical processes and risks have been analysed and documented. Controls of process risks are performed every quarter and reported to each company Board. Operational risk analyses are performed annually. Operational risks are identified, the potential consequences evaluated and probability of the risk occurring assessed. Action plans are prepared for material risks, which are followed up every quarter at management level.

The Länsförsäkringar AB Group has a shared framework for identifying, measure and documenting risks in the decision-making process for decisions that could be expected to have a material impact on profitability, risk profile,

organisation or brand. The purpose is to ensure efficient decision-making through proactive and appropriate management of the risks so as to thereby achieve established targets with a higher degree of certainty, to ensure compliance with applicable laws and regulations and to create customer value. Furthermore, the organisation applies a special process for the approval of new investment assets that aims to highlight and manage potential risks prior to investments in a new class of asset, type of instrument or fund.

The Group's continuity management involves preparing business 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 activities are conducted in accordance with the information security standards SS-ISO/IEC 27001:2014 and 27002:2014 and the normative standard in business continuity management SS-ISO/IEC 22301.

The companies in the Länsförsäkringar AB Group may, from time to time, outsource parts of the operations to external contractors, for example, to enhance the efficiency of operations. In order to maintain a high level of control, the companies' guidelines address issues including the procurement skills of the companies, suitability assessment, impact analysis and business contingency plans.

### **Risk sensitivity**

The Group and subsidiaries regularly carry out exercises to ensure that every company is highly capable of managing crisis situations. Exercises and testing comprise both manual response procedures and automated IT support. Desktop and technological testing of applications and administration objects are carried out annually. Large-scale crisis management exercises are conducted at least every three years. Desktop and technological testing of applications and administration objects were performed during the year according to plan. The result of the tests showed that the companies can improve certain processes and procedures but have a sound overall ability and business contingency plans to manage crises that arise.

### **Other material risks**

In addition to the risks described above, the Länsförsäkringar AB Group is also exposed to business risks, emerging risks, climate risks and group risks.

- Business risk pertains to the risk of lower earnings, higher expenses or loss of confidence from customers or other stakeholders.
- Emerging risks refers to new or changed behaviour patterns, situations or trends that may have a material impact on the company's financial situation, market position or brand in a negative direction within the company's business planning horizon.
- Climate risk refers to 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.
- Group risk refers to the risks associated with the complexity of conducting both banking operations and life-assurance and non-life insurance operations in the same group.
- 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 Länsförsäkringar AB Group's exposure to business risks follows the business strategies decided where the business planning process and results from business risk analyses comprise important instruments in managing challenges associated with harmonising the subsidiaries' strategies and objectives with each other at Group level. Due to the strong brand connection between the companies in the Group, diminished confidence in one of the companies could entail a reputation risk that damages the brand and thus

other companies in the Länsförsäkringar AB Group as well as the entire Länsförsäkringar Alliance.

Exposure to group risks arises by the Group conducting both insurance and banking operations that are subject to different regulations. Simultaneously operating under rules for financial conglomerates, capital adequacy rules for banks (CRR/CRDIV) and regulations for insurance companies (Solvency II) leads to higher costs and could affect the Länsförsäkringar AB Group's competitiveness in relation to its competitors that do not have the same group structure.

Climate risk could directly or indirectly increase other risks, such as insurance, market or brand risks. Global warming and the resulting extreme weather events, such as storms, torrential rain, flooding and drought, could increase insurance claims. In addition to such physical risks, adjustments to climate change can also entail risks, such as changes in regulations and higher carbon tax or changed behaviours in the markets that lead to stranded assets. Länsförsäkringar AB invests in companies all over the world, through its own management and via externally managed funds and mandates. There is a market risk and a business risk for Länsförsäkringar AB that these companies are associated with violations of human rights, corruption and environmental conventions.

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

Given that the Länsförsäkringar AB Group conducts well-diversified operations in non-life insurance, traditional life assurance, unit-linked insurance and banking operations with a geographic spread throughout Sweden, concentration risk, except for investment assets, is deemed to be low.

### **Risk management and risk-reduction techniques**

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

Group risks are identified and managed as part of the continuous risk-management activities and in the Länsförsäkringar AB Group's annual Own Risk and Solvency Assessment (ORSA) and in the Group's recovery plan. Continuous monitoring of regulatory developments and efficient processes for identifying, measuring and reporting risks are key tools for keeping group risks at a low level.

In 2019, Länsförsäkringar AB 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. Länsförsäkringar Sak AB has also signed the Principles of Sustainable Insurance (PSI) and together with about 20 other underwriters around the world is participating in a pilot project on climate risks arranged by the United Nations Environment Programme Finance Initiative (UNEP-FI).

Emerging risks are identified and managed as part of the continuous risk-management activities, in the Länsförsäkringar AB Group's annual Own Risk and Solvency Assessment (ORSA) and in the internal capital and liquidity adequacy assessment process (ICAAP and ILAAP) for the consolidated situation. The materiality of the risk determines whether action is to be taken and the nature of the risk governs the appropriate course of action.

### **CAPITAL MANAGEMENT**

It is of central importance that the Länsförsäkringar AB Group and its separate licensable legal entities have a sufficient amount of capital in relation to

the level of the Group's risks, regulatory capital requirements and stakeholder expectations.

### Targets and guidelines

The business activities of the companies consolidated in the Länsförsäkringar AB Group are conducted for profit-making purposes to enable Länsförsäkringar AB to pay returns through value growth and dividends to the owners. All capital that is not required for operations that the Group is commissioned to conduct by the regional insurance companies is to be paid as a dividend over time, on the condition that a credit rating of A for the Group's credit-rated units can be justified.

Länsförsäkringar Liv is a subsidiary that is operated according to mutual principles and is not consolidated in the Länsförsäkringar AB Group. For this reason, specific considerations apply to capital management for this company and are described in Länsförsäkringar Liv's annual report.

Quantitative capital targets are set at both Group level and for each subsidiary Group and legal entity. These capital targets are decided every year by each Board and, for subsidiaries directly under Länsförsäkringar AB, the Board of Länsförsäkringar AB. For the Länsförsäkringar AB Group and its insurance companies, these capital targets are expressed so that the solvency ratio is to be at a certain level but with a tolerance down to a limit for acceptable capitalisation. This limit clearly exceeds the regulatory requirement. The solvency ratio refers to own funds divided by the solvency capital requirement, as defined in the Insurance Business Act. At the Länsförsäkringar AB Group level, the capital target is set based on the contributions to own funds and capital requirements made by the operations in Länsförsäkringar Bank and its subsidiaries. Capital targets are also set for the group of companies encompassed by the group rules for banking operations, meaning Länsförsäkringar AB and the companies in the Länsförsäkringar Bank Group (the "Consolidated Situation").

The Länsförsäkringar AB Group applies Guidelines for Financial and Capital Management and Control that apply to all the Group's companies.

### Process

The Group's capital planning is conducted annually and is integrated into the business planning. These plans include the current year and three years in the future, and are prepared during the autumn. The process analyses the level of the capital requirement and the access to capital based on sales and profitability forecasts.

The purpose of the Group's capital planning is to ensure that own funds are sufficient for bearing the risks associated with realising the business plan in every subsidiary and at Group level. The analysis is based on the business plan activities and its base scenario, but also includes a demanding but realistic negative scenario and stress tests. The capital situation of the entire Länsförsäkringar AB Group can be highlighted by performing analyses of shared scenarios and stress tests. In addition, unit-specific stress tests are performed in the Group's insurance companies and in the banking operations to provide supplementary data on the capital situation of each subsidiary. The analysis is to be performed in such a manner that the Board and management of each subsidiary – and for the Group, the Board of the Parent Company – gain greater joint understanding of issues relating to capital structure, capital requirement and business contingency to reduce risks and acquire new capital.

Capital planning results in, for example, forecasts for the income statement and balance sheets at Group and subsidiary level, and the capital situation in relation to regulatory requirements. Capital is allocated internally within the Group based on plans for the business activities and forecasts for risk-based capital requirements. The process also creates a plan for dividends and contributions within the Group, and a plan for capital transactions between the Parent Company and its owners and issues of capital instruments to external investors.

After the capital planning has been documented and adopted by each subsidiary Board for its company, and the Parent Company's Board for the Group, the plans are regularly monitored throughout the year in quarterly reports. The plans are continuously updated during the fiscal year as required.

### Capital situation under group solvency rules

The Länsförsäkringar AB Group and its units are subject to regulatory requirements for the minimum permitted amount of capital in accordance with rules for banks, rules for insurance companies and rules for financial conglomerates. As the holding company for operations in both the banking sector and the insurance sector – known as a mixed financial holding company – Länsförsäkringar AB is, along with its licensable subsidiaries, encompassed by the abovementioned rules on minimum permitted capital in groups.

The capital requirement rules for financial conglomerates and the rules on capital requirements for groups in the insurance sector are based on a joint approach that can be said to be adapted to a financial group with both banking and insurance operations. Both of these sets of rules entail that combined own funds in the group are to cover the total of the capital requirement for the banking operations and the capital requirement for the insurance operations. All companies in the Länsförsäkringar AB Group, including Länsförsäkringar Liv, are included in the group defined by these regulations.

The rules of capital requirements for groups in the banking sector primarily entails that the value of shares in companies in the insurance sector are to be deducted from own funds and the remaining net amount is to cover the capital requirements for the banking operations. These rules can be said to disregard the surplus capital found in the group's insurance companies. The group formed under the rules for groups in the banking sector thus includes Länsförsäkringar Bank and its subsidiaries together with the Parent Company Länsförsäkringar AB, but does not include the insurance companies in the Länsförsäkringar AB Group.

### Capital situation under rules on financial conglomerates and rules on groups in insurance sector

Under the rules for financial conglomerates, the insurance sector is considered to be the largest sector in the Länsförsäkringar AB Group. A measure is calculated using information on total assets and capital requirements that shows that the insurance sector is larger than the banking sector by a small margin, which is important to, for example, the calculation of the capital requirements at group level for the Parent Company's operations. The banking operations have grown faster than the Group's insurance operations in recent years. If this trend were to continue, the banking sector will be the largest sector in 2020 or 2021.

Own funds and capital requirements are calculated for both financial conglomerates and for groups in the insurance sector by using the rules of each sector (banking and insurance).

In calculating capital requirements, an aggregate capital requirement is calculated for the parts of the Länsförsäkringar AB Group's insurance operations that are consolidated, meaning the Länsförsäkringar Sak Group's companies, Länsförsäkringar Fondliv and Länsförsäkringar AB. The total capital requirement for the companies in the Länsförsäkringar Bank Group is added. The capital requirement for Länsförsäkringar Liv is also added. Länsförsäkringar Liv, which is operated according to mutual principles, is included in the calculations in accordance with the deduction and aggregation method, with the consent of the Financial Supervisory Authority. Länsförsäkringar Liv's surplus capital is not included in the surplus capital at group level; only the amount of the company's own funds that corresponds to its capital requirement is included in the calculation of own funds on a consolidated basis.

The rules on own funds in financial conglomerates and on groups in the insurance sector state that an assessment is to be made as to whether there is any practical or legal impediment to transferring the surplus capital in one unit to another unit within the same group. If such an impediment exists, a deduction is to be made from the group own funds so that the surplus capital cannot be transferred. For groups in the insurance sector, this assessment is limited to encompassing only the transferability from the group's insurance companies. The result of the calculations according to the rules on financial conglomerates and rules on groups in the insurance sector are presented in table 17.

**Table 17. Financial conglomerate and Group under the insurance rules: Solvency situation on 31 December 2019**

SEK M	31 Dec 2019	31 Dec 2018
Own funds before deductions for non-transferable surplus capital	50,220	43,990
<i>of which own funds included from Länsförsäkringar Liv</i>	<i>13,243</i>	<i>11,742</i>
Deductions, non-transferable surplus capital <sup>1)</sup>	-	-120
Own funds, group according to insurance rules	50,220	43,870
Deductions, non-transferable surplus capital <sup>2)</sup>	-	-
Own funds, financial conglomerate	50,220	43,870
Capital requirement	37,776	33,874
<i>of which capital requirement Länsförsäkringar Liv</i>	<i>13,243</i>	<i>11,742</i>
Surplus capital, group according to insurance rules	12,444	9,996
Surplus capital, financial conglomerate	12,444	9,996

<sup>1)</sup> in other insurance subsidiaries than Länsförsäkringar Liv.

<sup>2)</sup> in other companies than insurance subsidiaries.

Deductions for non-transferable surplus capital in 2018 refer to the existence of relatively large contingency reserves in Länsförsäkringar Sak and Agria that at the time prevented all of the surplus capital in the companies from qualifying as transferable.

Surplus capital compared with regulatory requirements under the rules on financial conglomerates, and according to the group rules in the insurance sector, increased during the year. This was primarily due to earnings for the operations and the issue of Tier 1 instruments totalling higher amounts than the increase in capital requirements due to a growing business and dividends to shareholders.

#### Capital situation under bank group rules

The outcome of the capital situation for the Consolidated Situation is presented in table 18.

**Table 18. Capital adequacy, Consolidated Situation on 31 December 2019**

SEK M	31 Dec 2019	31 Dec 2018
Common Equity Tier 1 capital	18,740	17,749
Tier 1 capital	19,484	18,667
Own funds (total capital)	20,252	20,712
Risk Exposure Amount	121,827	113,283
Common Equity Tier 1 capital ratio, %	15.4	15.7
Tier 1 ratio, %	16.0	16.5
Capital adequacy ratio, %	16.6	18.3
Total capital requirement <sup>1)</sup>	17,801	16,387
Surplus of total capital	2,451	4,325

<sup>1)</sup> Minimum capital requirement, Pillar II requirement and buffer requirement.

The surplus of Common Equity Tier 1 capital in the Consolidated Situation changed to a slight extent in 2019. The surplus of total capital declined during the year as a result of the inclusion of Tier 1 instruments and Tier 2 instruments at a significantly lower extent on 31 December 2019 compared with previously. This was the result of an interpretation on qualifying own funds published by the European Banking Authority (EBA) in November 2019. The EBA's interpretation clarified the application of the limitation rules on own funds for banks qualifying for inclusion in a consolidated situation. This means that as per 31 December 2019 the Consolidated Situation only includes own funds issued externally by Länsförsäkringar Bank in the portion of capital required to cover the capital requirements of Länsförsäkringar Bank, and not, as previously, also including its subsidiaries' capital requirements. Eligible Tier 1 capital on 31 December 2019 amounted to SEK 743 M (1,754 on 30 September) and eligible Tier 2 capital to SEK 768 M (2,143 on 30 September). A dialogue is currently being maintained with the Swedish Financial Supervisory Authority to discuss possible options going forward.

**Table 19. Hedge accounting in the Länsförsäkringar Bank Group**

SEK M	Derivatives		Assets		Liabilities		Hedge accounting			
	Nominal amount		Carrying amount		Carrying amount		Change in value for the year		Accumulated changes in value	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	2019	2018	31 Dec 2019	2018-12-31
<b>Fair value hedges</b>										
<b>Interest-rate contracts</b>										
Hedged items <sup>2)</sup>										
Treasury bills and other eligible bills	-	-	5,263	5,766	-	-	-3	11	12	10
Bonds and other interest-bearing securities	-	-	33,855	31,712	-	-	-59	-106	132	190
Debt securities in issue	-	-	-	-	-	-	-	-	-	-
Hedging instruments										
Interest-rate swaps	37,819	32,740	52	17	125	151	63	99	-	-
Ineffectiveness <sup>1)</sup>	-	-	-	-	-	-	1	3	-	-
<b>Currency contracts</b>										
Hedged items <sup>2)</sup>										
Treasury bills and other eligible bills	-	-	888	440	-	-	16	0	26	12
Bonds and other interest-bearing securities	-	-	2,249	1,745	-	-	4	-16	1,088	85
Debt securities in issue	-	-	-	-	50,998	47,088	-434	-208	1,278	-646
Hedging instruments										
Cross-currency interest rate swaps	52,963	48,450	1,566	1,098	164	137	430	226	-	-
Ineffectiveness <sup>1)</sup>	-	-	-	-	-	-	16	2	-	-
<b>Portfolio of fair value hedges</b>										
<b>Interest-rate contracts</b>										
Hedged items										
Loans to the public	-	-	105,555	72,049	-	-	-278	-123	-152	125
Deposits and funding from the public	-	-	-	-	500	5,880	0	2	-1	0
Debt securities in issue	-	-	-	-	137,482	143,884	-10	153	1,090	-959
Hedging instruments										
Interest-rate swaps	251,375	204,867	1,830	1,534	353	277	289	-36	-	-
Ineffectiveness <sup>1)</sup>	-	-	-	-	-	-	3	-3	-	-
<b>Cash flow hedges<sup>3)</sup></b>										
<b>Currency contracts</b>										
Hedged items <sup>3)</sup>										
	-	-	-	-	-	-	-25	-15	-	-
Hedging instruments										
Cross-currency interest rate swaps <sup>4)</sup>	51,843	50,919	5,059	3,649	81	437	25	15	-	-
Ineffectiveness <sup>1)</sup>	-	-	-	-	-	-	-	-	-	-
<b>Total hedged item</b>	-	-	<b>147,810</b>	<b>111,711</b>	<b>188,980</b>	<b>196,851</b>	-	-	<b>3,473</b>	<b>-1,182</b>
<b>Total hedging instruments</b>	<b>394,000</b>	<b>336,976</b>	<b>8,507</b>	<b>6,298</b>	<b>722</b>	<b>1,003</b>	-	-	-	-
<b>Total ineffectiveness</b>	-	-	-	-	-	-	<b>20</b>	<b>2</b>	-	-

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

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

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

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

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

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

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

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

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

**Table 20. Länsförsäkringar Bank Group - Maturity profile for nominal amounts in hedging instruments**

SEK M	31 Dec 2019			31 Dec 2018		
	Remaining contractual term			Remaining contractual term		
	< 1 year	1-5 years	> 5 years	< 1 year	1-5 years	> 5 years
<b>Currency risk</b>						
Nominal amount	4,375	32,535	11,928	1,628	26,171	17,543

**Note 3 Earnings per operating segment**

2019	Non-life insurance	Unit-linked insurance	Bank	Parent company	Eliminations and adjustments	Total
Premiums after ceded reinsurance	6,211	204	-	-	-18	6,396
Net interest income	-	-	4,617	-	6	4,624
Change in unit-linked insurance assets, policyholder bears the risk	-	30,453	-	-	-	30,453
Dividends in unit-linked insurance assets, policyholder bears the risk	-	13	-	-	-	13
Investment income, net	22	76	20	1,248	-360	1,006
Commission income	24	1,765	1,457	-	4	3,250
Other operating income	314	147	26	3,576	-1,656	2,407
<b>Total operating income</b>	<b>6,571</b>	<b>32,658</b>	<b>6,121</b>	<b>4,824</b>	<b>-2,024</b>	<b>48,150</b>
Claims payments after ceded reinsurance	-4,553	-85	-	-	442	-4,197
Change in life assurance provision	-	-	-	-	-8	-8
Change in unit-linked insurance liabilities, policyholder bears the risk	-	-30,985	-	-	-	-30,985
Commission expense	-343	-739	-2,094	-	15	-3,161
Staff costs	-553	-210	-640	-1,091	18	-2,476
Other administration expenses	-838	99	-1,286	-2,862	776	-4,112
Credit losses	-	-	-207	-	-	-207
<b>Total expenses</b>	<b>-6,288</b>	<b>-31,920</b>	<b>-4,227</b>	<b>-3,953</b>	<b>1,242</b>	<b>-45,146</b>
<b>Technical result</b>	<b>283</b>	<b>738</b>	<b>-</b>	<b>-</b>	<b>-1,021</b>	<b>-</b>
Non-technical income/expenses	569	0	-	-	-569	-
<b>Operating profit</b>	<b>851</b>	<b>738</b>	<b>1,893</b>	<b>871</b>	<b>-1,351</b>	<b>3,003</b>
Tax	-	-	-	-	-	-46
<b>Net profit for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,957</b>
<b>Income distribution</b>						
External income	6,421	32,184	6,617	2,602	327	48,150
Internal income	150	475	-496	2,222	-2,350	-
<b>Total operating income</b>	<b>6,571</b>	<b>32,658</b>	<b>6,121</b>	<b>4,824</b>	<b>-2,024</b>	<b>48,150</b>

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

### Note 3 Earnings per operating segment, cont.

The distribution into operating segments matches how the Group is organised and is monitored by Group management. The technical result is presented for Non-life Insurance and Unit-linked Life Assurance since the result is followed up by Group management.

Income is primarily attributable to Sweden, with a small portion from Denmark, Finland, France, Norway and the UK.

The Non-life Insurance operating segment pertains to non-life and group life assurance; group life assurance comprises a minor portion only. The Länsförsäkringar Alliance's internal and external reinsurance are also included. The Non-life Insurance operating segment comprises non-life insurance with income from external customers totalling SEK 6,130 M (5,901) and group life assurance with income from external customers totalling SEK 291 M (266).

The Unit-linked Life Assurance operating segment pertains to life assurance with links to mutual funds. The Unit-linked Life Assurance operating segment comprises life assurance linked to mutual funds with income from external customers totalling SEK 32,184 M (-2,979).

The Banking operating segment pertains to deposits and lending operations. For the Banking operating segment, the product offering to external customers is in line with the legal structure within the Länsförsäkringar Bank Group. Income from external customers pertains to bank products totalling SEK 2,183 M (2,524), for mortgage products totalling SEK 1,906 M (1,419), for leasing and installment totalling SEK 1,308 M (1,300) and for fund products totalling SEK 1,220 M (1,101).

The Parent Company operating segment pertains to service, IT and development for the Länsförsäkringar Alliance, administration of mutual funds and costs for shared functions.

Depreciation of property and equipment and amortisation of intangible assets in Non-life Insurance is included in Other administration expenses. Amortisation pertaining to acquired intangible assets under Unit-linked Life Assurance is included in eliminations and adjustments of administration expenses.

Impairment of goodwill and intangible assets is included in other administration expenses and amounted to SEK -2 M (-381). Impairment is distributed between the operating segments as follows: Non-life Insurance SEK - (-11) M, Bank SEK - (-309) M and the Parent Company SEK -2 (-61) M.

Investment income transferred from financial operations to insurance operations is recognised Investment income, net in the Non-life Insurance operating segment.

Note 4	Premiums after ceded reinsurance	
	2019	2018
<b>Non-life insurance</b>		
Premium income, direct insurance, Sweden	5,797	5,237
Premium income, direct insurance, other EEA	10	9
Premium income, received reinsurance	2,010	2,015
Change in provision for unearned premiums	-377	-113
<b>Total premiums earned before ceded reinsurance</b>	<b>7,441</b>	<b>7,148</b>
Premiums for ceded reinsurance	-1,744	-1,599
Reinsurers' portion of change in provision for unearned premiums and unexpired risks	198	33
<b>Total reinsurers' portion of premiums earned</b>	<b>-1,547</b>	<b>-1,566</b>
<b>Total premiums earned after ceded reinsurance</b>	<b>5,894</b>	<b>5,582</b>
<b>Life assurance</b>		
Premium income, group insurance, direct life assurance in Sweden	527	541
<b>Total premium income before ceded reinsurance</b>	<b>527</b>	<b>541</b>
Premiums for ceded reinsurance	-26	-23
<b>Total premiums after ceded reinsurance</b>	<b>502</b>	<b>518</b>
<b>Total premiums after ceded reinsurance</b>	<b>6,396</b>	<b>6,100</b>

Note 5	Interest income	
	2019	2018
Loans to credit institutions	-10 <sup>1)</sup>	-16 <sup>1)</sup>
Loans to the public	6,197	5,673
Interest-bearing securities	130 <sup>1)</sup>	157 <sup>1)</sup>
Derivatives	-330	-585
Other interest income	0	0
<b>Total interest income</b>	<b>5,986</b>	<b>5,229</b>
Average interest rate on loans to the public during the year, %	2.1	2.1

<sup>1)</sup> Of which negative interest on Loans to credit institutions of SEK -17 M (-26) and Interest-bearing securities of SEK -63 M (-74).

Interest income calculated according to the effective interest method amounted to SEK 5,986 M (5,229).

Note 6	Interest expense	
	2019	2018
Due to credit institutions	26 <sup>1)</sup>	41 <sup>1)</sup>
Deposits and borrowing from the public	-125 <sup>1)</sup>	-113 <sup>1)</sup>
Interest-bearing securities	-2,181 <sup>2)</sup>	-2,092 <sup>2)</sup>
Subordinated liabilities	-53	-50
Derivatives	1,181	1,728
Other interest expense	-210	-243
<b>Total interest expense</b>	<b>-1,363</b>	<b>-729</b>
Average interest rate on deposits from the public during the year, %	0.1	0.1

<sup>1)</sup> Of which negative interest on Liabilities to credit institutions of SEK -30 M (-41).

<sup>2)</sup> Of which interest expense attributable to senior non-preferred debt amounted to SEK -7 M (-).

<b>Note 7</b>	<b>Investment income, net</b>	
	<b>2019</b>	<b>2018</b>
Interest income	37 <sup>1)</sup>	46 <sup>1)</sup>
Dividends	17	39
<b>Realised profit, net</b>		
Interest compensation	31	29
Shares and participations	83	1
Interest-bearing securities	-38	-89
Derivatives	143	77
Change in claims annuities reserve	-4	-6
Other financial assets	-20	-
<b>Total realised profit, net</b>	<b>195</b>	<b>11</b>
<b>Unrealised profit, net</b>		
Shares and participations	796	88
Interest-bearing securities	678	-376
Derivatives	-623	282
<b>Total unrealised profit, net</b>	<b>851</b>	<b>-6</b>
Exchange-rate gains/losses, net	-10	-32
Interest expense	-52	-73
Participations in associated companies	7	7
Asset management expenses	-38	-17
<b>Investment income, net</b>	<b>1,006</b>	<b>-26</b>
<b>Investment income, net, by valuation category</b>		
Financial assets measured at fair value through profit or loss	1,043	-45
Financial assets measured at amortised cost	29	22
Financial liabilities measured at amortised cost	-47	-31
Financial assets measured at fair value through other comprehensive income	6	8
<b>Hedge accounting at fair value</b>		
Hedge accounting at fair value	20	2
<b>Non-financial items included in investment income, net</b>		
Translation, non-life annuity reserve	-6	-2
Value-preserving interest rates claims annuities reserve	-4	-6
Dividends from group and associated companies	4	3
Depreciation/amortisation and impairment shares and participations	-13	0
Other non-financial items	-26	22
<b>Total investment income, net</b>	<b>1,006</b>	<b>-26</b>

<sup>1)</sup> Of which negative interest on Cash and Bank of SEK -4 M (-6) and also Interest-bearing securities of SEK -5 M (-5).

<b>Note 8</b>	<b>Commission income</b>	
	<b>2019</b>	<b>2018</b>
Payment mediation commission	119	94
Lending commission	245	245
Inlåningsprovisioner	8	13
Securities commission	1,294	1,063
Card operations	272	248
Fees pertaining to financial agreements unit-linked insurance	794	755
Returprovisioner	476	461
Other commission	33	51
Commission and profit shares in ceded reinsurance	8	7
<b>Total commission income</b>	<b>3,250</b>	<b>2,937</b>

Total commission income primarily refers to income from contracts with customers in the unit-linked insurance and banking segment. Rebating of commissions includes fund discounts of SEK -20 M (-18). Commission and profit shares in ceded reinsurance comprise income attributable to insurance contracts in the non-life insurance segment.

<b>Note 9</b>	<b>Other operating income</b>	
	<b>2019</b>	<b>2018</b>
Service income, regional insurance companies	1,761	1,532
Other service income	414	506
Other income	232	308
<b>Total other operating income</b>	<b>2,407</b>	<b>2,346</b>

Other operating income primarily refers to income from contracts with customers. However, SEK 91 M (77) comprises income attributable to insurance contracts in the unit-linked insurance segment. SEK 87 M (87) comprises rental income in the Parent Company operating segment.

The gain from the sale of owner-occupied property is included in Other income 2019.

<b>Note 10</b>		<b>Claims payments</b>				
	<b>2019</b>			<b>2018</b>		
	<b>Before ceded reinsurance</b>	<b>Ceded reinsurance</b>	<b>After ceded reinsurance</b>	<b>Before ceded reinsurance</b>	<b>Ceded reinsurance</b>	<b>After ceded reinsurance</b>
<b>Non-life insurance</b>						
Claims paid	-5,128	1,118	-4,010	-4,480	815	-3,665
Claims annuities paid	-49	-	-49	-40	-	-40
Change in provision for claims incurred and reported	22	-86	-64	61	-26	35
Change in provision for claims incurred but not reported	1,341	-1,184	156	-35	39	4
<b>Total</b>	<b>-3,813</b>	<b>-153</b>	<b>-3,966</b>	<b>-4,494</b>	<b>828</b>	<b>-3,666</b>
<b>Life insurance</b>						
Claims paid	-215	7	-207	-211	8	-203
Change in provision for claims outstanding	-41	18	-24	-64	18	-46
<b>Total</b>	<b>-256</b>	<b>25</b>	<b>-231</b>	<b>-275</b>	<b>26</b>	<b>-249</b>
<b>Total non-life insurance and life assurance</b>	<b>-4,069</b>	<b>-128</b>	<b>-4,197</b>	<b>-4,769</b>	<b>854</b>	<b>-3,915</b>

<b>Note 11</b>		<b>Commission expense</b>	
	<b>2019</b>	<b>2018</b>	
Payment mediation commission	-132	-129	
Management costs	-86	-90	
Securities commission	-97	-78	
Card operations	-150	-135	
Remuneration to the regional insurance companies	-2,379	-2,294	
Commission, direct insurance	-175	-343	
Commission, assumed reinsurance	-92	-100	
Other commission	-48	-47	
<b>Total commission expense</b>	<b>-3,161</b>	<b>-3,216</b>	

**Note 12** Employees, staff costs and remuneration to senior executives

Average number of employees	2019	2018
<b>Sweden</b>		
Men	836	789
Women	1,096	1,000
<b>Total Sweden</b>	<b>1,932</b>	<b>1,789</b>
<b>Denmark</b>		
Men	1	1
Women	16	15
<b>Total Denmark</b>	<b>17</b>	<b>16</b>
<b>Finland</b>		
Men	1	1
Women	8	8
<b>Total Finland</b>	<b>9</b>	<b>9</b>
<b>France</b>		
Men	2	2
Women	4	4
<b>Total France</b>	<b>6</b>	<b>6</b>
<b>Norway</b>		
Men	9	11
Women	39	30
<b>Total Norway</b>	<b>48</b>	<b>41</b>
<b>UK</b>		
Men	40	35
Women	73	76
<b>Total UK</b>	<b>113</b>	<b>111</b>
<b>Total number of employees</b>		
Men	889	839
Women	1,236	1,133
<b>Total</b>	<b>2,125</b>	<b>1,972</b>

**Remuneration of senior executives**

Remuneration of the President and other senior executives comprises basic salary and other benefits. Pension benefits and other benefits paid to the President and other senior executives are included as part of total remuneration. For remuneration of specific senior executives, refer to note 6 Employees, staff costs and remuneration of senior executives in the Parent Company.

**Severance pay**

A mutual period of notice of six months applies for the President and other senior executives. If termination of employment is issued by the company, severance pay corresponding to 12 monthly salaries will be paid, in addition to the period of notice. Alternatively, a mutual period of notice of three or six months is applied for other senior executives, and if termination of employment is issued by the company, severance pay corresponding to 12 or 18 monthly salaries will be paid in addition to the period of notice.

**Pensions**

The retirement age for the President is 65 years. The pension is a defined-contribution plan and the pension premium is to amount to 35% of the monthly salary. The retirement age for one Executive Vice President is 60 years. Pension from the age of 65 is subject to the terms of the pension agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (FTF) and the Swedish Confederation of Professional Associations (SACO).

The retirement age for other senior executives is 62 or 65 years. If the retirement age is 65, the pension is a defined-contribution plan and the pension premium is to amount to 35% of the monthly salary. If the retirement age is 62, the pensions between 62 or 65 and 65 are defined-contribution pensions and are expected to be paid at approximately 70% of the pensionable salary. Pension from the age of 65 is subject to the terms of the pension agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (FTF) and the Swedish Confederation of Professional Associations (SACO).

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

A Remuneration Policy for the Länsförsäkringar AB Group regulates the preparation and decision-making process for remuneration of corporate management. The remuneration Committee prepares important remuneration decisions and decisions on measures for following up the application of the Remuneration Policy. The Board decides on remuner-

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

Other employees	2019	2018
Salaries and remuneration	1,419	1,294
of which variable remuneration	-	2
Social security expenses	822	741
of which pension costs	311	285
<b>Total</b>	<b>2,242</b>	<b>2,035</b>

Board of Directors and senior executives, 34 (30)	2019	2018
Salaries and remuneration	52	70
of which variable remuneration	-	-
Social security expenses	39	52
of which pension costs	18	23
<b>Total</b>	<b>91</b>	<b>122</b>

Total salaries, other remuneration and social security expenses	2019	2018
Salaries and remuneration	1,472	1,364
of which variable remuneration	-	2
Social security expenses	862	794
of which pension costs	329	308
<b>Total</b>	<b>2,333</b>	<b>2,157</b>

Länsförsäkringar Bank has about 1,400 individuals who are also employed at Länsförsäkringar Bank and the regional insurance companies. The regional insurance companies pay the entire remuneration of their respective employees.

ation and other terms of employment for corporate management and employees with overall responsibility for one of the company's control functions.

**Composition and mandate of Remuneration Committee**

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

**Policies for remuneration of corporate management**

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

**Fixed remuneration**

Fixed remuneration is paid according to the general policy above.

**Pensions**

The pension solution for senior executives shall be premium-based with a premium provision of 35% of the monthly salary.

**Other benefits**

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

**Note 12 Employees, staff costs and remuneration to senior executives, cont.**

Loans to the Board of Directors, Presidents/Executive Vice Presidents and other senior executives	31 Dec 2019	31 Dec 2018
Board members	63	65
President and Executive Vice President	20	8
Other senior executives	45	94
<b>Total loans to the Board of Directors, Presidents/Executive Vice Presidents and other senior executives</b>	<b>128</b>	<b>167</b>

Loans granted comprise personnel loans and other loans. Personnel loans are maximised at SEK 500.000 and carry loan terms comparable to what applies to other employees in the Group. The interest rate for employees is the repo rate less 0.5 percentage points, but can never be lower than 0.5%. The interest benefit is calculated in accordance with the Swedish Tax Agency's rules and is included in the amount for other benefits as above. The terms and conditions of other loans are market-based.

Number of women among senior executives, %	31 Dec 2019	31 Dec 2018
Board members	43	45
Other senior executives	51	49

**Note 13 Fees and remuneration to auditors**

	2019	2018
<b>KPMG AB</b>		
- Audit assignments	-14	-13
- Audit operations in addition to the audit assignment	-4	-2
- Tax consulting	0	-1
- Other assignments	-2	-1
<b>Total fees and cost reimbursements to auditors</b>	<b>-20</b>	<b>-17</b>

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

**Note 14 Other administration expenses**

	2019	2018
<b>Other administration expenses</b>		
Costs for premises	-95	-107
Depreciation/amortisation and impairment	-382	-708
IT costs	-2,148	-1,832
Consultant costs	-557	-509
Marketing	-290	-285
Telephone and postage	-129	-92
Other administration expenses	-510	-649
<b>Total other administration expenses</b>	<b>-4,112</b>	<b>-4,182</b>

**Operating leases**

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

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

**Note 15 Credit losses**

SEK M	2019	2018
<b>Change in loss allowance for loan receivables</b>		
Stage 1 (not credit-impaired)	-24	6
Stage 2 (not credit-impaired)	-39	-23
Stage 3 (credit-impaired)	-80	-53
<b>Total change in loss allowance for loan receivables</b>	<b>-143</b>	<b>-70</b>
Expense for confirmed credit losses	-146	-119
Payment received for prior confirmed credit losses	91	84
<b>Net expense for the period for credit losses for loan receivables</b>	<b>-199</b>	<b>-105</b>
Change in loss allowance for commitments	-6	2
Net expense for other credit losses	-2	9
Net expense of the modification result	0	0
<b>Net expense for credit losses</b>	<b>-207</b>	<b>-95</b>

A condition for full payment of the regional insurance companies' distribution remuneration by Länsförsäkringar Bank is that the loans generated by each company for Länsförsäkringar Bank are of high quality. If this is not the case, up to 80% of any credit losses are off-set against the accrued commission. This settlement account is kept separate and is taken into consideration by Länsförsäkringar Bank when the provisions are established. In 2019, total credit losses amounted to SEK -85 M (-75), of which the Bank Group's recognised credit losses amounted to SEK -82 M (-95) and the remainder of SEK 4 M (19) was offset against remuneration to the regional insurance companies.

**Loss allowance**

SEK M	31 Dec 2019	31 Dec 2018
<b>Financial assets measured at amortised cost</b>		
Cash and balances at central banks	0	0
Loans to credit institutions	0	0
Loans to the public	569	425
Other assets	0	0
<b>Financial assets measured at fair value through other comprehensive income</b>		
Treasury bills and other eligible bills	0	0
Bonds and other interest-bearing securities	1	1
<b>Provisions</b>		
Commitments	22	17
Guarantees	0	0
<b>Total loss allowance</b>	<b>592</b>	<b>443</b>

All exposures are in stage 1 except for loans to the public and commitments which have exposure in all three stages. For more information about the change in loss allowance for loans to the public and commitments, refer to notes 24 and 45.

Note 16	Tax	
	2019	2018
<b>Current tax</b>		
Tax expenses for the period	-376	-403
Adjustment of tax expense pertaining to prior years	-253	6
<b>Total current tax</b>	<b>-629</b>	<b>-397</b>
<b>Deferred tax</b>		
Deferred tax pertaining to temporary differences	572	227
Deferred tax pertaining to capitalised tax value in loss carryforwards	11	8
<b>Total deferred tax</b>	<b>583</b>	<b>235</b>
<b>Total recognised tax expense</b>	<b>-46</b>	<b>-162</b>
<b>Reconciliation of effective tax rate</b>		
Profit before tax	3,003	2,351
Tax in accordance with applicable tax rate for Parent Company	-643	-517
Effect of other tax rates for foreign companies	-1	8
Tax on non-deductible costs	-172	-427
Tax on non-taxable income	595	512
Tax attributable to earlier years	-253	6
Tax attributable to changed tax rates	-8	18
Resolution of deferred tax	436 <sup>1)</sup>	239
<b>Recognised effective tax on profit for the year</b>	<b>-46</b>	<b>-162</b>
Applicable tax rate, %	21.4	22.0
Effective tax rate, %	2	7
<b>Tax attributable to other comprehensive income</b>		
Cash-flow hedges	4	13
Available-for-sale financial assets	-5	11
Revaluation of owner-occupied property	-32	-74
<b>Total tax attributable to other comprehensive income</b>	<b>-33</b>	<b>-50</b>

<sup>1)</sup> Deferred tax was reversed in connection with the divestment of holdings for business purposes. Including owner-occupied property.

The tax rate will change to 20.6% in 2021.

Note 17	Earnings per share	
	2019	2018
Net profit/loss attributable to Parent Company's shareholders, SEK M	2,957	2,190
Number of shares with a quotient value of SEK 100	10,424,582	10,424,582
<b>Earnings per share before and after dilution, SEK</b>	<b>284</b>	<b>210</b>

Earnings per share has been calculated as net profit for the year attributable to the Parent Company's shareholders divided by the average number of shares. No previous or future dilution exists since potential ordinary shares did not occur in reported periods nor were in existence on the balance-sheet date.

Note 18	Goodwill	
	2019	2018
<b>Cost</b>		
Opening cost, 1 January	542 <sup>1)</sup>	538 <sup>1)</sup>
Exchange-rate differences	17	3
<b>Closing cost, 31 December</b>	<b>558</b>	<b>542</b>
<b>Assumptions for testing of value</b>	<b>2019</b>	<b>2018</b>
Long-term growth, %	2	2
Discount rate, %	5.5	5.1

<sup>1)</sup> Accumulated impairments amounts to SEK -179 M (-179).

	2019	2018
Agria Pet Insurance Ltd	187	170
Länsförsäkringar Fondliv Försäkrings AB	372	372
<b>Closing cost, 31 December</b>	<b>558</b>	<b>542</b>

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

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

For Länsförsäkringar Fondliv, a market value is calculated based on future cash flows attributable to the remaining term of the existing unit-linked insurance portfolio. The risk-free yield curve defined by EIOPA is used as the return assumption and for discounting future cash flows. The present value of expected future gains is calculated based on discounted costs and income. The cash-flow calculation is based on a number of assumptions, such as cancellation, life expectancy, fee levels, rebating of commissions and expenses, which are continuously adjusted. The assumptions regarding expenses and policy holder behaviour are based on historically observed outcomes and income assumptions are based on contracted levels on the measurement date.

**Note 19** Other intangible assets

Capitalised expenditure for development and acquired intangible assets

Capitalised expenses	Internally developed IT systems	Acquired IT systems	Acquired customer- based assets	Total
<b>Cost</b>				
Opening cost, 1 January 2018	3,042	283	4,197	7,523
Acquisitions	542	3	50	595
Divestments/disposals	-2	-22	-	-23
Reclassification	28	-	-	28
Exchange-rate differences	1	-	-	1
<b>Closing cost, 31 December 2018</b>	<b>3,611</b>	<b>264</b>	<b>4,247</b>	<b>8,123</b>
Opening cost, 1 January 2019	3,611	264	4,247	8,123
Acquisitions	484	-	-	484
Divestments/disposals	-90	-5	0	-95
Reclassification	146	-174	-	-28
Exchange-rate differences	4	-	-	4
<b>Closing cost, 31 December 2019</b>	<b>4,155</b>	<b>86</b>	<b>4,247</b>	<b>8,488</b>
<b>Amortisation</b>				
Opening accumulated amortisation, 1 January 2018	-1,139	-137	-1,499	-2,774
Amortisation	-153	-22	-142	-317
Divestments/disposals	2	22	-	23
Reclassification	-28	-	-	-28
Exchange-rate differences	0	-	-	0
<b>Closing accumulated amortisation, 31 December 2018</b>	<b>-1,318</b>	<b>-137</b>	<b>-1,641</b>	<b>-3,097</b>
Opening accumulated amortisation, 1 January 2019	-1,318	-137	-1,641	-3,097
Amortisation	-231	-1	-143	-375
Divestments/disposals	80	-25	-22	33
Reclassification	-63	90	-	28
Exchange-rate differences	-2	-	-	-2
<b>Closing accumulated amortisation, 31 December 2019/</b>	<b>-1,536</b>	<b>-72</b>	<b>-1,806</b>	<b>-3,414</b>
<b>Impairment</b>				
Opening accumulated impairment, 1 January 2018	-400	-45	-	-445
Impairment	-319	-62	-	-381
<b>Closing accumulated impairment, 31 December 2018</b>	<b>-719</b>	<b>-107</b>	<b>-</b>	<b>-826</b>
Opening accumulated impairment, 1 January 2019	-719	-107	-	-826
Impairment	-2	-	-	-2
Divestments/disposals	20	42	-	62
Reclassification	-54	54	-	-
<b>Closing accumulated impairment, 31 December 2019</b>	<b>-755</b>	<b>-11</b>	<b>-</b>	<b>-766</b>
<b>Carrying amount, 31 December</b>				
2018	1,574	20	2,606	4,200
<b>2019</b>	<b>1,864</b>	<b>2,845</b>	<b>2,441</b>	<b>4,309</b>

The periods of amortisation for internally developed and acquired IT systems are determined based on a useful life that varies between 3 and 15 years. Acquired customer-based assets are depreciated over a period of 8 or 25 years. Straight-line depreciation is applied consistently and all amortisation and impairment losses are recognised in profit or loss as Other administration expenses.

Note 20	Property and equipment	
	2019	2018
<b>Cost</b>		
Opening cost, 1 January	219	210
Reclassification	163	-
Acquisitions	18	33
Divestments/disposals	-96	-24
Exchange-rate differences	3	0
<b>Closing cost, 31 December</b>	<b>306</b>	<b>219</b>
<b>Depreciation</b>		
Opening accumulated depreciation, 1 January	-164	-166
Reclassification	-131	-
Depreciation	-31	-16
Divestments/disposals	90	18
Exchange-rate differences	-1	0
<b>Closing accumulated depreciation, 31 December</b>	<b>-237</b>	<b>-164</b>
Right-of-use assets (excluding owner-occupied property)	262	-
Inventories, market items	12	14
<b>Carrying amount, 31 December</b>	<b>344</b>	<b>69</b>

#### The Group as lessee

Property and equipment comprises both owned and leased assets that do not meet the definition of owner-occupied property. The Group's rents for premises are recognised as owner-occupied property in the statement of financial position. The Group is the lessee of underlying assets in the form of leases for premises, vehicles, IT hardware and other types of equipment.

Right-of-use assets 2019	Premises	Vehicles	IT hardware	Equipment	Total
Depreciation for the period	-27	-7	-50	-7	-93
Carrying amount, 31 December	1,161	7	249	7	1,423

Right-of-use assets arose during the year at an initial carrying amount of SEK 179 M.

#### Lease liabilities

The Group's lease liabilities are recognised under other liabilities in the statement of financial position and are presented in the Group's note 43 Other liabilities. Future lease payments paid by the Group over the remaining contracted term are presented in the maturity analysis for disclosures to the Group's liquidity risk in note 2 Risk and capital management.

Amounts recognised in statement of comprehensive income	2019
Interest expense for lease liabilities	-4
Variable fees not included in calculation of lease liability	-11
Costs for low-value leases (excluding short-term leases of low-value assets)	-3

Amounts recognised in cash-flow statement	2019
Total cash outflow for leases	-118

Note 22	Shares in Länsförsäkringar Liv Försäkringsaktiebolag (publ)							
	Corporate Registration Number	Registered office	Number of shares	Share of equity %	Equity	Earnings	Carrying amount 31 Dec 2019	Carrying amount 31 Dec 2018
Länsförsäkringar Liv Försäkringsaktiebolag (publ)	516401-6627	Stockholm	8,000	100	27,974	5,567	8	8

Länsförsäkringar AB owns 100% of the shares in Länsförsäkringar Liv Försäkringsaktiebolag (publ) (Länsförsäkringar Liv) but this company is not consolidated. The holding in Länsförsäkringar Liv is not classified as a holding in a subsidiary in accordance with the definition in IFRS 10 Consolidated Financial Statements and thus is not consolidated.

The life-assurance operations, which are conducted according to mutual principles through Länsförsäkringar Liv and whose earnings accrue in their entirety to the policy-

Note 21	Owner-occupied property			
	After revaluation 31 Dec 2019	Before revaluation 31 Dec 2019	After revaluation 31 Dec 2018	Before revaluation 31 Dec 2018
Cost, reclassified	-	-	4,219	3,780
Accumulated amortisation	-	-	-986	-884
Carrying amount	-	-	3,232	2,897
<b>Fair value</b>	<b>-</b>	<b>-</b>	<b>3,232</b>	<b>3,232</b>
<b>Revalued depreciated cost</b>			<b>2019</b>	<b>2018</b>
Opening balance, 1 January			3,232	2,887
Capitalised improvements			3	37
Depreciation for the year according to plan before revaluation			-63	-84
Revaluation of owner-occupied property			148	393
Divestment of owner-occupied property			-3,320	-
<b>Closing balance, 31 December</b>			<b>0</b>	<b>3,232</b>
Right-of-use assets (facilities)			1,161	0
<b>Carrying amount, 31 December</b>			<b>1,161</b>	<b>3,232</b>
Historical cost reduced by depreciation according to plan			-	1,608
Revaluation effect against revaluation reserve			-	307
<b>Assumption on valuation at fair value</b>			<b>2019</b>	<b>2018</b>
Current rental income/market rent, SEK M			-	155/171
Computed interest in discounting, %			-	6.3
Direct yield requirement, %			-	4.3

The Group applies the revaluation technique to the Group's owner-occupied properties. The properties were valued externally by appraiser CBRE Sweden AB on 30 June and 31 December. Fair value was calculated by applying the location-price method, based on reported purchases of comparable properties and an income approach. The income approach is based on a ten-year calculation of the present value of future cash flows in the form of operating net, which has been successively adjusted to market. A residual value was added, which was calculated by performing a constant capitalisation of an estimated market-adjusted operating net in year 11. The Group has no borrowing costs for owner-occupied property. For information on fair value valuation techniques, refer to note 48.

For disclosures on right-of-use assets and earnings-related disclosures, refer to note 20 Property and equipment.

**Note 23** Shares and participations in associated companies

	31 Dec 2019	31 Dec 2018
Carrying amount at beginning of the year	54	48
Profit shares in the associated company	7	7
Other changes in the associated company's equity	0	-1
Acquisition of shares in associated companies	1	-
<b>Total shares and participations in associated companies</b>	<b>62</b>	<b>54</b>

	Corporate Registration Number	Registered office	Number of shares	Share of equity %	Carrying amount 31 Dec 2019	Carrying amount 31 Dec 2018
CAB Group AB	556131-2223	Örebro	1,582	28.8	49	42
European Alliance Partners Company AG	CH-0203026423-1	Zurich, Switzerland	9,248	12.5	12	10
FörsäkringsGiroet Sverige AB	556482-4471	Solna	5,000,000	25.0	-	-
Länsförsäkringsbolagens Fastighets HB Humlegården	916604-6459	Stockholm	188,722	29.1	0	0
Svenska Andelshästar AB	556536-9633	Uppsala	450	45.0	1	2
<b>Total</b>					<b>62</b>	<b>54</b>

The amounts presented above refer only to the Group's participating interests in associated companies. The shares and participations are unlisted. All associated companies apply the calendar year as the fiscal year. The share of profit in all associated companies is included in the Non-life insurance and in the Unit-linked insurance operating segments. Länsförsäkringar Sak Försäkrings AB (publ) is considered to have a significant influence in the European Alliance Partners Company AG despite owning a participating

interest of less than 20%. The reason is because Länsförsäkringar Sak Försäkrings AB (publ) is represented in the company's Board and, thereby, has the right (but not a duty) to participate in all decisions made in the company, including strategic issues and issues regarding guidelines, budget, business plans and similar matters. Furthermore, a large amount of information is exchanged with the company.

**Note 24** Loans to the public

Loan receivables are geographically attributable in their entirety to Sweden.

SEK M	31 Dec 2019	31 Dec 2018
Public sector	161	4,182
Corporate sector	19,620	18,855
Retail sector	287,887	266,814
Other	0	0
<b>Loan to the public before reserves</b>	<b>307,668</b>	<b>289,851</b>
Reserves	-569	-425
<b>Loans to the public</b>	<b>307,099</b>	<b>289,426</b>
<b>Fixed-interest period</b>		
Remaining term of not more than 3 months	194,600	220,879
Remaining term of more than 3 months but not more than 1 year	18,398	15,607
Remaining term of more than 1 year but not more than 5 years	91,635	51,024
Remaining term of more than 5 years	2,466	1,916
<b>Loans to the public</b>	<b>307,099</b>	<b>289,426</b>

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

## Note 24 Loans to the public, cont.

### Avstämning av redovisat bruttovärde och förlustreserv

SEK M	Not credit-impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3		Gross carry- ing amount	Loss allowance
	Gross carry- ing amount	Loss allowance	Gross carry- ing amount	Loss allowance	Gross carry- ing amount	Loss allowance		
<b>Opening balance 1 Jan 2018</b>	<b>254,458</b>	<b>-73</b>	<b>6,514</b>	<b>-94</b>	<b>740</b>	<b>-189</b>	<b>261,712</b>	<b>-356</b>
New loans <sup>1)</sup>	77,307	-61	48	-1	38	-2	77,392	-64
Changes:								
Change in loss allowance model or method	-	3	-	3	-	-0	-	6
Repayment <sup>1)</sup>	-47,020	34	-1,546	30	-191	32	-48,757	96
Change in risk parameters	-	-69	-	-41	-	-47	-	-158
Other <sup>1)</sup>	-252	1	-57	2	-10	2	-318	5
Transfer between stages:								
Transfer from stage 1 to stage 2	-5,133	48	5,133	-79	-	-	-	-30
Transfer from stage 2 to stage 1	2,609	-3	-2,609	6	-	-	-	3
Transfer to stage 3	-209	53	-266	57	475	-166	-	-56
Transfer from stage 3	66	0	67	-0.3	-133	5	-	5
Write-off	-	-	-	-	-176	122	-176	122
<b>Closing balance 31 Dec 2018</b>	<b>281,827</b>	<b>-67</b>	<b>7,283</b>	<b>-116</b>	<b>742</b>	<b>-242</b>	<b>289,851</b>	<b>-425</b>
<b>Opening balance 1 Jan 2019</b>	<b>281,827</b>	<b>-67</b>	<b>7,283</b>	<b>-116</b>	<b>742</b>	<b>-242</b>	<b>289,851</b>	<b>-425</b>
New loans	76,919	-67	51	-1	16	-1	76,987	-68
Changes:								
Change in loss allowance model or method	-	-	-	-	-	-0	-	-0
Repayment	-56,336	32	-2,020	38	-217	42	-58,574	112
Change in risk parameters	-	-104	-	-70	-	-70	-	-244
Other	-368	1	-58	3	-10	3	-436	6
Transfer between stages:								
Transfer from stage 1 to stage 2	-5,431	54	5,431	-95	-	-	-	-41
Transfer from stage 2 to stage 1	2,528	-5	-2,528	10	-	-	-	6
Transfer to stage 3	-288	64	-328	76	616	-203	-	-63
Transfer from stage 3	18.1	-	35	-1	-53	4	-	4
Write-off	-	-	-	-	-161	146	-161	146
<b>Closing balance 31 Dec 2019</b>	<b>298,869</b>	<b>-91</b>	<b>7,867</b>	<b>-156</b>	<b>932</b>	<b>-322</b>	<b>307,670</b>	<b>-569</b>

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

	Not credit-impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
<b>Loans to the public before loss allowances 2018</b>	<b>281,827</b>	<b>7,283</b>	<b>742</b>	<b>289,851</b>
Credit reserve requirement	-85	-139	-275	-499
Withheld remuneration to the regional insurance companies	18	23	33	74
Recognized loss allowance	-67	-116	-242	-425
<b>Loans to the public 2018</b>	<b>281,760</b>	<b>7,167</b>	<b>500</b>	<b>289,426</b>
<b>Loans to the public before loss allowance 2019</b>	<b>298,869</b>	<b>7,867</b>	<b>932</b>	<b>307,668</b>
Credit reserve requirement	-112	-185	-374	-672
Withheld remuneration to the regional insurance companies	22	30	52	10
Recognized loss allowance	-91	-156	-322	-569
<b>Loans to the public 2019</b>	<b>298,778</b>	<b>7,711</b>	<b>610</b>	<b>307,099</b>

A condition for full payment of the regional insurance companies' distribution remuneration by the Bank Group is that the loans generated by each regional insurance company for the Bank Group (excluding Wasa Kredit AB) are of high quality. If this is not the case, up to 80% of any credit losses are off-set against the accrued remuneration to the regional insurance companies. This model for settlement of credit losses is kept separate and is taken into consideration when the provisions are established. On 31 December 2019, the total credit reserve requirement for loan receivables amounted to SEK 672 M of which the Bank Group's recognised loss allowance for loan receivables accounted for SEK 569 M and the remainder of SEK 103 M was settled against the remuneration to the regional insurance companies.

The recognised loss allowance increased SEK 143 M during the year. The increase was primarily attributable to the subsidiary Wasa Kredit AB. Portfolio growth and a decline in credit risk parameters increased the loss allowance. Some of the reasons for the decline in the credit risk parameters were the higher number of late payers and updates to macroeconomic forecasts used for calculating the loss allowance. The decline in credit risk parameters was also driven by migration of credits to stage 2 and to stage 3, which contributed to the increase for the year.

The contractual amounts outstanding for financial assets that were written off during the period and that are still encompassed by compliance measured amount to SEK 188 M on 31 December 2019.

Modified loan receivables in loans to the public, SEK M	31 Dec 2019	31 Dec 2018
Loan receivables modified during the period that were in stages 2 and 3 when they were modified		
Amortised cost before modification	159	187 <sup>1)</sup>
Modification gain/loss	0	-0
Gross carrying amount for loan receivables that have been modified since initial recognition and on the modification date were in stage 2 or 3 and that were transferred to stage 1 during the period	51	76

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

<b>Note 25 Unit-linked insurance assets, policyholder bears the risk</b>		
	31 Dec 2019	31 Dec 2018
Equity funds	140,029	108,651
Fixed-income funds	14,534	13,689
<b>Total unit-linked insurance assets</b>	<b>154,563</b>	<b>122,340</b>
Amortised cost	106,030	101,226

<b>Note 26 Financial leasing</b>	
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Financial lease agreements specified by maturity structure where the Group is the lessor.

31 Dec 2019	Up to 1 year	1-5 years	More than 5 years	Total
Present value of future minimum lease fees	25,591	4,226	853	30,670
Unearned financial income <sup>1)</sup>	537	742	102	1,382
<b>Gross investment</b>	<b>26,129</b>	<b>4,968</b>	<b>955</b>	<b>32,052</b>

31 Dec 2018	Up to 1 year	1-5 years	More than 5 years	Total
Present value of future minimum lease fees	2,501	4,196	746	7,443
Unearned financial income <sup>1)</sup>	499	678	77	1,254
<b>Gross investment</b>	<b>2,999</b>	<b>4,874</b>	<b>823</b>	<b>8,697</b>

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

	2019	2018
Provision for impaired loans pertaining to minimum lease fees	182	126
Variable portion of leasing fees included in net profit for the year	7	7

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

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

Financial leasing is included in loans to the public.

<b>Note 27 Shares and participations</b>		
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Carrying amount	31 Dec 2019	31 Dec 2018
Listed shares and participations	2,802	1,554
Unlisted shares and participations	1,832	1,146
<b>Total shares and participations</b>	<b>4,634</b>	<b>2,700</b>

	31 Dec 2019	31 Dec 2018
Fair value	4,634	2,700
Cost	2,991	1,875

<b>Note 28 Bonds and other interest-bearing securities</b>		
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Carrying amounts	31 Dec 2019	31 Dec 2018
Swedish government	30	1
Swedish mortgage institutions	36,438	31,687
Other Swedish issuers	7,502	5,831
Foreign states	1,522	1,282
Other issuers	7,126	5,149
<b>Total bonds and other interest-bearing securities</b>	<b>52,618</b>	<b>43,950</b>
Fair value	52,618	43,950
Amortised cost	51,916	43,209
Nominal value	49,785	40,226
Listed securities	52,263	43,701
Unlisted securities	355	249
Carrying amounts of the securities compared with their nominal amounts		
Total fixed income funds	1,642	2,243
Total surplus	1,203	1,480
Total deficit	-12	-1

For loss allowance, see note 15 Credit losses.

<b>Note 29 Treasury bills and other eligible bills</b>		
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Carrying amount	31 Dec 2019	31 Dec 2018
Swedish government	9,467	10,794
Finnish government	190	53
German government	278	-
<b>Total treasury bills and other eligible bills</b>	<b>9,934</b>	<b>10,847</b>
Fair value	9,934	10,847
Amortised cost	9,821	10,746
Nominal value	9,445	10,256

For loss allowance, see note 15 Credit losses.

<b>Note 30 Fair value adjustment of interest-rate-risk hedged items in portfolio hedge</b>		
	2019	2018
<b>Assets</b>		
Carrying amount, 1 January	125	248
Changes during the year pertaining to lending	-125	-123
Changes during the year pertaining to borrowing	3	-
Changes during the year pertaining to deposits	1	-
<b>Carrying amount, 31 December</b>	<b>5</b>	<b>125</b>
<b>Liabilities</b>		
Carrying amount, 1 January	1,058	1,200
Changes during the year pertaining to lending	0	-2
Changes during the year pertaining to funding	30	-140
Changes during the year pertaining to borrowing	153	-
<b>Carrying amount, 31 December</b>	<b>1,241</b>	<b>1,058</b>

<b>Note 31 Other receivables</b>		
	31 Dec 2019	31 Dec 2018
Receivables pertaining to direct insurance	2,154	1,864
Accounts receivable	324	399
Receivables pertaining to reinsurance	751	584
Deposits with companies that have ceded reinsurance	83	85
Other receivables	2,080	1,591
<b>Total other receivables</b>	<b>5,393</b>	<b>4,523</b>

Accounts receivable related to contracts with customers amounted to SEK 33 M (165) in the Parent Company and SEK 2 M (2) in Länsförsäkringar Fondliv. Accounts receivable pertaining to leases amounted to SEK 226 M (223).

Other receivables related to contracts with customers amounted to SEK 8 M (18) in the Parent Company, SEK 4 M (27) in the Länsförsäkringar Sak Group and SEK 635 M (577) in Länsförsäkringar Fondliv.

In its calculation of loss allowance for other financial assets, the Group uses the simplified method that is described in more detail in note 1 Accounting policies. For loss allowance, see note 15 Credit losses.

<b>Note 32 Prepaid expenses and accrued income</b>		
	31 Dec 2019	31 Dec 2018
Accrued interest and rental income	42	47
Deferred acquisition costs	1,568	1,390
Other accrued income	300	260
Other prepaid expenses	411	280
<b>Total prepaid expenses and accrued income</b>	<b>2,321</b>	<b>1,977</b>
<b>Opening balance Deferred acquisition costs 1 January</b>		
Capitalised acquisition costs	1,010	914
Depreciation	-804	-703
Impairment	-28	-120
<b>Closing balance Deferred acquisition costs 31 December</b>	<b>1,568</b>	<b>1,390</b>

<b>Note 33 Cash and cash equivalents</b>		
	31 Dec 2019	31 Dec 2018
Cash and balances with central banks	9,831	22
Balances with other banks	1,830	6,053
<b>Total cash and cash equivalents</b>	<b>11,661</b>	<b>6,075</b>

For loss allowance, see note 15 Credit losses.

	Restricted equity		Non-restricted equity including comprehensive income for the year	Total equity
	Share capital	Restricted reserves		
Effect of change in accounting policy <sup>1)</sup>	-	-	-87	-87
Opening equity, 1 January 2018 after adjustment for change in accounting policy	1,042	6,554	17,174	24,770
Net profit for the year	-	-	2,190	2,190
Change in translation reserve	-	4	-	4
Change in revaluation reserve	-	-	393	393
Change in fair value reserve	-	-	-60	-60
Change in hedging reserve	-	-	-58	-58
Tax on items recognised in other comprehensive income	-	-	-50	-50
<b>Total other comprehensive income</b>	-	<b>4</b>	<b>225</b>	<b>229</b>
<b>Comprehensive income for the year</b>	-	<b>4</b>	<b>2,414</b>	<b>2,418</b>
Dividends paid	-	-	-300	-300
Tier 1 capital issued	-	-	-34	-34
Transfer between restricted and non-restricted equity	-	-13	13	-
Realised gain from sale of shares	-	-	13	13
<b>Closing equity, 31 December 2018</b>	<b>1,042</b>	<b>6,545</b>	<b>19,280</b>	<b>26,867</b>
Opening equity, 1 January 2019 after adjustment for change in accounting policy	1,042	6,545	19,280	26,867
Net profit for the year	-	-	2,957	2,957
Change in translation reserve	-	21	10	31
Change in revaluation reserve	-	-	148	148
Change in fair value reserve	-	-	28	28
Change in hedging reserve	-	-	-22	-22
Tax on items recognised in other comprehensive income	-	-	-33	-33
<b>Total other comprehensive income</b>	<b>0</b>	<b>21</b>	<b>131</b>	<b>151</b>
<b>Comprehensive income for the year</b>	<b>0</b>	<b>21</b>	<b>3,088</b>	<b>3,109</b>
Tier 1 capital issued	-	1,000	-69	931
Transfer between restricted and non-restricted equity	-	9	-9	-
<b>Closing equity, 31 December 2019</b>	<b>1,042</b>	<b>7,575</b>	<b>22,289</b>	<b>30,907</b>

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

The quotient value per share is SEK 100. All shares are ordinary shares. Of the shares issued on 31 December 2019, 1,532,678 were Series A shares (carrying ten votes each), 8,885,949 were Series B shares and 5,955 were Series C shares (carrying one vote each).

#### Specification of the capital item Reserves in the statement of financial position

Changes in these reserves are included in comprehensive income for the year.

	2019	2018
<b>Translation reserve</b>		
Opening translation reserve, 1 January	-61	-65
Translation differences for the year	31	4
<b>Closing translation reserve, 31 December</b>	<b>-30</b>	<b>-61</b>
<b>Revaluation reserve</b>		
Opening revaluation reserve, 1 January	1,304	985
Revaluation of owner-occupied property	148	393
Revaluation of defined-benefit pension plans	-1,421	-
Tax attributable to revaluation for the year	-32	-74
<b>Closing revaluation reserve, 31 December</b>	<b>0</b>	<b>1,304</b>
<b>Fair value reserve</b>		
Opening fair value reserve, 1 January	-397	133
Effect of change in accounting policy	-	-480
Change for the year in fair value of available-for-sale financial assets	28	-60
Tax attributable to change for the year	-5	11
<b>Closing fair value reserve, 31 December</b>	<b>-374</b>	<b>-397</b>
<b>Hedging reserve</b>		
Opening hedging reserve, 1 January	-151	-106
Change for the year in cash-flow hedges	-22	-58
Tax attributable to change for the year	4	13
<b>Closing hedging reserve, 31 December</b>	<b>-170</b>	<b>-151</b>

#### Translation reserve

The translation reserve includes all exchange-rate differences arising on the translation of the financial statements from foreign operations that have prepared their financial statements in a different currency to the currency in which the consolidated financial statements are presented. The Parent Company and Group present their financial statements in Swedish kronor (SEK).

#### Revaluation reserve

The revaluation reserve includes changes in value attributable to owner-occupied property and a provision for defined-benefit pensions.

#### Fair value reserve

The fair value reserve comprises the accumulated net change in financial assets measured at fair value through other comprehensive income until the asset is derecognised from the statement of financial position.

#### Hedging reserve

The hedging reserve comprises hedges of variable interest rates against fixed interest rates pertaining to the Parent Company's debt securities in issue and hedges of exchange rate risks in future cash flows pertaining to the Bank Group's debt securities in issue in foreign currency.

#### Other capital contributed

Refers to equity that has been provided by the owners. The item includes surpluses paid in conjunction with issues.

#### Restricted reserves

Restricted reserves may not be reduced through profit distribution. The statement of changes in equity for the Group includes some restricted reserves in other contributed equity and the remainder in retained earnings.

#### Retained earnings, including net profit for the year

Retained earnings, including net profit for the year, includes profit in the Parent Company, subsidiaries and associated companies.

#### Dividends

A dividend of SEK 698 M is proposed for 2019. All capital that is not required for Länsförsäkringar AB's operations is returned over time to the shareholders in the form of dividends. A prerequisite for the payment of dividends is that a credit rating of A can be justified for the Group's credit-rated companies.

**Note 35 Subordinated liabilities**

	31 Dec 2019	31 Dec 2018
Subordinated debts with three-month floating interest rates	1,697	1,696
Subordinated debts with a fixed interest rate	898	897
<b>Total subordinated liabilities</b>	<b>2,595</b>	<b>2,593</b>

The subordinated loans listed and can be redeemed on 26 April 2021 and 1 March 2023 at the earliest. These loans fall due on 26 April 2026 and 1 March 2028. Interest on the variable loans was 2.3% and 1.3% on 31 December 2019. The interest rate on fixed loans is 2.7% and 1.8%.

**Note 36 Technical provisions**

	2019			2018		
	Gross	Reinsurers' portion	Net	Gross	Reinsurers' portion	Net
<b>Unearned premiums</b>						
Opening balance, 1 January	2,315	124	2,191	2,171	91	2,080
Provisions during the period	342	162	180	113	33	81
Exchange-rate changes	57	1	56	31	-0	31
<b>Closing balance, 31 December</b>	<b>2,715</b>	<b>288</b>	<b>2,427</b>	<b>2,315</b>	<b>124</b>	<b>2,191</b>
of which non-life insurance	2,715	288	2,427	2,315	124	2,191
<b>Unexpired risk</b>						
Opening balance, 1 January	1	-	1	1	-	1
Provisions during the period	35	35	-1	-1	-	-1
<b>Closing balance, 31 December</b>	<b>35</b>	<b>35</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>1</b>
of which non-life insurance						
<b>Life-assurance provision</b>						
Opening balance, 1 January	2,846	-	2,846	2,508	-	2,508
Provisions during the period	8	-	8	9	-	9
Deposits	473	-	473	452	-	452
Payments	-105	-	-105	-94	-	-94
Difference between premiums paid and provisions for new operation	-97	-	-97	-42	-	-42
Costs withdrawn	-17	-	-17	-18	-	-18
Change in provision due to change in interest-rate assumption	2	-	2	17	-	17
Change due to changed cost assumption	-49	-	-49	9	-	9
Change due to amended transfer assumption	22	-	22	5	-	5
Other changes	8	-	8	-1	-	-1
<b>Closing balance, 31 December</b>	<b>3,091</b>	<b>-</b>	<b>3,091</b>	<b>2,846</b>	<b>-</b>	<b>2,846</b>
of which life assurance	3,091	-	3,091	2,846	-	2,846
<b>Claims outstanding</b>						
Claims incurred and reported	4,910	4,481	429	4,800	4,491	309
Claims incurred but not reported	7,624	5,948	1,676	7,545	5,893	1,652
Claims annuities	1,546	-	1,546	1,665	-	1,665
Claims adjustment costs	223	-	223	212	-	212
<b>Total opening balance, 1 January</b>	<b>14,303</b>	<b>10,429</b>	<b>3,874</b>	<b>14,222</b>	<b>10,384</b>	<b>3,838</b>
Provisions for the period	-1,314	-1,253	-61	40	31	8
Interest-rate translation of provision for claim annuities	10	-	10	8	-	8
Transferred insurance portfolio	-17	-	-17	-	-	-
Exchange-rate changes	36	5	31	33	13	19
<b>Closing balance, 31 December</b>	<b>13,018</b>	<b>9,181</b>	<b>3,837</b>	<b>14,303</b>	<b>10,429</b>	<b>3,874</b>
of which non-life insurance	12,550	9,117	3,433	13,884	10,382	3,501
of which life assurance	469	64	404	419	47	373
<b>Specification of closing balance claims outstanding</b>						
Claims incurred and reported	4,985	4,411	574	4,910	4,481	429
Claims incurred but not reported	6,247	4,770	1,476	7,624	5,948	1,676
Claims annuities	1,564	-	1,564	1,546	-	1,546
Claims adjustment costs	223	-	223	223	-	223
<b>Total closing balance, 31 December</b>	<b>13,018</b>	<b>9,181</b>	<b>3,837</b>	<b>14,303</b>	<b>10,429</b>	<b>3,874</b>
<b>Carrying amount at year-end</b>	<b>18,860</b>	<b>9,504</b>	<b>9,356</b>	<b>19,465</b>	<b>10,553</b>	<b>8,912</b>
of which non-life insurance	15,300	9,440	5,860	16,200	10,506	5,693
of which life assurance	3,560	64	3,496	3,265	47	3,218
<b>Run-off profit/loss, non-life insurance</b>	<b>1,852</b>	<b>-1,558</b>	<b>294</b>	<b>572</b>	<b>-334</b>	<b>238</b>

The discount rate curve defined by the EIOPA is used to calculate annuities, the life-assurance reserve and disability annuities. 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 3.90% is also included. Other non-life insurance is not discounted.

**Note 37** Unit-linked insurance liabilities, policyholder bears the risk

Unit-linked insurance commitments	31 Dec 2019	31 Dec 2018
Opening balance	122,693	124,969
Payments	8,821	8,339
Migrations, repurchases and cancellations	-3,432	-2,802
Paid remuneration	-2,766	-2,463
Costs withdrawn	-773	-733
Change in value	30,487	-4,514
Yield tax	-110	-114
Other changes	8	11
<b>Closed balance, unit-linked insurance commitments</b>	<b>154,927</b>	<b>122,693</b>
Conditional bonus	1,023	442
<b>Total</b>	<b>155,950</b>	<b>123,135</b>

**Note 38** Deferred tax assets and liabilities

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

	Deferred tax assets		Deferred tax liabilities		Net	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Intangible assets	-42	-55	-	9	-42	-46
Property	-	1	-	401	-	403
Financial assets	0	1	-	-	0	1
Receivables	-6	-5	-	-	-6	-5
Other assets	-	-	1	1	1	1
Liabilities	-53	-50	0	0	-53	-50
Loss carryforwards	-27	-16	-	-	-27	-16
Untaxed reserves	-	-	881	1,025	881	1,025
<b>Deferred tax asset (-) /deferred tax liability (+)</b>	<b>-128</b>	<b>-124</b>	<b>882</b>	<b>1,437</b>	<b>753</b>	<b>1,313</b>
Offset	-	2	-	-	-	-
<b>Net deferred tax asset (-) /deferred tax liability (+)</b>	<b>-128</b>	<b>-122</b>	<b>882</b>	<b>1,435</b>	<b>753</b>	<b>1,313</b>

The Group has no temporary differences with tax effects in Group or associated companies.

Deferred tax assets have been recognised for tax loss carryforwards. It is anticipated that the loss will be utilised within one year.

**Change in deferred tax in temporary differences and loss carryforwards**

2019	Amount at 1 January	Currency translation	Recognised in profit or loss	Recognised in other comprehensive income	Amount at 31 December
Intangible assets	-46	-	4	-	-42
Property	403	-	-434	32	-
Financial assets	1	-	-1	0	0
Receivables	-5	-	0	-	-6
Other assets	1	-	0	-	1
Liabilities	-50	0	0	-4	-53
Loss carryforwards	-16	-	-11	-	-27
Untaxed reserves	1,025	-	-140	-4	881
<b>Deferred tax assets (-) /deferred tax liabilities (+)</b>	<b>1,313</b>	<b>0</b>	<b>-583</b>	<b>24</b>	<b>753</b>

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

<b>Note 39 Other provisions</b>		
	31 Dec 2019	31 Dec 2018
Provision for pensions being paid	51	47
Other provisions	74	72
<b>Total other provisions</b>	<b>125</b>	<b>119</b>

#### Defined-benefit pension plans

There are a number of minor plans that almost only encompass employees who have already reached retirement age. These plans cover old-age pensions and in some cases also survivor's pension. The pension amounts are paid in relation to the final salary level when the employee retires and in the vast majority of cases are life annuities. In the event that upward adjustment of the pension has been agreed, the Group follows the norms applied by the Insurance Industry's Pension Fund (FPK).

#### Defined-contribution pension plans

Defined-contribution pension plans are plans according to which the company pays fixed contributions to a separate legal entity and does not have a legal or informal obligation to pay additional contributions. The Group's payments to defined-contribution plans are recognised as expenses during the period in which the employee performed the services to which the contributions refer. Primarily, contributions to the Insurance Industry's Pension Fund (FPK) are recognised here. This plan encompasses all employees except for a few individuals who have individual solutions.

The pension agreement for the insurance industry, the FTP plan, through insurance with the Insurance Industry's Pension Fund (FPK) is a multi-employer defined-benefit pension plan. According to IAS 19 Employee Benefits, the main rule under this pension plan entails that a company recognises its proportional share of the defined-benefit pension commitment and the plan assets and expenses associated with the pension commitment. Disclosures are also presented in the accounts pursuant to the requirements for defined-benefit pension plan. FPK is unable to provide necessary information which is why the pension plans above are recognised as defined-contribution plans in accordance of IAS 19. Nor is any information available on future surpluses and deficits in the plan or whether these surpluses and deficits would then affect the contributions for the plan in future years.

FTP plan contributions for 2020 are expected to total SEK 125 M.

	2019	2018
Expenses for defined-contribution plans	291	272

<b>Note 40 Debt securities in issue</b>		
	31 Dec 2019	31 Dec 2018
Commercial papers	1,451	324
Bond loans <sup>1)</sup>	225,167	209,927
Cashier's cheques issued	42	53
<b>Total debt securities in issue</b>	<b>226,661</b>	<b>210,304</b>

<sup>1)</sup> Covered bonds in the Group amount to SEK 188,501 M (171,195).

<b>Note 41 Deposits from the public</b>		
	31 Dec 2019	31 Dec 2018
Deposits from insurance companies	2,865	2,155
Deposits from households	101,528	92,221
Deposits from other Swedish public	13,912	12,478
<b>Total deposits from the public</b>	<b>118,305</b>	<b>106,854</b>

<b>Note 42 Due to credit institutions</b>		
	31 Dec 2019	31 Dec 2018
Swedish banks	6,332	5,817
Other Swedish credit institutions	233	175
<b>Total liabilities due to credit institutions</b>	<b>6,565</b>	<b>5,992</b>

Payable on demand	43	43
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Genuine repurchase transactions amounted to SEK M -(159).

<b>Note 43 Other liabilities</b>		
	31 Dec 2019	31 Dec 2018
Liabilities pertaining to direct insurance	681	821
Due to Länsförsäkringar Liv Försäkrings AB	19	13
Liabilities, assumed reinsurance	449	159
Liabilities, reinsurance	331	460
Accounts payable	221	296
Tax liabilities	290	171
Deposits from reinsurers	69	59
Lease liabilities	1,461	-
Other liabilities	2,004	1,659
<b>Total other liabilities</b>	<b>5,524</b>	<b>3,638</b>

<b>Note 44 Accrued expenses and deferred income</b>		
	31 Dec 2019	31 Dec 2018
Accrued interest expense	1,083	1,146
Other accrued expenses	2,232	2,052
Prepaid rent	247	242
Other deferred income	906	1,148
<b>Total accrued expenses and deferred income</b>	<b>4,468</b>	<b>4,587</b>

**Note 45 Pledged assets and contingent liabilities**

	31 Dec 2019	31 Dec 2018
<b>Pledged assets</b>		
Total registered investment assets on behalf of policyholders	171,374	132,094
Pledged securities in the Riksbank	2,549	2,597
Pledged securities in Euroclear	2,090	1,966
Loan receivables, covered bonds	230,388	211,412
Loan receivables, substitute collaterals	10,040	9,500
Collateral paid due to repurchase agreement	-	159
Securities collateral paid, derivatives	2,076	1,542
Other collateral for securities	15	20
Chattel mortgages, associated companies	0	0
<b>Total pledged assets</b>	<b>418,532</b>	<b>359,289</b>
<b>Contingent liabilities</b>		
Guarantees	462	245 <sup>1)</sup>
<b>Total contingent liabilities</b>	<b>462</b>	<b>245</b>
<b>Other commitments</b>		
Loans approved but not disbursed	17,369	16,559
Unutilised portion of overdraft facilities	2,624	2,563
Remaining amount to invest in investment assets	-	207
Unutilised portion of credit card facilities	1,853	1,719
<b>Total other commitments</b>	<b>21,846</b>	<b>21,048</b>

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

Länsförsäkringar AB and Länsförsäkringar Fondliv have signed a service agreement with Länsförsäkringar Liv due to Länsförsäkringar Liv's run-off. Länsförsäkringar AB and Länsförsäkringar Fondliv undertake to deliver services at a predetermined price per year. The remuneration levels in the agreement reflect these companies' plans to gradually reduce the costs for the services rendered. The agreement includes a renegotiation clause that entails that the parties can review the remuneration level every 36 months if the circumstances have significantly changed. The agreement resulted in a decline of about 2 percentage points (2) in the Länsförsäkringar AB Group's solvency ratio, primarily as a result of the agreement's effect on Länsförsäkringar Fondliv's assumption regarding operating-expense cash flow.

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

SEK M	Not credit-impaired				Credit impaired		Total	
	Stage 1		Stage 2		Stage 3		Credit risk exposure	Loss allowance
	Credit risk exposure	Loss allowance	Credit risk exposure	Loss allowance	Credit risk exposure	Loss allowance		
<b>Opening balance, 1 Jan 2018</b>	<b>21,657</b>	<b>-12</b>	<b>299</b>	<b>-6</b>	<b>24</b>	<b>-0</b>	<b>21,979</b>	<b>-18</b>
New loan commitments and increase in existing loan commitments	62,291	-2	76	-3	30	-1	62,397	-18
<b>Changes:</b>								
Change in loss allowance model or method	-	0	-	0	-	-	-	0
Net change in existing loan commitments and credit commitments (utilised and repaid)	-23,712	3	-66	1	-30	0	-23,808	4
Change in risk parameters	-	1	-	2	-	-0	-	3
<b>Transfer of loan commitments and credit commitments:</b>								
Transfer from stage 1 to stage 2	-583	3	583	-6	-	-	-	-2
Transfer from stage 2 to stage 1	129	-1	-129	1	-	-	-	0
Transfer to stage 3	-9	0	-1	0	10	-0	-	0
Transfer from stage 3	1	0	3	0	-4	0	-	0
Expired loan commitments	-39,278	9	-428	5	-20	1	-39,727	15
<b>Closing balance, 31 Dec 2018</b>	<b>20,497</b>	<b>-10</b>	<b>337</b>	<b>-6</b>	<b>8</b>	<b>-0</b>	<b>20,842</b>	<b>-17</b>
<b>Opening balance, 1 Jan 2019</b>	<b>20,497</b>	<b>-10</b>	<b>337</b>	<b>-6</b>	<b>8</b>	<b>-0</b>	<b>20,842</b>	<b>-17</b>
New loan commitments and increase in existing loan commitments	60,929	-16	85	-3	6	-0	61,020	-19
<b>Changes:</b>								
Change in loss allowance model or method	-	0	-	0	-	-	-	0
Net change in existing loan commitments and credit commitments (utilised and repaid)	-20,631	3	-85	1	-8	0	-20,724	4
Change in risk parameters	-	-2	-	2	-	-0	-	0
<b>Transfer of loan commitments and credit commitments:</b>								
Transfer from stage 1 to stage 2	-573	3	573	-6	-	-	-	-3
Transfer from stage 2 to stage 1	141	-1	-141	2	-	-	-	1
Transfer to stage 3	-4	0	-1	0	5	-0	-	0
Transfer from stage 3	1	-0	1	0	-2	0	-	0
Expired loan commitments	-38,818	8	-469	4	-5	0	-39,292	12
<b>Closing balance, 31 Dec 2019</b>	<b>21,542</b>	<b>-15</b>	<b>301</b>	<b>-7</b>	<b>3</b>	<b>-0</b>	<b>21,846</b>	<b>-22</b>

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

On 31 December 2019, the total loss allowance for commitments amounted to SEK 25 M, of which the Group's recognised loss allowance amounted to SEK 22 M and the remainder of SEK 4 M was settled against remuneration to the regional insurance companies. For more information on the distribution remuneration model, refer to note 24 Loans to the public.

**Note 46** Anticipated recovery and settlement periods for assets and liabilities

Amount expected to be recovered	31 Dec 2019			31 Dec 2018		
	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
<b>Assets</b>						
Goodwill	-	558	558	-	542	542
Other intangible assets	284	4,025	4,309	90	4,110	4,200
Deferred tax assets	91	37	128	70	53	122
Property and equipment	40	304	344	42	26	69
Owner-occupied property	-	1,161	1,161	-	3,232	3,232
Shares in Länsförsäkringar Liv Försäkrings AB	-	8	8	-	8	8
Shares and participations in associated companies	-	62	62	-	54	54
Reinsurers' portion of technical provisions	1,098	8,406	9,504	919	9,634	10,553
Loans to the public	56,994	250,106	307,099	16,895	272,531	289,426
Unit-linked insurance assets, policyholder bears the risk	9,513	145,051	154,563	7,654	114,686	122,340
Shares and participations	8	4,626	4,634	66	2,634	2,700
Bonds and other interest-bearing securities	15,877	36,741	52,618	7,730	36,220	43,950
Treasury bills and other eligible bills	5,209	4,726	9,934	5,522	5,324	10,847
Derivatives	1,301	6,989	8,290	543	5,548	6,090
Change in value of hedge portfolios	5	-	5	107	18	125
Other receivables	5,387	5	5,393	4,519	4	4,523
Prepaid expenses and accrued income	1,261	1,061	2,321	1,026	951	1,977
Cash and cash equivalents	11,661	-	11,661	6,075	-	6,075
<b>Total assets</b>	<b>108,727</b>	<b>463,866</b>	<b>572,594</b>	<b>51,260</b>	<b>455,576</b>	<b>506,835</b>

Amount expected to be settled	31 Dec 2019			31 Dec 2018		
	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
<b>Liabilities</b>						
Subordinated liabilities	-	2,595	2,595	-	2,593	2,593
Technical provisions	5,099	13,761	18,860	4,588	14,877	19,465
Unit-linked insurance liabilities, policyholder bears the risk	9,598	146,352	155,950	7,676	115,459	123,135
Deferred tax liabilities	-	882	882	2	1,432	1,435
Other provisions	-	125	125	8	111	119
Debt securities in issue	30,124	196,536	226,661	15,959	194,345	210,304
Deposits from the public	117,795	510	118,305	106,416	438	106,854
Due to credit institutions	6,565	-	6,565	5,992	-	5,992
Derivatives	196	315	511	179	608	787
Change in value of hedge portfolios	1,241	-	1,241	48	1,010	1,058
Other liabilities	4,246	1,278	5,524	3,586	52	3,638
Accrued expenses and deferred income	4,145	323	4,468	4,265	323	4,587
<b>Total liabilities</b>	<b>179,010</b>	<b>362,677</b>	<b>541,687</b>	<b>148,719</b>	<b>331,249</b>	<b>479,968</b>

**Note 47** Classification of financial assets and liabilities

31 Dec 2019	Financial assets measured at fair value in profit or loss			Financial assets measured at fair value through other comprehensive income			Total	Fair value
	Financial assets measured according to fair value option	Held for trading	Equity instruments	Derivatives used in hedge accounting	Available-for-sale financial assets	Loan receivables and accounts receivable		
<b>Assets</b>								
Shares in Länsförsäkringar Liv Försäkrings AB	-	-	-	-	-	8	8	8
Loans to the public	-	-	-	307,099	-	-	307,099	308,209
Unit-linked insurance assets, policyholder bears the risk	154,563	-	-	-	-	-	154,563	154,563
Shares and participations	3,221	-	931	343	-	140	4,634	4,292
Bonds and other interest-bearing securities	9,945	-	-	-	42,673	-	52,618	52,618
Treasury bills and other eligible bills	-	-	-	-	9,934	-	9,934	9,934
Derivatives	68	8,222	-	-	-	-	8,290	8,290
Other receivables	-	-	-	1,051	-	-	1,051	1,063
Prepaid expenses and accrued income	-	-	-	152	-	-	152	152
Cash and cash equivalents	-	-	-	11,661	-	-	11,661	11,661
<b>Total assets</b>	<b>167,797</b>	<b>8,222</b>	<b>931</b>	<b>320,306</b>	<b>52,608</b>	<b>148</b>	<b>550,012</b>	<b>550,790</b>

31 Dec 2019	Financial liabilities measured at fair value in profit or loss			Other financial liabilities	Total	Fair value
	Financial liabilities measured according to fair value option	Derivatives used in hedge accounting				
<b>Liabilities</b>						
Subordinated liabilities	-	-	2,595	2,595	2,653	
Debt securities in issue	-	-	226,661	226,661	232,880	
Deposits from the public	-	-	118,308	118,305	119,859	
Due to credit institutions	-	-	6,565	6,565	6,565	
Derivatives	74	437	0	511	511	
Other liabilities	-	-	2,389	2,389	2,293	
Accrued expenses and deferred income	-	-	1,721	1,721	1,721	
<b>Total liabilities</b>	<b>74</b>	<b>437</b>	<b>358,237</b>	<b>358,748</b>	<b>366,482</b>	

**Note 47 Classification of financial assets and liabilities, cont.**

31 Dec 2018	Financial assets measured at fair value in profit or loss			Financial assets measured at fair value through other comprehensive income			Total	Fair value
	Financial assets measured according to fair value option	Held for trading	Equity instruments	Derivatives used in hedge accounting	Available-for-sale financial assets	Loan receivables and accounts receivable		
<b>Assets</b>								
Shares in Länsförsäkringar Liv Försäkrings AB	-	-	-	-	-	8	8	8
Loans to the public	-	-	-	289,426	-	-	289,426	290,228
Unit-linked insurance assets, policyholder bears the risk	122,340	-	-	-	-	-	122,340	122,340
Shares and participations	1,546	-	1,037	-	-	117	2,700	2,700
Bonds and other interest-bearing securities	7,160	-	-	-	36,790	-	43,950	43,950
Treasury bills and other eligible bills	-	-	-	-	10,847	-	10,847	10,847
Derivatives	35	6,055	-	-	-	-	6,090	6,090
Other receivables	-	-	-	506	-	-	506	-
Prepaid expenses and accrued income	-	-	-	150	-	-	150	-
Cash and cash equivalents	-	-	-	6,075	-	-	6,075	-
<b>Total assets</b>	<b>131,081</b>	<b>6,055</b>	<b>1,037</b>	<b>296,157</b>	<b>47,637</b>	<b>125</b>	<b>482,093</b>	

31 Dec 2018	Financial liabilities measured at fair value in profit or loss			Other financial liabilities	Total	Fair value
	Financial liabilities measured according to fair value option	Derivatives used in hedge accounting				
<b>Liabilities</b>						
Subordinated liabilities	-	-	-	2,593	2,593	2,632
Debt securities in issue	-	-	-	210,304	210,304	214,315
Deposits from the public	-	-	-	106,854	106,854	108,677
Due to credit institutions	-	-	-	5,992	5,992	-
Derivatives	27	760	-	-	787	787
Other liabilities	-	-	-	792	792	-
Accrued expenses and deferred income	-	-	-	1,499	1,499	-
<b>Total liabilities</b>	<b>27</b>	<b>760</b>	<b>328,034</b>	<b>328,821</b>		

Gains and losses are recognised in profit or loss in Investment income, net.

The carrying amount of other receivables, cash and cash equivalents, due to credit institutions and other liabilities is deemed to comprise a reasonable approximation of their fair value since these assets and liabilities have short terms.

**Note 48 Fair value valuation techniques**

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

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

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

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

	31 Dec 2019				31 Dec 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Owner-occupied property	-	-	-	-	-	-	3,232	3,232
Shares in Länsförsäkringar Liv Försäkrings AB	-	-	8	8	-	-	8	8
Unit-linked insurance assets, policyholder bears the risk	154,563	-	-	154,563	122,340	-	-	122,340
Shares and participations	2,802	63	1,769	4,634	1,555	43	1,103	2,700
Bonds and other interest-bearing securities	52,263	-	355	52,618	43,700	-	250	43,950
Treasury bills and other eligible bills	9,934	-	-	9,934	10,847	-	-	10,847
Derivatives	1	8,289	-	8,290	1	6,090	-	6,090
<b>Liabilities</b>								
Derivatives	-	511	-	511	3	784	-	787

Change level 3	Owner-occupied property	Shares in Länsförsäkringar Liv Försäkrings AB	Shares and participations	Bonds and other interest-bearing securities	Other receivables	Total
Opening balance, 1 January 2019	3,232	8	1,103	250	-	4,593
Acquisitions	3	-	341	100	-	444
Divestments	-3,320	-	-	-2	-	-3,323
Recognised in net profit/loss for the year	-63	-	324	7	-	268
Recognised in other comprehensive income	148	-	-	-	-	148
<b>Closing balance, 31 December 2019</b>	<b>-</b>	<b>8</b>	<b>1,769</b>	<b>355</b>	<b>-</b>	<b>2,132</b>
Opening balance, 1 January 2018	2,887	-	954	188	-	4,029
Acquisitions	37	-	0	62	-	99
Divestments	-	-	-10	-16	-	-26
	-	8	-	-	-	8
Recognised in net profit/loss for the year	-84	-	159	15	-	89
Recognised in other comprehensive income	393	-	-	-	-	393
<b>Closing balance, 31 December 2018</b>	<b>3,232</b>	<b>8</b>	<b>1,103</b>	<b>250</b>	<b>-</b>	<b>4,593</b>

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.

Normally, there are no active markets for owner-occupied property within Level 3, which is why fair value is estimated using models based on discounted cash flows. The method applied to the calculation of fair value is a combination of the location-price method, based on reported purchases of comparable properties, and a return-based cash-flow method. During 2019, owner-occupied property were sold as of 1 November. The return method is based on a calculation of the present value of future actual cash flows in the form of operating net, which has been successively adjusted to market over 10 years and the present value of the estimated residual value in year 10. The residual value was estimated by performing a constant capitalisation of an estimated market-adjusted operating net.

Shares and participations in Level 3 are measured at fair value. Holdings in Länsförsäkringar AB and the insurance companies are measured at equity per share based on the most recent company reports. Delisted, insolvent companies are measured at zero, if no other listing can be found. Länsförsäkringar Bank AB holds shares and participations that cannot be reliably measured based on listing in an active market. Instead, regular valuations are performed based on, for example, recent company reports and forecast results.

The fair value of Level 2 shares and participations that pertain to unquoted Series B shares with conversion rights to quoted Series A shares without restrictions is measured based on the price of the Series A share on the balance-sheet date.

Level 2 derivatives essentially refer to swaps for which fair value has been calculated by discounting expected future cash flows.

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

**Financial instruments measured at amortised cost in the statement of financial position**

Fair values for deposits from the public (Level 2) and loans to the public (Level 3) have been calculated using discounted expected cash flows where the discount rates applied are the current deposit and lending rates (including discounts). During the year, loans to the public were transferred from Level 2 to Level 3 since the discounts used for calculating fair value are not observable in a market.

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

**Note 49** Information about offsetting

The table shows financial assets and liabilities covered by a legally binding master netting agreement or similar agreements, together with related collaterals.

The Group has ISDA agreements and CSA agreements with all derivative counterparties and corresponding netting agreements for reverse repurchase agreements, mean-

ing that all exposures are covered by these types of agreements. The agreements entitle the parties to offset assets and liabilities in the event of default or insolvency. The net amount is the amount that, in the event of default or insolvency, would be obtained, if the amount is an asset, or paid, if the amount is a liability.

31 Dec 2019	Gross amount	Offset in the balance sheet	Amount recognised in the balance sheet	Related amounts that are not offset in the balance sheet		Net amount
				Master netting agreements	Collaterals Received (-) / Pledged (+)	
<b>Assets</b>						
Derivatives	8,575	-285	8,290	-206	-6,445	1,639
<b>Liabilities</b>						
Derivatives	-796	285	-511	206	31	-274
<b>Total</b>	<b>7,779</b>	<b>-</b>	<b>7,779</b>	<b>-</b>	<b>-6,413</b>	<b>1,365</b>

31 Dec 2018	Gross amount	Offset in the balance sheet	Amount recognised in the balance sheet	Related amounts that are not offset in the balance sheet		Net amount
				Master netting agreements	Collaterals Received (-) / Pledged (+)	
<b>Assets</b>						
Derivatives	6,204	-113	6,090	-286	-4,613	1,191
<b>Liabilities</b>						
Derivatives	-901	113	-787	286	25	-476
Repurchase agreements	-159	-	-159	-	159	-
<b>Total</b>	<b>5,144</b>	<b>-</b>	<b>5,144</b>	<b>-</b>	<b>-4,429</b>	<b>715</b>

The Group uses derivative instruments to reduce risks or enhance management efficiency and, when used, these are recognised according to the policies for hedge accounting. Disclosures on the Group's derivative instruments are provided in table 19 in note 2 Risk and capital management.

**Note 50** Disclosures on related parties

The 23 regional insurance companies have been chosen to organise joint operations in the Länsförsäkringar AB Group. The Group has been assigned by the regional insurance companies to conduct operations in areas in which economies of scale constitute a decisive competitive advantage and to provide such service to the regional insurance companies, which, for reasons of efficiency, are produced and provided jointly within the Länsförsäkringar Alliance.

The assessment of whether a close relationship exists or not is based on the financial significance of the relationship and not only ownership. Accordingly, this includes the 23 regional insurance companies, with subsidiaries, and 15 local insurance companies in other related parties, which together own 100% of Länsförsäkringar AB. Other related parties also include Länsförsäkringar Mäklarservice AB, Länsförsäkringar Fastighetsförmedling AB and Humlegården Fastigheter AB since these companies are wholly owned in the Länsförsäkringar Alliance. Länsförsäkringar Liv Försäkrings AB and all associated companies are also considered to be legal entities closely related to the Länsförsäkringar AB Group. Related key persons are Board members, senior executives and their close family members.

**Policies for transactions**

Transactions between closely related parties occur both as transactions of a nonrecurring nature and transactions on a continuous basis.

Transactions of a nonrecurring nature comprise the acquisitions and divestments of assets and similar transactions. They occur in limited scope. In nonrecurring transactions, the transactions are based on written agreements that comply with market standards and terms.

Transactions of a continuous nature include goods and services provided for the companies within the Länsförsäkringar AB Group and to the Länsförsäkringar Alliance for carrying out development projects and services. Transactions of this nature shall follow established routines as below.

**Pricing**

Pricing for service activities within the Länsförsäkringar Alliance is based on direct and indirect costs. Overall, pricing is intended to distribute costs within the Länsförsäkringar Alliance based on consumption. Joint development projects and joint service are financed collectively and invoiced based on an established distribution key.

**Process and decisions**

Corporate management within Länsförsäkringar AB, jointly with a service committee with representatives from the insurance companies, prepare the service levels and price lists for the sale of goods and services to related companies. Based on these discussions, the Board of Länsförsäkringar AB decides on the service levels and price lists to related parties.

**Related-party transactions in the Group 2019****Regional insurance companies and local insurance companies**

Länsförsäkringar AB is wholly owned by the 23 regional insurance companies, together with 15 local insurance companies. A large portion of the Group's customer contact takes place through the regional insurance companies and the local insurance companies. Remuneration for the mediation of the Länsförsäkringar AB Group's insurance products is regulated in commission agreements between these parties. Commission is also paid to regional insurance companies for their work with Länsförsäkringar Bank's, Länsförsäkringar Hypotek's and Länsförsäkringar Fondförvaltning's customer-related operations. The assignment and remuneration are regulated in partnership agreements signed by the parties. This solution creates a unique local presence and market awareness.

Länsförsäkringar AB Group manages and reconciles the Länsförsäkringar Alliance's internal and external reinsurance. The Group also carries out development projects and service for the regional insurance companies in a number of areas, such as individual claims adjustment, legal affairs and actuarial services, product and concept development and the development of IT support and other IT services.

**Länsförsäkringar Mäklarservice AB**

Länsförsäkringar Mäklarservice AB is jointly owned by the regional insurance companies and Länsförsäkringar Sak. The company works on behalf of the regional insurance companies and Länsförsäkringar Sak Försäkrings AB within non-life insurance, and on behalf of the regional insurance companies within life assurance.

**Länsförsäkringar Liv Försäkrings AB**

Länsförsäkringar Liv Försäkrings AB is wholly owned by Länsförsäkringar AB. The operations are conducted in accordance with mutual policies and, accordingly, are not consolidated in the Länsförsäkringar AB Group.

Länsförsäkringar Liv Försäkrings AB purchases development and service from Länsförsäkringar AB. The primary task of the service operations is to provide service mainly within the areas of business analysis, accounting, office services, HR and communication.

## Note 50 Disclosures on related parties, cont.

### Related-party transactions 2019

	Income	Expenses	Receivables	Liabilities	Commitments
Associated companies	4	-	-	-	-
Länsförsäkringar Liv	303	25	188	820	-
<b>Owners</b>					
Regional insurance companies	2,117	2,465	7,587	12,276	62
<b>Other related parties</b>					
Länsförsäkringar Mäklarservice AB	24	12	3	34	5
Länsförsäkringar Fastighetsförmedling AB	2	0	1	0	1
Humlegården Fastigheter AB (publ)	67	-	-	-	-
Other	3	-	18	1	2
<b>Total other related parties</b>	<b>96</b>	<b>12</b>	<b>22</b>	<b>34</b>	<b>7</b>

### Interest income and interest expense 2019

	Interest income	Interest expense
Regional insurance companies	-	5
Länsförsäkringar Liv Försäkrings AB	-	-
Other	1	-

### Related-party transactions 2018

	Income	Expenses	Receivables	Liabilities	Commitments
Associated companies	3	-	-	-	-
Länsförsäkringar Liv	353	31	102	1,005	-
<b>Owners</b>					
Regional insurance companies	1,663	2,493	8,792	13,471	57
<b>Other related parties</b>					
Länsförsäkringar Mäklarservice AB	24	15	4	46	6
Länsförsäkringar Fastighetsförmedling AB	2	0	1	0	-
Other	3	0	6	1	3
<b>Total other related parties</b>	<b>30</b>	<b>15</b>	<b>11</b>	<b>47</b>	<b>9</b>

### Interest income and interest expense 2018

	Interest income	Interest expense
Regional insurance companies	55	35
Länsförsäkringar Liv Försäkrings AB	-	5
Other	1	-

Receivables from and liabilities to regional insurance companies include technical provisions.

### Agreements

Länsförsäkringar Liv has a run-off agreement with Länsförsäkringar AB and with Länsförsäkringar Fondliv for Länsförsäkringar Liv's run off. Note 45 Pledged assets and contingent liabilities provides additional information about this agreement.

Significant agreements for the Länsförsäkringar AB Group primarily comprise agreements with the 23 regional insurance companies regarding commission agreements, claims adjustment agreements, and development and management agreement.

Another significant agreement for the Länsförsäkringar AB Group is the sales agreement with Länsförsäkringar Mäklarservice AB. There was an agreement with Humlegården Fastigheter AB for the management of Utile Dulci 2 HB until 31 October 2019. Holdings for business purposes and owner-occupied property were divested on 1 November 2019. New sale and leaseback leases were signed in connection with the divestment. An earn-out may be payable.

### Transactions between the Länsförsäkringar AB Group and its Board and management

For information regarding remuneration of closely related key persons such as Board members and senior executives see Note 12 Employees, staff costs and remuneration of senior executives. In all other respects, no transactions took place between these individual and their related parties apart from normal customer transactions.

For the Länsförsäkringar Liv transactions with related parties, see the Länsförsäkringar Liv Försäkrings AB's 2019 Annual Report.

## Note 51 Group companies

Holding in directly and indirectly owned subsidiaries	Registered office of subsidiary, country	Participating interest in %	
		31 Dec 2019	31 Dec 2018
Agria Pet Insurance Ltd	UK	100	100
Försäkringsaktiebolaget Agria (publ)	Sweden	100	100
LF Sak Fastighets AB	Sweden	100	100
Länsförsäkringar Bank AB (publ)	Sweden	100	100
Länsförsäkringar Fondförvaltning AB	Sweden	100	100
Länsförsäkringar Fondliv Försäkringsaktiebolag (publ)	Sweden	100	100
Länsförsäkringar Grupplivförsäkringsaktiebolag	Sweden	100	100
Länsförsäkringar Hypotek AB (publ)	Sweden	100	100
Länsförsäkringar Sak Försäkringsaktiebolag (publ)	Sweden	100	100
Utile Dulci 2 HB	Sweden	-	100
Wasa Kredit AB	Sweden	100	100

Participating interest refers to the share of capital, which corresponds to the number of votes for the total number of shares.

## Note 52 Supplementary information to statement of cash flows

	2019	2018
<b>Interest paid and dividends received</b>		
Dividends received	17	39
Interest received	6,226	5,434 <sup>2)</sup>
Interest paid	-1,497	-1,012 <sup>2)</sup>
<b>Adjustment for non-cash items</b>		
Depreciation/amortisation and impairment of assets	382	708
Unrealised gains/losses on investment assets	-31,571	4,700
Technical provisions after ceded reinsurance	33,258	-1,964
Pension provisions	-14	16
Other provisions	20	-12
Other items not affecting liquidity	-138 <sup>1)</sup>	-180
<b>Total</b>	<b>1,936</b>	<b>3,269</b>

<sup>1)</sup> Includes gain on sale of subsidiaries including owner-occupied property.

<sup>2)</sup> Comparative figures have been adjusted.

**Note 53** Events after balance-sheet date

The COVID-19 outbreak has now been classified as a pandemic. As per 9 March 2020, developments in the financial markets have had a moderately negative impact on the Länsförsäkringar AB Group's capital situation. There is considerable uncertainty, but Länsförsäkringar AB is monitoring developments and is continuously adjusting its operations using contingency and business continuity plans. All growth forecasts are currently highly uncertain, but most forecasters are assuming global growth of 2–2.5% in 2020.

**Note 54** Information regarding the Parent company

Länsförsäkringar AB (publ) is a limited liability company registered in Sweden with its registered offices in Stockholm.

Corporate Registration Number 556549-7020

The office address is Tegeluddsvägen 11-13, Stockholm, Sweden.

The postal address is SE-106 50 Stockholm.

The 2019 consolidated financial statements comprise the Parent Company and its subsidiaries. The Länsförsäkringar AB Group also included participations owned in associated companies. Länsförsäkringar AB (publ) is wholly owned by the 23 regional insurance companies and the 15 local insurance companies.

**Note 55** Financial effect of change in accounting policy from IAS 17 Leases to IFRS 16 Leases

<b>Future operating lease payments at 31 December 2018</b>	<b>182</b>
Exceptions from accounting in the statement of financial position	
- short-term leases	0
- leases for which the underlying asset has a low value	-6
Extension options that it is reasonably certain will be exercised	4
<b>Total operating lease payments before discounting at 1 January 2019 is to be recognised in the statement of financial position</b>	<b>180</b>
Discount effect at 1 January 2019	-1
Financial lease liabilities at 31 December 2018	-
<b>Lease liabilities recognised in the statement of financial position at 1 January 2019</b>	<b>179</b>

On transition to IFRS 16, the Group recognised right-of-use assets and lease liabilities of SEK 179 M in the statement of financial position, which impacts property and equipment by SEK 163 M, other assets by SEK 16 M and other liabilities.

To measure lease liabilities, the Group discounted future lease payments by using an incremental borrowing rate on 1 January 2019. The average incremental borrowing rate applied was 0.49%.

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## Income statement for the Parent Company

SEK M	Note	2019	2018
<b>Net sales</b>	3	3,577	3,235
<b>Operating expenses</b>			
External expenses	4, 5, 7	-2,814	-2,340
Staff costs	6	-1,071	-959
Depreciation/amortisation and impairment of property and equipment and intangible assets	12, 13	-69	-105
<b>Operating loss</b>		<b>-376</b>	<b>-169</b>
<b>Profit/loss from financial items</b>			
Profit from participations in Group companies	8	1,251	1,506
Interest income and similar profit/loss items	9	-1	-2
Interest expense and similar profit/loss items	10	-3	-7
<b>Profit/loss after financial items</b>		<b>871</b>	<b>1,328</b>
Tax	11	-5	-7
<b>Net profit for the year</b>		<b>866</b>	<b>1,322</b>

## Statement of comprehensive income for the Parent Company

SEK M	2019	2018
<b>Net profit for the year</b>	<b>866</b>	<b>1,322</b>
<b>Other comprehensive income</b>		
<b>Items that cannot be transferred to profit or loss</b>		
Change in fair value of equity instruments measured at fair value through other comprehensive income	-1	0
<b>Total other comprehensive income for the year, net after tax</b>	<b>-1</b>	<b>0</b>
<b>Comprehensive income for the year</b>	<b>865</b>	<b>1,321</b>

## Balance sheet for the Parent Company

SEK M	Note	31 Dec 2019	31 Dec 2018
<b>ASSETS</b>			
<b>Fixed assets</b>			
Intangible assets	12	345	373
Property and equipment	13	30	45
<i>Financial assets</i>			
Shares and participations in Group companies	14	17,741	17,742
Participating interests in other companies	14	-	1,016
Deferred tax assets	16	7	5
Other financial assets	15	2,524	907
<b>Total financial assets</b>		<b>20,272</b>	<b>19,671</b>
<b>Total fixed assets</b>		<b>20,647</b>	<b>20,089</b>
<b>Current assets</b>			
<i>Current receivables</i>			
Receivables from Group companies	26	543	461
Receivables from other related parties	26	36	182
Other receivables		52	85
Prepaid expenses and accrued income	17	195	84
<b>Total current receivables</b>		<b>827</b>	<b>813</b>
Cash and bank balances		221	209
<b>Total current assets</b>		<b>1,047</b>	<b>1,022</b>
<b>Total assets</b>	<b>23</b>	<b>21,696</b>	<b>21,111</b>

<b>Balance sheet for the Parent Company, cont.</b>			
<b>SEK M</b>	<b>Note</b>	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
<b>EQUITY, PROVISIONS AND LIABILITIES</b>			
<b>Equity</b>	18		
<i>Restricted equity</i>			
Share capital		1,042	1,042
Statutory reserve		5,017	5,025
<b>Total restricted equity</b>		<b>6,059</b>	<b>6,068</b>
<i>Non-restricted equity</i>			
Share premium reserve		5,471	5,471
Fair value reserve		-504	-503
Retained earnings		8,606	7,276
Net profit for the year		866	1,322
<b>Total non-restricted equity</b>		<b>14,439</b>	<b>13,565</b>
<b>Total equity</b>		<b>20,498</b>	<b>19,633</b>
<b>Provisions</b>			
Provisions for pensions and similar commitments	19	20	19
Other provisions	20	26	27
<b>Total provisions</b>		<b>46</b>	<b>46</b>
<b>Long-term liabilities</b>			
Liabilities to other related parties	26	258	323
<b>Total long-term liabilities</b>		<b>258</b>	<b>323</b>
<b>Current liabilities</b>			
Accounts payable		147	187
Liabilities to Group companies	26	208	246
Liabilities to other related parties	26	69	307
Other liabilities		35	43
Accrued expenses and deferred income	21	434	326
<b>Total current liabilities</b>		<b>894</b>	<b>1,109</b>
<b>Total equity, provisions and liabilities</b>	<b>23</b>	<b>21,696</b>	<b>21,111</b>

For information on pledged assets and contingent liabilities, see note 22.

## Statement of changes in equity for the Parent Company

SEK M	Restricted equity			Fair value reserves	Non-restricted equity			Total equity
	Share capital	Development expenditures fund	Statutory reserve	Fair value reserve	Share premium reserve	Retained earnings	Net profit/loss for the year	
Opening equity, 1 January 2018 after adjustment for change in accounting policy	1,042	189	4,801	-503	5,471	5,986	1,625	18,611
<b>Comprehensive income for the year</b>								
Net profit for the year	-	-	-	-	-	-	1,322	1,322
Other comprehensive income	-	-	-	0	-	-	-	0
<b>Comprehensive income for the year</b>	-	-	-	<b>0</b>	-	-	<b>1,322</b>	<b>1,322</b>
Dividends paid	-	-	-	-	-	-300	-	-300
Appropriation of profit	-	-	-	-	-	1,625	-1,625	-
Capitalised proprietary development expenditures	-	34	-	-	-	-34	-	-
<b>Closing equity, 31 December 2018</b>	<b>1,042</b>	<b>224</b>	<b>4,801</b>	<b>-503</b>	<b>5,471</b>	<b>7,276</b>	<b>1,322</b>	<b>19,633</b>
Opening equity, 1 January 2019 after adjustment for change in accounting policy	1,042	224	4,801	-503	5,471	7,276	1,322	19,633
<b>Comprehensive income for the year</b>								
Net profit for the year	-	-	-	-	-	-	866	866
Other comprehensive income	-	-	-	-1	-	-	-	-1
<b>Comprehensive income for the year</b>	-	-	-	<b>-1</b>	-	-	-	<b>-1</b>
Appropriation of profit	-	-	-	-	-	1,322	-1,322	-
Capitalised proprietary development expenditures	-	-8	-	-	-	8	-	-
<b>Closing equity, 31 December 2019</b>	<b>1,042</b>	<b>216</b>	<b>4,801</b>	<b>-504</b>	<b>5,471</b>	<b>8,606</b>	<b>866</b>	<b>20,498</b>

## Cash flow statement for the Parent Company

SEK M	Note	2019	2018
<b>Operating activities</b>			
Profit after financial items		871	1,328
Adjustment for non-cash items	27	-886	-109
Income tax paid		-15	-43
<b>Cash flow from operating activities before changes in working capital</b>		<b>-30</b>	<b>1,176</b>
<b>Cash flow from changes in working capital</b>			
Increase (-)/Decrease (+) in operating receivables		-1,304	185
Increase (+)/Decrease (-) in operating liabilities		-236	-244
<b>Cash flow from operating activities</b>		<b>-1,570</b>	<b>1,118</b>
<b>Investing activities</b>			
Change in shares in Group company		1,608	-800
Acquisition of intangible assets		-23	-61
Acquisition of property and equipment		-5	-2
Divestment of property and equipment		2	-
<b>Cash flow from investing activities</b>		<b>1,582</b>	<b>-863</b>
<b>Financing activities</b>			
Dividends paid		-	-300
<b>Cash flow from financing activities</b>		<b>-</b>	<b>-300</b>
Net cash flow for the year		12	-45
Cash and cash equivalents, 1 January		209	254
<b>Cash and cash equivalents, 31 December</b>		<b>221</b>	<b>209</b>

# Notes to the Parent Company's financial statements

All figures in SEK M unless otherwise stated.

## Note 1 Accounting policies

### Company information

The Annual Report for Länsförsäkringar AB (publ), Corp. Reg. No. 556549-7020, pertains to the fiscal year 1 January–31 December 2019. Länsförsäkringar AB (publ) is a limited liability company registered in Sweden with its registered offices in Stockholm. The company's address is Tegeluddsvägen 11–13, SE-106 50 Stockholm, Sweden. The company is wholly owned by the 23 regional insurance companies and 15 local insurance companies.

### Compliance with standards and legislation

The Parent Company's annual accounts have been prepared in accordance with the Swedish Annual Accounts Act (1995:1554) as well as recommendation RFR 2 Accounting for Legal Entities and the statements regarding listed companies by the Swedish Financial Reporting Board. The regulations in RFR 2 stipulate that the Parent Company, in the annual accounts for the legal entity, is to apply all IFRSs adopted by the EU and statements to the extent that this is possible within the framework of the Swedish Annual Accounts Act and the Pension Obligations Vesting Act, and with consideration to the relationship between accounting and taxation. The recommendation stipulates the permissible exceptions from and supplements to IFRS.

### Amended accounting policies applied from 1 January 2019

Länsförsäkringar AB 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 AB has made use of the option in RFR 2 to not apply IFRS 16 in legal entities due to the relationship between accounting and taxation, which is why the lease standard did not have any financial impact.

#### 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 Income Taxes is to be applied if there are uncertainties about how tax legislation is to be applied to a certain transaction or under certain circumstances. 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 AB does not apply hedge accounting and accordingly the amendments did not have any financial effect.

### New IFRSs and interpretations that have not yet been applied

The new or revised IFRSs and interpretations not yet in force and that have not been applied in advance are not deemed to have any material effect on the financial statements when they enter force.

### Differences between the Group's and the Parent Company's accounting policies

The deviations arising between the Group's and the Parent Company's accounting policies are due to the limitations on the possibility of applying IFRS in the Parent Company, as a result of the Swedish Annual Accounts Act, the Pension Obligations Vesting Act and with respect to the relationship between accounting and taxation.

The Parent Company applies the same accounting policies as the Group except in the following cases.

#### Classification and presentation format

The income statement and the balance sheet for the Parent Company are presented following the format of the Swedish Annual Accounts Act, as opposed to the consolidated statement of income and statement of financial position, which are based on IAS 1 Presentation of Financial Statements. The differences that apply in the Parent Company's income statement and balance sheet compared with the consolidated financial statements primarily comprise the classification of financial income and expenses, the specification of current assets and fixed assets, the specification of non-restricted and restricted equity, as well as the presence of provisions as a separate heading in the balance sheet.

#### Shares and participations in Group companies

Shares and participations in Group companies are recognised at cost.

#### Group contributions

Group contributions are recognised in accordance with the main rule of RFR 2. Group contributions received by the company from a Group company are thus recognised according to the same policies as financial income. Group contributions paid to a Group company are recognised as an increase in shares and participations in Group companies.

#### Leased assets

The Parent Company does not apply IFRS 16, in accordance with the exception found in RFR 2. Lease payments for which the Parent Company is the lessee are recognised as expenses straight-line over the term and thus no right-of-use assets or lease liabilities are recognised in the balance sheet.

#### Borrowing costs

Borrowing costs in the Parent Company are charged to earnings for the period to which they are attributable.

**Note 2 Risks and risk management**

In addition to shares in and receivables from Group companies, the Parent Company also has other securities held as non-current assets. However, these holdings are limited in size relative to the investment assets of the Group's insurance companies. At year-end 2019, the Parent Company's holdings in Länsförsäkringar Fastighetsförmedling AB amounted to SEK 3 M (3), participations in tenant-owned apartments to SEK 5 M (5), shares in Länsförsäkringar Liv Försäkrings AB (publ) to SEK 8 M (8) and interest-bearing bonds to SEK 2,505 M (891). In addition, bank balances amounted to SEK 221 M (209). At the end of the year, the Parent Company signed a renewed long-term service agreement with Länsförsäkringar Liv Försäkrings AB. In addition to the above mentioned assets and liabilities, the Parent Company's risks derive from the operations of the subsidiaries. Refer also to the Board of Directors' Report and the Group's note 2 Risk and capital management.

**Note 3 Net sales**

	2019	2018
<b>Income from contracts with customers</b>		
Income from companies in the Länsförsäkringar AB Group	1,434	1,346
Income from Länsförsäkringar Liv	200	219
Income from the regional insurance companies	1,730	1,488
Income from other related parties	23	23
Income from external customers	103	72
<b>Total income from contracts with customers</b>	<b>3,490</b>	<b>3,148</b>
Rental income	87	87
<b>Net sales</b>	<b>3,577</b>	<b>3,235</b>

**Note 4 External expenses**

	2019	2018
Cost of premises, note 5	-131	-126
Other cost of premises	-54	-50
Marketing	-58	-63
Consultants	-433	-769
Fees to auditors, note 7	-8	-4
IT costs	-1,452	-1,121
Printed matter, telephony and postage	-99	-94
Other expenses	-578	-114
<b>Total</b>	<b>-2,814</b>	<b>-2,340</b>

Costs for premises refers primarily to rent for premises used by the Group for its operations.

Länsförsäkringar AB in turn leases premises to Group companies.

**Note 5 Leasing****Lease agreements in which the company is the lessee**

Irrevocable lease payments pertaining to rent for premises amount to:

	2019	2018
Within one year	-151	-129
Later than one year but within five years	-570	-259
Over five years	-542	-
<b>Total</b>	<b>-1,263</b>	<b>-388</b>

A rental charge of SEK -135 M (-126) was recognised in profit for 2019.

Lease contracts are valid between five to ten years which is 31 October 2024 and 2029. Every time that lease contracts are renewed, a basic rent level is established that is subsequently index-linked to the consumer price index.

**Note 5 Leasing, cont.****Lease agreements in which the company is the lessor**

Irrevocable lease payments pertaining to rent for premises amount to:

	2019	2018
Within one year	88	87
Later than one year but within five years	-	174
<b>Total</b>	<b>88</b>	<b>261</b>

In 2019, rental income amounting to SEK 88 M (87) was recognised. The company leases premises to Group companies.

**Note 6 Employees, staff costs and remuneration to senior executives**

	2019	2018
Average number of employees, Sweden		
Men	375	335
Women	378	338
<b>Total number of employees</b>	<b>753</b>	<b>673</b>
<b>Salaries, other remuneration and social security expenses</b>		
<i>Other employees</i>		
Salaries and remuneration	592	512
Social security expenses	382	333
of which pension costs	155	135
<b>Total</b>	<b>973</b>	<b>846</b>
<i>Board of Directors and senior executives, 18 (18)</i>		
Salaries and remuneration	20	39
of which, fixed salary to the President and Executive Vice President	6	15
of which fixed salary to other senior executives	11	21
Social security expenses	14	23
of which pension costs	6	10
<b>Total</b>	<b>34</b>	<b>62</b>
<i>Total salaries, other remuneration and social security expenses</i>		
Salaries and remuneration	612	551
Social security expenses	395	356
of which pension costs	161	147
<b>Total</b>	<b>1,007</b>	<b>907</b>

**Variable remuneration**

Variable remuneration is a rarely utilised form of remuneration at the Länsförsäkringar AB Group.

**Remuneration of the Board**

Directors' fees are payable to the Chairman and members of the Board in accordance with a decision of the Annual General Meeting. No fee is payable to employee representatives and to Board members from the Länsförsäkringar AB Group.

**Remuneration of senior executives**

Remuneration of the President and other senior executives comprises basic salary and other benefits. Pension benefits and other benefits paid to the President and other senior executives are included as part of total remuneration. Senior executives are the individuals who, together with the President, comprise of corporate management.

## Note 6 Employees, staff costs and remuneration to senior executives, cont.

### Remuneration for senior executives

2019	Basic salary	Other remuneration	Pension costs	Total	Pension costs as a percentage of pensionable salary, %	
					Defined-contribution	
Fredrik Bergström, President	5.7	0.0	2.0	7.7		35
Ann Sommer, Executive Vice President	3.8	0.0	1.1	4.9		30
Cesar Åfors, Chairman of the Board	0.9	-	-	0.9		-
Maria Engholm, Deputy Chairman of the Board	0.5	-	-	0.5		-
Mikael Sundquist, Board member	0.3	-	-	0.3		-
Hans Ljungkvist, Board member	0.2	-	-	0.2		-
Jonas Rosman, Board member	0.3	-	-	0.3		-
Göran Lindell, Board member	0.3	-	-	0.3		-
Susanne Bäck, Board member	0.3	-	-	0.3		-
Bengt-Erik Jansson, Board member	0.4	-	-	0.4		-
Maria Wallin Wällberg, Board member	0.4	-	-	0.4		-
Christer Villard, Former Board member	0.1	-	-	0.1		-
<b>Other senior executives</b>						
Parent Company (6 people)	10.6	0.2	3.7	14.5		38
Subsidiaries and Länsförsäkringar Liv (2 people)	6.1	0.0	2.2	8.3		36
<b>Total 2019</b>	<b>30.0</b>	<b>0.2</b>	<b>9.1</b>	<b>39.3</b>		
Total remuneration from Parent Company	20.1	0.2	5.8	26.0		
Total remuneration from subsidiaries	9.9	0.0	3.3	13.2		

2018	Basic salary	Other remuneration	Pension costs	Total	Pension costs as a percentage of pensionable salary, %	
					Defined-contribution	
Fredrik Bergström, President	1.8	0.0	0.5	2.3		35
Sören Westin, Former President	3.7	0.0	0.4	4.1		35
Johan Agerman, Former President	3.4	5.9	1.2	10.6		35
Ann Sommer, Executive Vice President	3.7	0.0	1.5	5.2		40
Cesar Åfors, Chairman of the Board	0.7	-	-	0.7		-
Jan Fock, Former Deputy Chairman of the Board	0.5	-	-	0.5		-
Maria Engholm, Deputy Chairman of the Board	0.6	-	-	0.6		-
Mikael Sundquist, Board member	0.3	-	-	0.3		-
Jonas Rosman, Board member	0.4	-	-	0.4		-
Christer Villard, Board member	0.3	-	-	0.3		-
Göran Lindell, Board member	0.3	-	-	0.3		-
Susanne Bäck, Board member	0.3	-	-	0.3		-
Bengt-Erik Jansson, Board member	0.3	-	-	0.3		-
Maria Wallin Wällberg, Board member	0.2	-	-	0.2		-
<b>Other senior executives</b>						
Parent Company (9 people)	20.5	0.3	8.3	29.1		42
Subsidiaries and Länsförsäkringar Liv (3 people)	10.6	0.1	4.4	15.2		38
<b>Total 2018</b>	<b>47.7</b>	<b>6.3</b>	<b>16.4</b>	<b>70.5</b>		
Total remuneration from Parent Company	33.4	6.2	10.5	50.0		
Total remuneration from subsidiaries and Länsförsäkringar Liv	14.3	0.1	5.9	20.4		

Other remuneration of a former President in 2018 refers to severance pay.  
The cost refers to pension cost that effected the profit/loss in 2018.

## Note 6 Employees, staff costs and remuneration to senior executives, cont.

### Pensions

The retirement age for the President is 65. The pension is a defined-contribution plan and the pension premium is to amount to 35% of the monthly salary. The retirement age for the Executive Vice President is 60. The pension between the age of 60 and 65 is a defined-contribution plan. The pension premium is to amount to 18% of pensionable salary. Pensionable salary refers to fixed salary. Pension from the age of 65 is subject to the terms of the pension agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (FORENA) and the Swedish Confederation of Professional Associations (SACO).

The retirement age for other senior executives is 62 or 65. If the retirement age is 65, the pension is a defined-contribution plan and the pension premium is to amount to 35% of the monthly salary. If the retirement age is 62, the pension between the age of 62 and 65, is a defined-contribution plan. Pension amounting to about 70% of the pensionable salary will be paid. Pension from the age of 65 is subject to the terms of the pension agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (FORENA) and the Swedish Confederation of Professional Associations (SACO).

### Severance pay

A mutual period of notice of six months applies to the President. If the company terminates employment, severance pay corresponding to 12 months' salary is paid during the period of notice. A mutual period of notice of three months applies to the Executive Vice President. If the company terminates employment, severance pay corresponding to 24 months' salary is paid during the period of notice. A mutual period of notice of three or six months applies for other senior executives. If the company terminates employment, severance pay corresponding to 12 or 18 months' salary is paid during the period of notice.

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

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

### Composition and mandate of Remuneration Committee

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

### Policies for remuneration of corporate management

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

### Fixed remuneration

Fixed remuneration is paid according to the general policy above.

### Pensions

The pension solution shall be solely premium-based with a premium provision of 35% of the monthly salary.

### Other benefits

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

Loans to senior executives	31 Dec 2019	31 Dec 2018
Board members	13	10
President and Executive Vice Presidents	6	8
Other senior executives	9	21
<b>Total</b>	<b>28</b>	<b>39</b>

Loans granted comprise personnel loans and other loans. Personnel loans are maximised at SEK 500,000 and carry loan terms comparable to what applies to other employees in the Group. The interest rate for employees is the repo rate less 0.5 percentage points, but can never be lower than 0.5%. The interest benefit is calculated in accordance with the Swedish Tax Agency's rules and is included in other benefits as above. The terms and conditions of other loans are market-based.

Number of women among senior executives, %	31 Dec 2019	31 Dec 2018
Board members	50	50
Other senior executives	50	62

## Note 7 Fees and remuneration to auditors

	2019	2018
<b>KPMG AB</b>		
- audit assignments	-4	-4
- audit operations in addition to the audit assignment	-1	-
- tax consulting	0	0
- other assignment	-3	0
<b>Total</b>	<b>-8</b>	<b>-5</b>

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

## Note 8 Profit from participations in group companies

	2019	2018
Dividends from subsidiaries	295	1,310
Group contributions received	365	150
Share of profit in partnership	591	46
<b>Total</b>	<b>1,251</b>	<b>1,506</b>

## Note 9 Interest income and similar profit/loss items

	2019	2018
Interest income, other <sup>1)</sup>	0	-1
Interest income, bonds and interest-bearing securities <sup>2)</sup>	-1	-2
Capital gains, currencies	0	0
Capital gains, shares and participations	0	-
Capital gains, interest-bearing securities Group companies	0	0
<b>Total</b>	<b>-1</b>	<b>-2</b>

<sup>1)</sup> Of which negative interest on Cash and bank of SEK 0.3 M (0.8).

<sup>2)</sup> Of which negative interest on Bonds and other interest-bearing securities of SEK 0.9 M (1.5).

## Note 10 Interest expense and similar profit/loss items

	2019	2018
Interest expense, Länsförsäkringar Liv	-	-5
Interest expense, bonds and interest-bearing securities	0	0
Interest expenses, derivatives	-	-
Interest expenses, other	0	0
Capital losses, currencies	0	0
Unrealised losses, interest-bearing securities	-3	-2
Unrealised losses, shares and participations	0	0
Realised losses, derivatives	-	-
Unrealised losses, derivatives	-	-
<b>Total</b>	<b>-3</b>	<b>-7</b>



<b>Note 14</b>	<b>Shares and participations in group companies</b>
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	2019	2018
<b>Cost</b>		
Opening cost, 1 January	22,316	21,471
Shareholder contributions	-	800
Acquisitions	-	50
Disposals	-997	-
Withdrawal	-63	-51
Capital gains from partnerships	44	46
<b>Closing cost, 31 December</b>	<b>21,301</b>	<b>22,316</b>
<b>Impairment</b>		
Opening accumulated impairment, 1 January	-3,559	-3,559
<b>Closing accumulated impairment, 31 December</b>	<b>-3,559</b>	<b>-3,559</b>
<b>Carrying amount, 31 December</b>	<b>17,741</b>	<b>18,758</b>

**Specification of the company's holding of shares and participations in Group companies**

Company name	Corporate Registration Number	Number of shares and participations	Participating interest 2019, %	Participating interest 2018, %	Carrying amount 31 Dec 2019	Carrying amount 31 Dec 2018
Länsförsäkringar Bank AB (publ)	516401-9878	9,548,708	100	100	9,230	9,230
Länsförsäkringar Fondliv Försäkrings AB (publ)	516401-8219	10,000	100	100	5,305	5,305
Länsförsäkringar Sak Försäkrings AB (publ)	502010-9681	2,000,000	100	100	3,206	3,206
Utile Dulci 2 HB	916601-0067	-	-	45,6	-	1,016
<b>Shares and participations in Group companies</b>					<b>17,741</b>	<b>18,758</b>

All subsidiaries have their registered offices in Stockholm.

Länsförsäkringar AB owns 100% of the shares in Länsförsäkringar Liv Försäkringsaktiebolag (publ). This company is operated in accordance with mutual principles and may not pay dividends according to its current Articles of Association. As a result, the majority of the risks and rewards associated with ownership do not accrue to the owner Länsförsäkringar AB but to the life-assurance policyholders. Accordingly, this shareholding cannot be classified as a holding in a subsidiary under the definition provided in IAS 27 Consolidated and Separate Financial Statements.

<b>Note 15</b>	<b>Other financial assets</b>
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	2019	2018
Opening balance, 1 January	907	737
Acquisition of bonds and interest-bearing securities	2,510	291
Divestment of bonds and interest-bearing securities	-873	-99
Allocation of premiums and discounts	-31	-23
Change in value of bonds and interest-bearing securities	11	1
<b>Carrying amount, 31 December</b>	<b>2,524</b>	<b>907</b>

Company name	Number of shares and participations	Carrying amount 31 Dec 2019	Carrying amount 31 Dec 2018
Länsförsäkringar Liv Försäkrings AB (publ)	8,000	8	8
Brf Mässen	1	5	5
Länsförsäkringar Fastighetsförmedling AB	930	3	3
Listed bonds issued by other Swedish issuers		2,508	891
<b>Total</b>		<b>2,524</b>	<b>907</b>

**Note 16** Deferred tax assets and liabilities

	Deferred tax assets		Deferred tax liabilities		Net	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Property and equipment	-	1	-	-	-	1
Financial assets	-	1	-	-	-1	1
Pension provisions	-7	-7	-	-	-6	-7
<b>Deferred tax assets (-)/deferred tax liabilities (+)</b>	<b>-7</b>	<b>-5</b>	<b>-</b>	<b>-</b>	<b>-7</b>	<b>-5</b>
Offset	-	-	-	-	-	-
<b>Net deferred tax asset (-)/deferred tax liability (+)</b>	<b>-7</b>	<b>-5</b>	<b>-</b>	<b>-</b>	<b>-7</b>	<b>-5</b>

**Change in deferred tax in temporary differences and loss carryforwards 2019**

	Amount at 1 January	Recognised in profit or loss	Recognised in other comprehensive income	Amount at 31 December
Property and equipment	1	-1	-	0
Financial assets	1	-1	-	0
Pension provisions	-7	-	-	-7
<b>Deferred tax assets (-)/deferred tax liability (+)</b>	<b>-5</b>	<b>-2</b>	<b>-</b>	<b>-7</b>

**Change in deferred tax in temporary differences and loss carryforwards 2018**

	Amount at 1 January	Recognised in profit or loss	Recognised in other comprehensive income	Amount at 31 December
Property and equipment	2	-1	-	1
Financial assets	1	0	-	1
Pension provisions	-7	0	-	-7
<b>Deferred tax assets (-)/deferred tax liability (+)</b>	<b>-4</b>	<b>-1</b>	<b>-</b>	<b>-5</b>

**Note 17** Prepaid expenses and accrued income

	31 Dec 2019	31 Dec 2018
Other accrued income	-	2
Prepaid expenses	195	83
<b>Total</b>	<b>195</b>	<b>84</b>

**Note 18** Equity

A specification of changes in shareholders' equity is provided after in the statement of changes in equity.

Shares at a quotient value of SEK 100	Number of votes per share	31 Dec 2019 Number	31 Dec 2018 Number
Series A	10	1,532,678	1,532,678
Series B	1	8,885,949	8,885,949
Series C	1	5,955	5,955
<b>Number of shares outstanding</b>		<b>10,424,582</b>	<b>10,424,582</b>

**Restricted reserves**

Restricted reserves may not be reduced through profit distribution.

**Statutory reserve**

The aim of the statutory reserve is to save a portion of the net profit that is not utilised to cover losses brought forward. The statutory reserve comprises restricted equity.

No new transfers to the statutory reserve are required, although transfers can be made voluntarily. The statutory reserve also includes the amount of SEK 4,801 M that was included in the share premium reserve prior to 1 January 2006.

**Non-restricted equity****Fair value fund***Fair value reserve*

The fair value reserve comprises the accumulated net change in fair value of available-for-sale financial assets until the asset is derecognised from the balance sheet.

**Share premium reserve**

When shares are issued at a premium, meaning that a higher amount than the quotient value is paid for the share, an amount corresponding to the surplus of the quotient value of the share is recognised in the share premium reserve.

**Retained earnings**

Retained earnings comprises profit brought forward from the preceding year after deductions for any dividends paid during the year.

**Share ownership in  
Länsförsäkringar AB**

Company	Number of shares			Share capital, %
	A	B	C	
Länsförsäkringar Skåne	141,849	882,046	-	9.8
Länsförsäkringar Stockholm	129,212	802,382	-	8.9
Länsförsäkringar Östgöta	114,155	663,463	-	7.5
Dalarnas Försäkringsbolag	104,708	609,639	-	6.9
Länsförsäkringar Göteborg och Bohuslän	87,010	605,143	821	6.6
Länsförsäkringar Älvsborg	100,176	581,374	-	6.5
Länsförsäkringar Bergslagen	86,351	495,089	-	5.6
Länsförsäkringar Jönköping	82,812	474,021	-	5.3
Länsförsäkringar Uppsala	73,298	424,791	-	4.8
Länsförsäkringar Västerbotten	57,195	330,919	-	3.7
Länsförsäkringar Halland	56,785	329,857	-	3.7
Länsförsäkringar Södermanland	58,117	323,139	-	3.7
Länsförsäkringar Göinge-Kristianstad	49,982	322,347	-	3.6
Länsförsäkringar Kalmar län	56,717	295,878	-	3.4
Länsförsäkringar Gävleborg	60,058	281,083	-	3.3
Länsförsäkringar Skaraborg	64,058	253,172	-	3.0
Länsförsäkringar Västernorrland	50,186	257,122	-	2.9
Länsförsäkringar Jämtland	35,795	226,453	-	2.5
Länsförsäkring Kronoberg	36,701	203,130	-	2.3
Länsförsäkringar Värmland	31,160	202,208	-	2.2
LF Norrbotten	16,960	127,878	-	1.4
Länsförsäkringar Blekinge	23,088	120,500	-	1.4
Länsförsäkringar Gotland	16,305	74,315	-	0.9
15 local insurance companies	-	-	5,134	0.0
<b>Total number of shares</b>	<b>1,532,678</b>	<b>8,885,949</b>	<b>5,955</b>	<b>100</b>

<b>Note 19</b>	<b>Provisions for pensions and similar commitments</b>	
	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
Pension provisions	12	12
Other provisions	8	6
<b>Total provisions for pensions</b>	<b>20</b>	<b>19</b>

Pension provisions of SEK 12 M (12) are encompassed by the Pension Obligations Vesting Act.

#### Defined-benefit pension plans

There are a number of minor plans that almost only encompass employees who have already reached retirement age. These plans cover old-age pensions and in some cases also survivor's pension. The pension amounts are paid in relation to the final salary level when the employee retires and in the vast majority of cases are life annuities. In the event that upward adjustment of the pension has been agreed, the Parent Company follows the norms applied by the Insurance Industry's Pension Fund (FPK).

#### Defined-contribution pension plans

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

FTP plan contributions for 2020 are expected to total SEK 59 M.

	<b>2019</b>	<b>2018</b>
Expenses for defined-contribution plans	143	130

<b>Note 20</b>	<b>Other provisions</b>	
	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
Provision for interest subsidies for personnel loans to former employees who have retired.	16	18
Other provisions	10	9
<b>Total</b>	<b>26</b>	<b>27</b>

<b>Note 21</b>	<b>Accrued expenses and deferred income</b>	
	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
Holiday pay liability	61	56
Social security expenses	24	19
Special employer's contribution	36	66
Provisions for staff costs	7	12
Other accrued expenses	307	173
<b>Total</b>	<b>434</b>	<b>326</b>

<b>Note 22</b>	<b>Pledged assets and contingent liabilities</b>	
	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
<b>Contingent liabilities</b>		
Part-owner of Utile Dulci 2 HB	-	13

Länsförsäkringar AB and Länsförsäkringar Fondliv have signed a service agreement with Länsförsäkringar Liv due to Länsförsäkringar Liv's run off. For additional information the Group's note 45 Pledged assets and contingent liabilities.

**Note 23** Anticipated recovery and settlement periods for assets, provisions and liabilities

Amount expected to be recovered	31 Dec 2019			31 Dec 2018		
	within 12 months	after 12 months	Total	within 12 months	after 12 months	Total
<b>Fixed assets</b>						
Intangible assets <sup>1)</sup>	49	295	345	50	323	373
Property and equipment <sup>1)</sup>	18	12	30	20	25	45
Shares and participations in Group companies	-	17,741	17,741	-	17,742	17,742
Participating interests in other companies	-	8	8	-	1,016	1,016
Deferred tax assets	7	-	7	5	-	5
Other financial assets	975	1,541	2,515	-	907	907
<b>Total fixed assets</b>	<b>1,049</b>	<b>19,597</b>	<b>20,646</b>	<b>75</b>	<b>20,014</b>	<b>20,089</b>
<b>Current assets</b>						
Receivables from Group companies	542	-	542	461	-	461
Receivables from other related parties	-	-	-	182	-	182
Other receivables	87	-	87	85	-	85
Prepaid expenses and accrued income	198	-	198	84	-	84
Cash and bank balances	221	-	221	209	-	209
<b>Total current assets</b>	<b>1,048</b>	<b>-</b>	<b>1,048</b>	<b>1,021</b>	<b>-</b>	<b>1,021</b>
<b>Total assets</b>	<b>2,097</b>	<b>19,597</b>	<b>21,696</b>	<b>1,096</b>	<b>20,014</b>	<b>21,111</b>

<sup>1)</sup>The amount that is expected to be recovered within 12 months corresponds to depreciation for the year.

Amount expected to be settled	31 Dec 2019			31 Dec 2018		
	within 12 months	after 12 months	Total	within 12 months	after 12 months	Total
<b>Provisions</b>						
Provisions for pensions and similar commitments	-	-	-	-	19	19
Other provisions	-	46	46	-	27	27
<b>Total provisions</b>	<b>-</b>	<b>46</b>	<b>46</b>	<b>-</b>	<b>46</b>	<b>46</b>
<b>Long-term liabilities</b>						
Liabilities to other related parties	-	-	-	-	323	323
<b>Total long-term liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>323</b>	<b>323</b>
<b>Current liabilities</b>						
Accounts payable	149	-	149	187	-	187
Liabilities to Group companies	6	202	208	246	-	246
Liabilities to other related parties	-	-	-	307	-	307
Other liabilities	188	-	188	43	-	43
Accrued expenses and deferred income	432	323	756	326	-	326
<b>Total current liabilities</b>	<b>775</b>	<b>525</b>	<b>1,301</b>	<b>1,109</b>	<b>-</b>	<b>1,109</b>
<b>Total liabilities and provisions</b>	<b>775</b>	<b>571</b>	<b>1,347</b>	<b>1,109</b>	<b>369</b>	<b>1,478</b>

**Note 24** Classification of financial assets and liabilities

31 Dec 2019	Financial assets measured at fair value in profit or loss		Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income		Total	Fair value
	Measured at fair value in profit or loss	Equity instruments		Debt instruments	Equity instruments		
<b>Assets</b>							
Other financial assets	2,508	-	-	-	-	-	2,508
Shares and participations	3	-	-	-	5	8	8
Shares in Länsförsäkringar Liv Försäkrings AB	-	-	-	-	8	8	8
Receivables from Group companies	-	542	-	-	-	542	-
Receivables from other related parties	-	-	-	-	-	-	-
Other receivables	-	42	-	-	-	42	-
Prepaid expenses and accrued income	-	3	-	-	-	3	-
Current investments	-	-	-	-	-	-	-
Cash and bank balances	-	221	-	-	-	221	-
<b>Total</b>	<b>2,511</b>	<b>807</b>	<b>-</b>	<b>-</b>	<b>13</b>	<b>3,332</b>	<b>2,524</b>

31 Dec 2019	Financial liabilities measured at fair value in profit or loss	Financial liabilities measured at amortised cost	Total	Fair value
<b>Liabilities</b>				
Liabilities to Group companies	-	206,559	-	206,559
Liabilities to other related parties	-	-	-	-
Other liabilities and accounts payable	-	151,806	-	151,806
Accrued expenses and deferred income	-	579,351	-	579,351
<b>Total</b>	<b>-</b>	<b>937,716</b>	<b>-</b>	<b>937,716</b>

31 Dec 2018	Financial assets measured at fair value in profit or loss		Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income		Total	Fair value
	Measured at fair value in profit or loss	Equity instruments		Debt instruments	Equity instruments		
<b>Assets</b>							
Other financial assets	891	-	-	-	-	891	891
Shares and participations	-	-	-	-	8	8	8
Shares in Länsförsäkringar Liv Försäkrings AB	-	-	-	-	8	8	8
Receivables from Group companies	-	-	419	-	-	419	419
Receivables from other related parties	-	-	-	-	-	-	-
Other receivables	-	-	185	-	-	185	185
Prepaid expenses and accrued income	-	-	17	-	-	17	17
Current investments	-	-	-	-	-	-	-
Cash and bank balances	-	-	209	-	-	209	209
<b>Total</b>	<b>891</b>	<b>-</b>	<b>829</b>	<b>-</b>	<b>17</b>	<b>1,737</b>	<b>1,737</b>

31 Dec 2018	Financial liabilities measured at fair value in profit or loss	Financial liabilities measured at amortised cost	Total	Fair value
<b>Liabilities</b>				
Liabilities to Group companies	-	246	246	246
Liabilities to other related parties	-	629	629	629
Other liabilities and accounts payable	-	230	230	230
Accrued expenses and deferred income	-	326	326	326
<b>Total</b>	<b>-</b>	<b>1,432</b>	<b>1,432</b>	<b>1,432</b>

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

The main principle for measuring the fair value of debt securities in issue is that the value is measured at prices from external parties at year-end or the most recent trading date. If external prices are not available or are deemed to deviate from market levels, a standard method or valuation technique based on the estimated or original issue spread is utilised.

**Note 25** Fair value valuation techniques

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

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

**Level 2** – Financial instruments measured using valuation techniques that are essentially based on market data are categorised as Level 2. This Level primarily includes interest-rate and currency derivatives.

**Level 3** – Financial instruments whose measurement is significantly influenced by inputs that cannot be verified by external market data are categorised as Level 3. This Level mainly includes properties and unquoted shares and participations.

	2019				2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Shares and participations	-	5	12	16	-	5	12	17
Bonds and other interest-bearing securities	2,508	-	-	2,508	891	-	-	891

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. Shares in Länsförsäkringar Liv Försäkrings AB are valued at the company's share capital. The life-assurance operations are conducted in accordance with mutual principles through Länsförsäkringar Liv Försäkrings AB, whose earn-

ings are not distributed to the owner; instead they accrue in their entirety to the policyholders. Delisted, insolvent companies are measured at zero, if no other listing can be found.

Profits and losses are recognised in Interest income and similar profit/loss items or Interest expense and similar profit/loss items.

**Change level 3**

	Shares and participations	Total
Opening balance 1 January 2018	4	4
Application of IFRS 9	8	8
Recognised in other comprehensive income	0	0
<b>Closing balance 31 December 2018</b>	<b>12</b>	<b>12</b>

	Shares and participations	Total
Opening balance 1 January 2019	12	12
Application of IFRS 9	-	-
Recognised in other comprehensive income	0	0
<b>Closing balance 31 December 2019</b>	<b>11</b>	<b>11</b>

**Note 26 Disclosures on related parties**

Pricing for service activities within the Länsförsäkringar Alliance is based on direct and indirect costs. A price list is established in conjunction with the target process. Overall, pricing is intended to distribute costs within the Länsförsäkringar Alliance based on con-

sumption. Joint development projects and joint service are financed collectively and invoiced based on an established distribution key.

Related-party transactions 2019		Group companies	Länsförsäkringar Liv	Regional insurance companies	Other related parties	Total
Income	Services sold	1,475	203	1,726	570	3,975
	Rent, premises	87	-	-	-	87
	Financial income	660	-	-	-	660
Expenses	Services purchased	-52	-	-27	0	-79
	Rent, premises	-104	-	-	-	-104
	Cash and cash equivalents with Länsförsäkringar Bank	124	-	-	-	124
Receivables	Other receivables	419	-	31	4	454
	Liabilities	Interest-bearing liabilities	-	-	-	-
	Other liabilities	208	3	66	-	277

Related-party transactions 2018		Group companies	Länsförsäkringar Liv	Regional insurance companies	Other related parties	Total
Income	Services sold	1,392	219	1,488	23	3,122
	Rent, premises	87	-	-	-	87
	Financial income	1,460	-	-	-	1,460
Expenses	Services purchased	-17	-3	-22	-4	-47
	Rent, premises	-126	-	-	-	-126
	Financial costs	-	-5	-	-	-5
Receivables	Cash and cash equivalents with Länsförsäkringar Bank	245	-	-	-	245
	Other receivables	216	16	165	0	398
Liabilities	Interest-bearing liabilities	-	0	-	-	-
	Other liabilities	246	38	592	-	876

Länsförsäkringar AB is owned by the 23 regional insurance companies and 15 local insurance companies. In terms of operations, Länsförsäkringar AB with subsidiaries are organised into four business units: Non-life Insurance, Unit-linked Life Assurance, Traditional Life Assurance and Bank, as well as support functions Business Support, IT and Customer and Channel Support. The President's staff includes the shared units of Accounting and Finance, Legal Affairs, Asset Management, Corporate Communication, HR, Compliance and Risk Management.

Länsförsäkringar AB purchases and owns equipment that is subsequently leased to Group companies and Länsförsäkringar Liv.

Länsförsäkringar AB leases its office premises from property owner Utile Dulci 2 HB.

Länsförsäkringar Bank manages subsidised loans to employees on behalf of the Parent Company Länsförsäkringar AB, issued after the bank performs standard credit rating checks.

For information regarding remuneration of related key persons, such as Board members and senior executives, see note 6 Employees, staff costs and remuneration of senior executives.

Länsförsäkringar AB and Länsförsäkringar Fondliv have signed a service agreement with Länsförsäkringar Liv due to Länsförsäkringar Liv's run-off. The Group's note 45 Pledged assets and contingent liabilities provides additional information about this agreement.

Related subsidiaries are specified in note 14 Shares and participations in Group companies.

**Note 27 Supplementary information to the cash-flow statement**

	2019	2018
<b>Interest paid and dividends received</b>		
Dividends received from subsidiaries	295	1 310
Withdrawal subsidiaries	63	51
Interest received	31	2
Interest paid	0	-5
<b>Adjustment for non-cash items</b>		
Depreciation/amortisation and impairment of assets	69	105
Realised gains and losses	-547	0
Unrealised gains and losses	2	-2
Provisions	0	-18
Hedging reserve	-	2
Group contributions received that are regulated in the following fiscal year	-365	-150
Profit participation subsidiaries	-44	-46
<b>Total</b>	<b>-886</b>	<b>-109</b>

Cash and cash equivalents comprise bank balances.

**Note 28** Financial transactions not recognised in the balance sheet

Länsförsäkringar AB has external suppliers of IT operations at a cost of SEK 625 M (394). The costs also include machinery equipment for computer operations. Some regional insurance companies and Länsförsäkringar Liv are also included in the arrangement. Their remuneration to Länsförsäkringar AB is included in service revenue.

**Note 29** Events after balance-sheet date

The COVID-19 outbreak has now been classified as a pandemic. There is considerable uncertainty, but Länsförsäkringar AB is monitoring developments and is continuously adjusting its operations using contingency and business continuity plans. All growth forecasts are currently highly uncertain, but most forecasters are assuming global growth of 2–2.5% in 2020.

**Note 30** Proposed appropriation of profit

According to the statement of financial position for Länsförsäkringar AB, non-restricted equity totalling SEK 14,348,948,733 is at the disposal of the Annual General Meeting.

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

Share premium reserve	5,470,917,955
Fair value reserve	-504,205,135
Retained earnings	8,606,414,586
Net profit for the year	865,821,327
<b>Non-restricted equity, 31 December 2019</b>	<b>14,438,948,733</b>

The Board of Directors propose that of the unappropriated earnings in the Parent Company SEK 67 per share be paid to the shareholders	698,446,994
To be carried forward	13,740,501,739
	14,438,948,733

The dividend is calculated 10,424,582 shares.

# Statement from the Board

The Board of Directors and President affirm that this Annual Report was prepared in accordance with generally accepted accounting policies in Sweden and that the consolidated financial statements were prepared in accordance with the international accounting standards referred to in Regulation (EC) No 1606/2002 of the European Parliament and the Council issued on 19 July 2002 on the application of international accounting standards. The Annual Report

and consolidated financial statements provide a true and fair view of the Parent Company's and the Group's financial position and earnings. The Board of Directors' Report provides a true and fair overview of the Parent Company's and the Group's operations, financial position and earnings, and describes the significant risks and uncertainties to which the Parent Company and the companies included in the Group are exposed.

Stockholm, 12 March 2020

Caesar Åfors  
*Chairman*

Maria Engholm  
*Deputy Chairman*

Susanne Båsk  
*Board member*

Bengt-Erik Jansson  
*Board member*

Göran Lindell  
*Board member*

Hans Ljungkvist  
*Board member*

Jonas Rosman  
*Board member*

Mikael Sundquist  
*Board member*

Maria Wallin Wållberg  
*Board member*

Susanne Lindberg  
*Employee Representative*

Linnéa Niklasson  
*Employee Representative*

Anna Sandqvist  
*Employee Representative*

Fredrik Bergström  
*President*

The Annual Report and the consolidated financial statements above were approved for publishing by the Board of Directors on 12 March 2020. The Group's income statement, statement of comprehensive income and statement of financial position, as well as the Parent Company's income statement and balance sheet are subject to approval by the Annual General Meeting to be held on 8 May 2020.

My audit report was submitted on 12 March 2020

Mårten Asplund  
*Authorized Public Accountant*

# Auditor's Report

To the general meeting of the shareholders of Länsförsäkringar AB (publ),  
corp. id 556549-7020

Translation from the Swedish original

## Report on the annual accounts and consolidated accounts

### Opinions

We have audited the annual accounts and consolidated accounts of Länsförsäkringar AB (publ) for the year 2019, except for the corporate governance statement on pages 1-2 and the sustainability report on pages 1-2. The annual accounts and consolidated accounts of the company are included on pages 1-2 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act, and present fairly, in all material respects, the financial position of the parent company as of 31 December 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act for Insurance Companies and present fairly, in all material respects, the financial position of the group as of 31 December 2019 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act for Insurance Companies. Our opinions do not cover the corporate governance statement on pages 1-2 and sustainability report on pages 1-2. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the statement of comprehensive income and statement of financial position for the group.

### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-2 and 1-2. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and the Annual Accounts Act for Insurance Companies and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of

Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts the Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

### Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

## **Report on other legal and regulatory requirements**

### **Opinions**

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Länsförsäkringar AB (publ) for the year 2019 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

### **Basis for Opinions**

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### **Responsibilities of the Board of Directors and the Managing Director**

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

### **Auditor's responsibility**

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts 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 the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

### **The auditor's examination of the corporate governance statement**

The Board of Directors is responsible for that the corporate governance statement on pages 1-2 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act and the Annual Accounts Act for Insurance Companies.

### **The auditor's opinion regarding the statutory sustainability report**

The Board of Directors is responsible for the sustainability report on pages 1-2, 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.

Stockholm 12 March 2020

KPMG AB

Mårten Asplund  
Authorized Public Accountant

# About the Sustainability Report

Länsförsäkringar AB's sustainability report is prepared annually and is an integrated part of the company's annual report. The report is based on the Core level of the 2016 GRI Standards, except for the Standard on Occupational Health and Safety, which follows the updated version from 2018. The Sustainability Report also contains the company's reporting according to Chapter 6, Section 11 of the Swedish Annual Accounts Act, as well as the company's Communication on Progress to the UN Global Compact.

## Accounting period and scope

The Sustainability Report describes how Länsförsäkringar AB works with its most significant issues and the impact of our operations on society, humans and the environment. It also describes how Länsförsäkringar AB works on sustainability risks and how sustainability topics are an integrated part of the business model.

Unless otherwise stated, the Sustainability Report pertains to Länsförsäkringar AB and its subsidiaries Länsförsäkringar Sak, Agria, Länsförsäkringar Gruppliv, Länsförsäkringar Liv, Länsförsäkringar Bank, Länsförsäkringar Fondförvaltning, Länsförsäkringar Hypotek, Wasa Kredit and Länsförsäkringar Fondliv. Information and data applies to the period from 1 January to 31 December 2019. The previous sustainability report was published on 27 March 2019.

## Materiality analysis

In 2018, a materiality analysis was carried out that will form the basis for continued work on sustainability topics. It aimed to prioritise the most important sustainability topics for Länsförsäkringar based on the business's impact on the environment and society.

As part of the analysis, various stakeholder groups were engaged in autumn 2018 to enhance understanding of key stakeholders' expectations of Länsförsäkringar AB's sustainability activities. The stakeholders' expectations of Länsförsäkringar AB regarding sustainability topics were taken into account when the internal working

group prioritised sustainability topics. The following stakeholders responded to a questionnaire and were interviewed in depth:

- Regional insurance companies (owners and customer managers)
- Employees
- Customers (brokers and corporate customers)
- Civil society organisations
- Asset managers

As owners and recipients of deliveries from Länsförsäkringar AB, the regional insurance companies hold a unique position among stakeholders. Customer meetings are managed locally by the regional insurance companies. Länsförsäkringar AB's task is to conduct joint banking and insurance operations, pursue strategic development activities and provide service in areas that generate economies of scale and enhance efficiency. Group management validated the results in December 2018. The update of the key sustainability topics governs the sustainability content of reporting in 2019.

A materiality analysis was performed in 2019 to prioritise the most important sustainability topics for Länsförsäkringar Bank. The results were in line with the those from Länsförsäkringar AB's 2018 materiality analysis.

## Data and figures

Information about how the data has been collated is provided in the GRI index.

Three focus areas have been renamed in the 2019 Annual Report to clarify their scope. Responsible investments has been changed to Responsible savings offering to clarify that it pertains to savings in funds and pensions as well as investments. Responsible banking has been changed to Responsible lending offering to highlight the customer perspective, and Sustainability requirements on suppliers has been changed to Responsible purchasing.

## Sustainability topic

Responsible savings offering

Responsible lending offering

Responsible insurance offering

Business ethics

Responsible employer

Responsible purchasing

Direct environmental impact

Long-term environmental and social commitment

## Material impact

External

External

External

Internal and external

Internal

External

External

Internal and external

## Questions about the 2019 Sustainability Report

Questions about Länsförsäkringar AB's 2019 Sustainability Report can be directed to the Head of Sustainability, Christina Kusoffsky Hillesöy, via e-mail: [christina.hillesoy@lansforsakringar.se](mailto:christina.hillesoy@lansforsakringar.se).

# Governance

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

## Governance of sustainability activities

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

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

A Sustainability Committee, comprising Group management, the Head of Sustainability and the Heads of Asset Management, Life Assurance, Strategy and Change Management, Communication and Sustainability, Compliance, Risk Management and Internal Audit, meets at least four times a year to discuss, decide on and follow up priority sustainability topics.

Four sustainability teams in the focus areas of responsible lending offering, insurance offering, savings offering and purchasing ensure that sustainability efforts are aligned and developed with business plans. Each team includes Länsförsäkringar AB's Head of Sustainability as well as sustainability managers and managers from the bank, insurance, fund management, asset management and purchasing. Activities and targets are monitored every quarter and reported to the Sustainability Committee according to an annually revised agenda.

A climate risk team, led by Risk Management with representatives from several business areas and Länsförsäkringar AB's Head of Sustainability, compiles the overall climate risk exposure for each business unit and identifies how these risks interrelate in order to provide a collective assessment of the Group's climate risk exposure. Climate risk is reported at least once annually.

## Monitoring and internal control

Länsförsäkringar AB's corporate governance system aims to ensure healthy and responsible control, risk management and a high level of internal control in the operations. This governance system includes the organisation, internal rules and systems for internal control. Internal control is based on three lines of defence:

- *The first line of defence* consists of the operations, which are responsible for risk management and monitoring. A deviation reporting system is in place.
- To support internal control, *the second line of defence* exists whereby Compliance is responsible for independent monitoring and control to ensure that the operations are conducted in full regulatory compliance. Risk Management is responsible for independent risk control and ensuring that the operations are conducted with a high level of risk control.
- *The third line of defence* consists of Internal Audit, which is the Board's support for quality assurance and evaluation of the organisation's risk management, governance and internal control.

## Sustainable goals in business plans

All business units and departments have set activities and goals regarding diversity and reduced environmental impact in their 2019



and 2020 business plans. Goals and activities are also established for the area of responsible offering.

## UN initiatives provide sustainability framework

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

## Governance documents and training

The sustainability policy includes Länsförsäkringar AB's material sustainability topics and aims to provide managers and employees with guidance in their daily sustainability work. The policy also outlines environmental considerations and the precautionary principle. The sustainability policy was updated in 2019 with clarifications regarding lending.

During the fourth quarter, management decided that Länsförsäkringar AB's fossil-free vision would be expanded into a climate-smart vision.

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

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

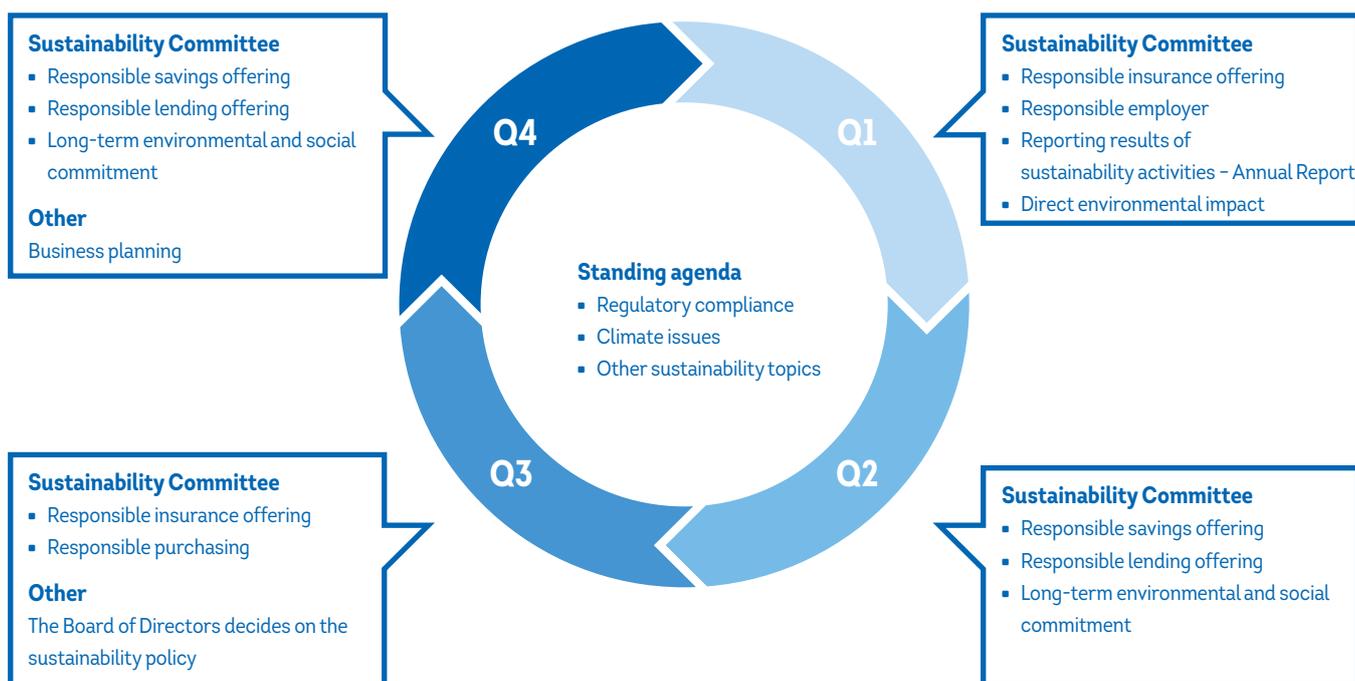
Self-assessments and operational procedures are applied for the ongoing monitoring of compliance with these governance documents. Policies and guidelines are revised annually.

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

## Governance documents

Responsible offering	Owned by
Sustainability policy	Director of Corporate Communications and Sustainability
Policy on responsible investments and corporate governance	Head of Asset Management
Credit policy and credit instructions	Credit Manager
Policy on anti-money laundering and terror financing	Head of Anti-Money Laundering Bank
Responsible business conduct	Owned by
Sustainability policy	Director of Corporate Communications and Sustainability
Code of Conduct for Employees	Head of Compliance
Personnel Policy	HR Director
Equality and diversity plan	HR Director
Remuneration Policy	HR Director
Guidelines for company cars and business travel procedures	HR Director
Purchasing and procurement policy	Head of Purchasing
Code of Conduct for Suppliers	Head of Compliance
Guidelines on identifying and managing conflicts of interest	Head of Compliance
Policy on improper benefits	Head of Compliance
Long-term environmental and social responsibility	Owned by
Research fund regulations	Research Director

## Annual sustainability agenda



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

# Stakeholder dialogue

Länsförsäkringar affects millions of people through its operations. More than 3.9 million customers in the Länsförsäkringar Alliance, more than 3,000 suppliers and 2,100 employees in Länsförsäkringar AB all have expectations of Länsförsäkringar AB. Stakeholder dialogues are a chance for Länsförsäkringar AB to discuss and ascertain stakeholders' expectations.

Priority stakeholders	Communication channels	Issues	Activities in 2019
<b>Owners and Board</b>	Reporting, training, Board meetings, various forums and consulting bodies and AGM.	Mission of operations, product development, policies and guidelines, risks and long-term objectives.	Ongoing dialogue on sustainability topics, status and business plans. Training.
<b>Customers</b>	Customer surveys, customer meetings and questionnaires.	Availability, service and quality, responsible savings offering, environmental and social responsibility integrated into customer offering, transparency and tools to select sustainable products.	Tools for selecting sustainable funds on the fund platform – sustainability globes, sustainability ratings, sustainability profile and carbon measurements. Expanded range of sustainable funds. Customer meetings Claims-prevention tips for customers. Health-promotion services for people and animals. Trained customers in claims prevention.
<b>Employees</b>	Employee surveys, employee appraisals, meetings and training.	Work environment and health, skills development, diversity, inclusion and equality.	Skills development in the form of training, seminars and lectures. Employee surveys. Monthly manager-employee reviews. Activity-based workplace projects. Sustainability day with activities and lectures. Regular lectures on sustainability.
<b>Suppliers</b>	Procurement, self-assessment questionnaires and meetings.	Environmental and social responsibility, sustainability risks in the supply chain.	Dialogue meetings on sustainability topics, site visits and risk surveys of the largest sustainability risks.
<b>Partners, trade organisations and civil society organisations</b>	Partnerships, meetings, questionnaires and exchanging know-how.	Industry-wide challenges within environmental and social responsibility, responsible savings offering, responsible lending offering, transparency, climate change, responsible insurance offering, claims prevention.	Updated the sustainability overview for Länsförsäkringar Fondförvaltning and for lending in Länsförsäkringar Bank. Provided sustainability research results. Conducted dialogues with industry organisations about insurance risk.
<b>Authorities</b>	Reporting and meetings.	Responsible offering, transparency and climate risks.	Dialogue on natural catastrophes and climate risks.
<b>Investors</b>	Reporting, meetings and responses to questionnaires.	Responsible offering, common social challenges, environmental and social risks, and transparency.	Greater transparency on sustainability, responded to questionnaires. Meetings.

# Our partnerships

## Insurance partnerships

### **AMICE – Association of Mutual Insurers and Insurance Cooperatives in Europe**

An organisation representing the particular interests of mutuality, above all in issues of European legislation, and works for the exchange of information and experiences among its more than 110 members in 20 countries. Länsförsäkringar sits on the Board and in several working groups, such as sustainability.

### **Eurapco – European Alliance Partners Company**

An alliance of eight insurance companies working in 18 countries. The members exchange information and experience. Länsförsäkringar is an active member of the Board and several committees, including committees on responsible investments and sustainability.

### **ICMIF – International Cooperative and Mutual Insurance Federation**

A representative body to support the development of mutuality and the construction of mutual and cooperative insurance companies around the world. More than 200 members in 72 countries exchange information and experiences. Länsförsäkringar is an active member.

### **INI – International Network of Insurance**

A network of more than 120 market-leading insurance companies all over the world who work together to solve insurance needs for corporate customers operating in other countries.

## Investment partnerships

### **Access to Medicine Foundation**

A foundation founded by the British and Netherlands governments together with the Bill & Melinda Gates Foundation. The foundation seeks to improve access to medicine for people around the world. Every other year an index is produced that shows the actions pharmaceutical companies are taking to improve conditions for people without access to basic medicine. Länsförsäkringar supports this initiative.

### **CDP**

A civil society organisation that collects global environmental information from companies. The initiative is supported by over 800 institutional investors worldwide. Through dialogue with companies and by supporting the CDP's work, investors want to increase transparency and promote environmental reporting, and encourage companies to work actively to reduce their environmental impact. Länsförsäkringar supports the CDP.

### **Institutional Owners Association**

The Institutional Owners Association for Regulatory Issues in the Stock Market is a partnership between pension funds, AP national pension funds, insurance companies and fund companies. The association develops best practice in corporate governance and the Swedish Corporate Governance Code. Länsförsäkringar Fondförvaltning is an active member.

### **Insurance Sweden**

An industry organisation working to promote good business conditions for the insurance industry and to increase confidence in the industry and knowledge of the importance of private insurance in society. Länsförsäkringar sits on the Board and in several committees.

### **Kyoto Statement of the Geneva Association**

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

### **PSI – Principles for Sustainable Insurance**

PSI is a UN initiative of principles on integrating sustainability into insurance offerings. Länsförsäkringar Sak has been a member since the end of 2016 and submits a PSI report describing its sustainability work every year. Länsförsäkringar Sak is participating in a global pilot project on climate risks initiated by PSI.

### **Montreal Pledge**

Länsförsäkringar AB has signed the Montreal Pledge, an initiative whereby investors pledge to measure and publicly disclose the carbon footprint of their investment portfolios. The Montreal Pledge is supported by both PRI and the United Nations Environment Programme Finance Initiative (UNEP FI).

### **PRI – Principles for Responsible Investments**

PRI is a UN initiative of principles concerning the integration of sustainability in investment decisions, engagement and collaboration. Länsförsäkringar AB is a member and submits annual reports on the implementation of these principles to PRI. Länsförsäkringar participates in investor initiatives to influence other companies and stakeholders in sustainability topics.

### **Sustainable Value Creation**

"Sustainable Value Creation" is a collaborative project comprising 17 of Sweden's largest institutional investors. The project aims to highlight the importance of working with sustainability topics in a structured manner. Länsförsäkringar is an active member.

## Investment partnerships, cont.

### Sustainalytics Engagement Service

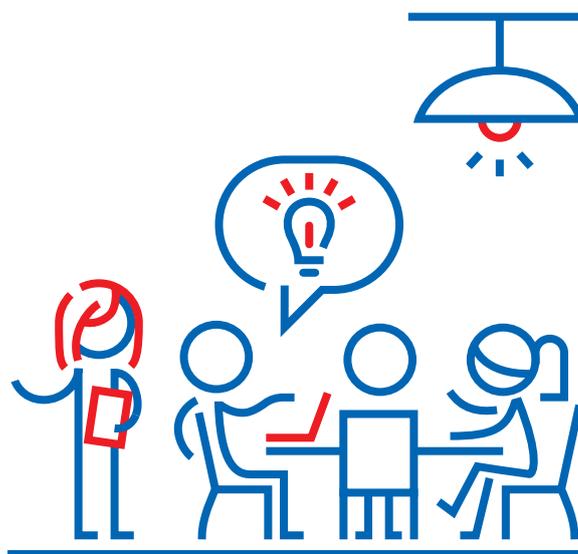
A common cooperative platform for active owners. Länsförsäkringar AB actively participates in this forum together with institutional investors all over the world to influence companies to act responsibly and improve the company's sustainability results.

### Swedish Investment Fund Association

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

### Swesif - Sweden forum for sustainable investments

Swesif is an independent network forum for organisations that work for or with sustainable investments in Sweden. Swesif's goal is to increase knowledge and interest surrounding sustainable investments. Länsförsäkringar is a member.



## Partnerships in banking

### Swedish Bankers' Association

An association of banks in Sweden whose tasks include spreading knowledge about banks and their role for growth and welfare in society. Länsförsäkringar is a member of the board and the Sustainability Committee.

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

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

## Other partnerships

### Diversity Charter Sweden

A non-profit organisation that seeks to promote diversity in workplaces. Its members are companies and organisations that actively work on diversity and apply an inclusive approach to their own businesses. Länsförsäkringar is a member.

### Global Compact

A UN initiative for responsible business conduct with ten principles on human rights, labour, environment and anti-corruption. Länsförsäkringar AB is a signatory.

### NMC - The Swedish Association for Sustainable Business

A professional association and cross-industry platform for sharing of knowledge on running a sustainable business, contributing to sustainable development. Länsförsäkringar is a member.

### Novare Potential

A recruitment and staffing company with the aim of leading new arrivals into the Swedish job market. Its method is called "introduction recruitment," meaning that Novare Potential employs a person for the first year and after one or two years the person moves over to the company. Länsförsäkringar has a partnership agreement with the company.

### Red Cross

Länsförsäkringar AB has signed an agreement making it possible for employees to volunteer with the Red Cross.

### SNS - The Centre for Business and Policy Studies

An independent think tank that brings together the worlds of academia, business and government for knowledge-sharing and dialogue on key societal issues. Länsförsäkringar is a member.

### Task Force on Climate-related Financial Disclosures (TCFD)

TCFD was founded in 2015 by the Financial Stability Board. It is intended to support companies' efforts to provide qualitative sustainability information to the finance sector's stakeholders and supervisory authorities. The framework consists of four areas: Governance, Strategy, Risk management, and Metrics and targets. Länsförsäkringar supports TCFD.

# Statistics and key figures

## Employee statistics Länsförsäkringar AB Group including Länsförsäkringar Liv

### Employee response to employee survey<sup>1)</sup>

%	2019	2018	2017
Believe that diversity in working groups is valued	87	83	84
Believe that Länsförsäkringar AB is an equal opportunity workplace	90	87	87
Believe that they receive regular feedback from their manager	82	81	82
Believe that one's own skills are developed in line with changing work requirements	79	78	79
Believe that they have a reasonable stress level in their work	71	70	70
Believe that they have a good work/life balance	82	81	81

<sup>1)</sup> The response rate for the employee survey was 94% in 2019, 96% in 2018 and 95% in 2017.

### Employees

Number	2019	2018	2017
Permanent employees	2,111	1,910	1,847
of whom, men	883	816	777
of whom, women	1,228	1,094	1,070
Permanent employees recruited during the year	330	210	247
Permanent employees who have left and now work at another company in the Länsförsäkringar Alliance	9	5	9
Permanent employees who left during the year	160	176	170

### Employee turnover

%	2019	2018	2017
Permanent employees	8.3	9.5	9.7

### Employee age range

Number	2019	2018	2017
0-30 years of age	219	178	209
31-40 years of age	511	464	460
41-50 years of age	649	602	634
51-60 years of age	584	547	463
61-	148	122	81
Average age, women	44	44	44
Average age, men	44	44	44

### New employees recruited during the year

Number	2019		2018		2017	
	Women	Men	Women	Men	Women	Men
0-30 years of age	56	31	27	19	35	32
31-40 years of age	55	52	32	39	31	45
41-50 years of age	50	37	31	28	41	35
51-60 years of age	33	14	21	10	12	12
61-	2	0	0	3	3	1
<b>Total</b>	<b>196</b>	<b>134</b>	<b>111</b>	<b>99</b>	<b>122</b>	<b>125</b>

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

### Manager age range

Number	2019		2018		2017	
	Women	Men	Women	Men	Women	Men
0-30 years of age	3	2	2	0	3	2
31-40 years of age	17	27	19	19	21	20
41-50 years of age	69	55	61	57	56	56
51-60 years of age	48	48	47	40	35	27
61-	5	7	3	8	1	5
<b>Total</b>	<b>142</b>	<b>139</b>	<b>132</b>	<b>124</b>	<b>116</b>	<b>110</b>
<b>Total</b>	<b>281</b>		<b>256</b>		<b>226</b>	

## Employee statistics Länsförsäkringar AB Group including Länsförsäkringar Liv

### Average age of managers

Year	2019	2018	2017
Women	47	47	46
Men	47	47	47

### Sickness absence

%	2019	2018	2017
Total sickness absence	3.7	3.0	3.0

### Gender distribution among managers

% of total	2019		2018		2017	
	Women	Men	Women	Men	Women	Men
Group management	50	50	62	38	57	43
Heads of department	40	60	47	53	53	47
Group managers and team leaders	53	47	52	48	50	50

### Gender distribution among management and Board

Number	2019		2018		2017	
	Women	Men	Women	Men	Women	Men
Group management including President	5	5	8	5	5	5
Management teams <sup>1)</sup>	27	30	31	35	33	36
Board members <sup>2)</sup>	35	46	23	47	22	49

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

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

## Carbon emissions in the operations

### Sources of carbon emissions<sup>1)</sup>

	2019		2018		2017	
	CO <sub>2</sub> emissions, kg	Consumption mWh	CO <sub>2</sub> emissions, kg	Consumption mWh	CO <sub>2</sub> emissions, kg	Consumption mWh
District heating – properties and offices <sup>2)</sup>	67,732	1,042	103,445	1,515	121,310	1,619
Electricity consumption – operations	38,491	3,774	38,369	3,762	36,003	3,530
Electricity consumption – properties	11,484	1,126	11,639	1,141	11,150	1,093
<b>Total<sup>1)</sup></b>	<b>117,707</b>	<b>5,942</b>	<b>153,453</b>	<b>6,418</b>	<b>168,463</b>	<b>6,242</b>

### Sources of carbon emissions<sup>3)</sup>

	2019		2018		2017	
	CO <sub>2</sub> emissions, kg	Km travelled	CO <sub>2</sub> emissions, kg	Km travelled	CO <sub>2</sub> emissions, kg	Km travelled
Flights	540,455	5,095,628	648,814	5,675,482	620,426	5,284,022
Company car journeys	117,553	1,281,539	152,599	1,315,508	153,685	1,399,053
Private car journeys <sup>4)</sup>	36,299	243,615	39,636	257,377	41,921	265,322
Rail journeys	4	1,286,405	3	1,059,863	2	978,943
<b>Total</b>	<b>694,310</b>	<b>7,907,187</b>	<b>841,052</b>	<b>8,308,230</b>	<b>816,034</b>	<b>7,927,340</b>
<b>Total carbon emissions in the operations<sup>5)</sup></b>	<b>812,017</b>		<b>994,505</b>		<b>984,497</b>	
<b>Total carbon emissions per employee</b>	<b>385</b>		<b>521</b>		<b>533</b>	

<sup>1)</sup> Market-based Scope 2 under the GHG Protocol. Emission factors from district heating and electricity.

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

<sup>3)</sup> Scope 3 under the GHG Protocol. Emissions factors from the travel agency regarding flights and rail journeys as well as from the Swedish Transport Administration and lease partners regarding car journeys.

<sup>4)</sup> A new emissions factor from the Swedish Transport Administration was used for 2019 and the corresponding figures for 2018 and 2017 were recalculated.

<sup>5)</sup> Last year's Annual Report included paper consumption as a separate source of carbon emissions. This has been removed since the figure was calculated incorrectly and is not significant.

## Responsible savings offering

Activities related to responsible savings offering	2019	2018	2017
Number of companies with which reactive sustainability dialogues <sup>1)</sup> were conducted by a consultant on Länsförsäkringar AB's behalf <sup>2)</sup>	60	123	119
Number of companies directly engaged by Länsförsäkringar AB in reactive sustainability dialogues <sup>3)</sup>	11	21	15
Number of companies with which sustainability dialogues were conducted via investment initiatives that include Länsförsäkringar AB and/or via consultants on Länsförsäkringar AB's behalf <sup>4)</sup>	259	223	-
Number of companies directly engaged by Länsförsäkringar AB in preventive sustainability dialogues	10	17	17
Number of excluded companies regarding sustainability <sup>5)</sup> excluding companies with fossil fuel operations	66	40	33
Number of excluded companies with fossil fuel operations <sup>6)</sup>	192	134	130
Number of general meetings at which votes were cast <sup>7)</sup>	67	60	50
Participation in nomination committees	18	16	16

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

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

<sup>3)</sup> Dialogues conducted by Länsförsäkringar AB itself, together with external managers or via consultants on Länsförsäkringar AB's behalf.

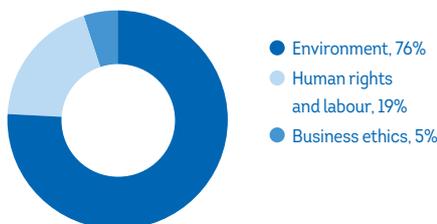
<sup>4)</sup> New key figure for 2019. Dialogues were also conducted in 2017 but no comparative figures are available.

<sup>5)</sup> Pertains to excluding direct ownership of shares and credit bonds in companies operations in controversial weapons, serious norm contraventions and manufacturing of tobacco products.

<sup>6)</sup> Refers to energy and mining companies with more than 5% of their income from thermal coal and oil sand in 2019, 20% of their income from thermal coal in 2018 and 2017.

<sup>7)</sup> Refers to annual and extraordinary general meetings.

### Specification of sustainability dialogues, reactive and preventive, 2019



Analysis and carbon footprint, %	2019	2018
% of total capital in institutional portfolios screened on sustainability criterias <sup>1)</sup>	84	67
% of total capital in the fund company's funds screened on sustainability criterias	98	90
% of total capital in institutional portfolios with a measured carbon footprint <sup>2)</sup>	48	16
% of total capital in the fund company's funds with a measured carbon footprint	46	46

<sup>1)</sup> The percentage that was not subject to a sustainability screening comprises government bonds, derivatives, cash balances and unlisted funds. Managers of unlisted funds follow applicable black lists and continuously report on the fund's sustainability profile.

<sup>2)</sup> Carbon footprint refers to both the current analysis and the scenario analysis until 2030. These analyses include listed shares, loans, bonds from governments, supranational and intergovernmental organisations and Bergvik Skog.

# Research projects

## Länsförsäkringar's Research Fund

Research field	Ongoing research projects and tests	Start
Tomorrow's society: Digitisation, urbanisation, sharing economy	▪ <b>Regional growth against all odds: Driving forces for long-term growth in Nordic regions.</b> Lund University.	2017
	▪ <b>Regional economic development and transformation in Sweden: Then, now and tomorrow.</b> Lund University.	2018
	▪ <b>The geography of trust: Trust in local society in a changing Sweden.</b> Ersta Sköndal Bräcke University College.	2017
	▪ <b>Continuous internal audit using artificial intelligence in insurance companies.</b> University of Gävle.	2018
	▪ <b>Blockchains for dynamic pricing of innovative insurance products.</b> University of Gothenburg.	2018
	▪ <b>Transparent algorithms in the insurance industry.</b> RISE SICS.	2018
	▪ <b>The insurance company in digital ecosystems.</b> University of Gothenburg.	2018
Climate adaptation	▪ <b>Improved climate adjustments to residential areas.</b> Linköping University.	2020
	▪ <b>Financial effects of climate policy.</b> University of Gothenburg.	2020
Secure homes	▪ <b>Secure homes for the elderly from smart technology, start 2019.</b> Dalarna University.	2019
	▪ <b>Partial repairs of waterproof membranes.</b> RISE.	2019
	▪ <b>Removing snow from rooftop solar panels.</b> RISE.	2019
Road safety	▪ <b>Testing bicycle lights.</b> VTI.	2019

## Agria's Research Fund

Research field	Ongoing research projects	Start
The role of animals for humans and society	▪ <b>Dogs, humans and society.</b> University of Gothenburg.	2019
	▪ <b>New methods and tools for a better work environment in the equine industry.</b> RISE.	2019
	▪ <b>Stable yard cultures in cyberspace.</b> Malmö University.	2018
	▪ <b>Horses on the road.</b> Nord University, Norway.	2017
	▪ <b>The influence of dogs on physical and mental health in humans.</b> Norwegian University of Life Sciences.	2018
Veterinary Medicine, Animal Science and Technology	▪ <b>Physical burdens in dog agility performances.</b> Faculty of Veterinary Medicine, University of Helsinki.	2019
	▪ <b>Identification of genetic risk factors for hip dysplasia in dogs.</b> University of Copenhagen.	2020
	▪ <b>Non-slip floors for preventing bovine injuries; Do grooves reduce the risk of slipping on concrete floors?</b> Swedish University of Agricultural Sciences	2017
	▪ <b>From colt to athlete - changes in movement symmetry over time in trotter and saddle horses.</b> Swedish University of Agricultural Sciences.	2017
	▪ <b>Optimising antibiotic treatment times for cystitis in dogs.</b> University of Copenhagen.	2017
	▪ <b>Bile acid in faeces of cats with IBD or gastrointestinal cancer.</b> University of Copenhagen.	2019
	▪ <b>Epidemiology of knee joint illnesses in dogs.</b> Swedish University of Agricultural Sciences.	2017

# Index Sustainability Report

The sustainability report in accordance with Chapter 6, Section 11 of the Swedish Annual Accounts Act (ÅRL) encompasses Länsförsäkringar AB and its subsidiaries Länsförsäkringar Sak, Agria, Länsförsäkringar Gruppliv, Länsförsäkringar Bank, Länsförsäkringar Fondförvaltning, Länsförsäkringar Hypotek, Wasa Kredit and Länsförsäkringar Fondliv. Länsförsäkringar Liv submits its own sustainability report. The sustainability disclosures can be found by following the pages references below.

	Explanation	Page reference
<b>Overall</b>		
	Business model	4-7, 12-13
	Organisation and monitoring	130-131
	Key impacts, risks, and opportunities	8-9, 14
<b>Social and personnel-related issues</b>		
	Policy on social and personnel-related issues	130-131
	Social and personnel-related issues risks and risk management	24-25
	Social and personnel-related issues goals and outcomes	135-136
<b>Climate and environmental issues</b>		
	Climate and environment policy	130-131
	Climate and environmental risks and risk management	14, 18-23, 27-29
	Climate and environmental goals and outcomes	18-23, 27-28, 136-137
<b>Respect for human rights</b>		
	Human rights policy	130-131
	Human rights risks and risk management	18-19, 27
	Human rights goals and outcomes	18-19, 27, 137
<b>Combating corruption</b>		
	Anti-corruption policy	130-131
	Anti-corruption risks and risk management	18-19, 26
	Anti-corruption goals and outcomes	26, 137

# Auditor's opinion regarding the statutory report

To the general meeting of the shareholders in Länsförsäkringar AB, corporate identity number 556549-7020

## Engagement and responsibility

It is the board of directors who is responsible for the sustainability report for the year 2019, as indicated on page 139, and that it is prepared in accordance with the Annual Accounts Act.

## The scope of the examination

My examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that my examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with

International Standards on Auditing and generally accepted auditing standards in Sweden. I believe that the examination has provided me with sufficient basis for my opinion.

## Opinion

A statutory sustainability report has been prepared.

Stockholm, 12 March 2020

Mårten Asplund  
Authorised Public Accountant

# Global Reporting Initiative

The report is based on the Core level of the 2016 GRI Standards, except for the Standard on Occupational Health and Safety, which follows the updated version from 2018.

GRI Standard	GRI Page reference	GRI Comments	UN SDGs	UN Global Compact
<b>General disclosures</b>				
<b>Organisation profile</b>				1-10
102-1	Name of the organisation	Inside cover		
102-2	Activities, brands, products, and services	6-7		
102-3	Location of headquarters		Stockholm	
102-4	Location of operations	Inside cover		
102-5	Ownership and legal form	4-5		
102-6	Markets served	Inside cover		
102-7	Scale of the organisation	Inside cover		
102-8	Information on employees and other workers	135-136	Data from the HR system	5, 10
102-9	Supply chain	27		8
102-10	Significant changes to the organisation and its supply chain	14		
102-11	Precautionary Principle or approach	130		
102-12	External initiatives	133-134		
102-13	Membership of associations	133-134		
<b>Strategy</b>				1-10
102-14	Statement from senior decision-maker	2-3		
102-15	Key impacts, risks, and opportunities	14, 18, 20, 22, 26-29, 129		
<b>Ethics and integrity/Business ethics and values</b>				10
102-16	Values, principles, standards, and norms of behaviour	130-131		
<b>Governance</b>				10
102-18	Governance structure	130-131		
<b>Stakeholder engagement</b>				
102-40	List of stakeholder groups	12-13, 132		
102-41	Collective bargaining agreements	24		3
102-42	Identifying and selecting stakeholders	14, 129, 132		
102-43	Approach to stakeholder engagement	12-14, 129, 132		
102-44	Key topics and concerns raised	14, 16-17, 132	Including SCI - customer satisfaction and product responsibility	
<b>Reporting practice</b>				
102-45	Entities included in the consolidated financial statements	129		
102-46	Defining report content and topic Boundaries	129		
102-47	List of material topics	129		
102-48	Restatements of information	129	And comments in GRI table	
102-49	Changes in reporting	129		
102-50	Reporting period	129		
102-51	Date of most recent report	129		
102-52	Reporting cycle	129		
102-53	Contact point for questions regarding the report	129	Christina Hillesøy, Head of Sustainability	
102-54	Claims of reporting in accordance with the GRI Standards	129		
102-55	GRI content index	141-143		
102-56	External assurance		The GRI report has not been externally assured. A preparatory audit took place to assure the report in 2020. See page 140 for the auditor's opinion regarding the statutory report.	

GRI Standard		GRI Page reference	GRI Comments	UN Sustainable Development Goals	UN Global Compact
<b>Economic performance</b>					
103-1 - 103-3	Management approach disclosures	130-131			
201-1	Direct economic value generated and distributed	Inside cover			
201-2	Financial implications and other risks and opportunities due to climate change	Inside cover, 14			
203-2	Significant indirect economic impacts	Inside cover, 12-13			
<b>Responsible offering</b>					
<b>Responsible savings offering</b>					
103-1 - 103-3	Management approach disclosures	18-19, 130-131		1-17	1-10
Engagement and dialogue	Number of reactive company dialogues on sustainability	19, 137		1-17	1-10
Climate risk in investments	Initiative to measure the climate risk in the savings offering	18-19		13	
305-3	Other indirect (Scope 3) GHG emissions	137	Refers to carbon emissions	13	
G4-FS10	Percentage and number of companies held in the institution's portfolio with which the reporting organisation has interacted on environmental or social issues	137		1-17	1-10
Active corporate governance	Number of preventive dialogues on sustainability	137		1-17	1-10
Active corporate governance	Number of general meetings at which votes were cast	137			
Active corporate governance	Participation in nomination committees	137		5,10	
Exclusions	Number of blacklisted companies regarding sustainability	137		1-17	1-10
<b>Responsible lending offering</b>					
103-1 - 103-3	Management approach disclosures	20-21, 130-131		8, 16	7-9, 10
Climate risks in lending	Initiative to consider climate risk in lending	20		8	7-9
Availability					
G4-FS14	Initiatives to improve access to financial services for disadvantaged people	21		8	
<b>Responsible insurance offering</b>					
103-1 - 103-3	Management approach disclosures	22-23, 130-131			
Claims prevention	Initiatives for claims-prevention methods	22-23		3, 12, 13	7-9
Claims adjustment	Initiative to reduce use of resources and negative climate impact via claims adjustment	22-23		12, 13	7-9
Climate risk in the insurance offering	Management of climate risk in the insurance offering	22-23		13	
<b>Responsible business conduct</b>					
<b>Responsible employer</b>					
Labour practices and decent work					
103-1 - 103-3	Management approach disclosures	24-25, 130-131	Statistics refer to employees in Sweden	3, 5, 8, 10	3, 6
401-1	New employee hires and employee turnover	135	Statistics refer to employees in Sweden	5, 10	
Occupational health and safety					
103-1 - 103-3	Management approach disclosures	24-25		3	
403-6	Promotion of worker health	24-25	Standard from 2018. Refers to employees in Sweden	3	
Training and education					
103-1 - 103-3	Management approach disclosures	24-25			
404-2	Programmes upgrading employee skills and transition assistance programmes	24-25			
Diversity and equal opportunity					
103-1 - 103-3	Management approach disclosures	24-25		5, 10	3, 6
405-1	Diversity of governance bodies and employees	135-136, 144-147	Statistics refer to employees, Board and management in Sweden	5, 10	6
406-1	Incidents of discrimination and corrective actions taken		No cases reported in 2019	5, 10	6

GRI Standard		GRI Page reference	GRI Comments	UN Sustainable Development Goals	UN Global Compact
<b>Business ethics</b>					
103-1 - 103-3	Management approach disclosures	130-131			
Anti-corruption					
205-1	Operations assessed for risks related to corruption	26		16	2,10
205-2	Communication and training about anti-corruption policies and procedures	26-27		16	2,10
<b>Responsible purchasing</b>					
103-1, 103-3	Management approach disclosures	27, 130-131		8, 12, 16	1-10
Purchasing organisation	Percentage of 100 largest suppliers that account for 80% of the purchasing volume have signed the Code of Conduct	27			1-10
<b>Direct environmental impact</b>					
103-1 - 103-3	Management approach disclosures	28, 130-131		12, 13	7-9
Emissions					
305-2	Energy indirect (Scope 2) GHG emissions	136	Refers to carbon emissions. See footnote 4 and 5 on page 136 for change compared with 2018	13	
305-3	Other indirect (Scope 3) GHG emissions	136	Refers to carbon emissions	13	
<b>Environmental and social responsibility</b>					
103-1-103-3	Management approach disclosures	130-131			
Research	Number of research projects and total amount invested in research (SEK)	29, 138		3, 8, 11-13, 16	8-9

## UN Global Compacts 10 principles

### Human rights

**Principle 1:** Businesses should support and respect the protection of internationally proclaimed human rights.

**Principle 2:** Make sure that they are not complicit in human rights abuses.

### Labour

**Principle 3:** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.

**Principle 4:** The elimination of all forms of forced and compulsory labour.

**Principle 5:** The effective abolition of child labour.

**Principle 6:** The elimination of discrimination in respect of employment and occupation.

### Environment

**Principle 7:** Support a precautionary approach to environmental challenges.

**Principle 8:** Undertake initiatives to promote greater environmental responsibility.

**Principle 9:** Encourage the development and diffusion of environmentally friendly technologies.

### Anti-corruption

**Principle 10:** Businesses should work against corruption in all its forms, including extortion and bribery.



## The UN Sustainable Development Goals (SDGs)



## Board of Directors and auditors



### 1 Caesar Åfors

Chairman of the Board since 2018. Born 1959. Elected 2016. President of own business at Virå Bruk. **Education:** M.Sc. in Forestry. **Other Board appointments:** Chairman of Länsförsäkringar Södermanland, Board member of Lansa AB, Intea Fastigheter AB and CRK Forest management AB. **Previous experience:** Board member of Länsförsäkringar Bank, CFO and Executive Vice President of Klöver AB (publ).

### 2 Maria Engholm

Deputy Chairman since 2018. Born 1967. President/CEO of HSB Mälardalarna. Elected 2015. **Education:** M.Sc. in Business and Economics. **Other Board appointments:** Chairman of Dalarnas Försäkringsbolag and Dalarnas Försäkringsbolags Förvaltnings AB. **Previous experience:** Board member of HSB Riksförbund, HSB Projektpartner AB, Länsförsäkringar Bank, Local Federation Director of Siljan Region and Board member of Sparbanken Dalarna.

### 3 Susanne Bäck

Born 1962. President of Länsförsäkringar Skåne. Elected 2016. **Education:** M.Sc. in Business and Economics. **Other Board appointments:** Board member of Länsförsäkringar Skåne, Länsförsäkringar Fastighetsförmedling and Confederation of Swedish Enterprise. Chairman of the Swedish Insurance Employers' Association. **Previous experience:** President of Nordea Finans, Board member of Länsförsäkringar Bank and Wasa Kredit.

### 4 Bengt-Erik Jansson

Born 1953. Chairman of Länsförsäkringar Uppsala Elected 2017. **Education:** M.Sc. in Agriculture, and in Business and Economics. **Previous experience:** Business Area Manager Food and Executive Vice President Kiwa Sverige AB, Head of IT and Business Service, Lantmännen Lantbruk.

### 5 Göran Lindell

Born 1954. Chairman of Länsförsäkringar Jönköping. Elected 2014. **Education:** M.Sc. in Business and Economics, Linköping University. **Previous experience:** Municipal Commissioner and member of parliament.

### 6 Hans Ljungkvist

Born 1952. Chairman of Länsförsäkringar Göteborg och Bohuslän. Elected 2019. **Education:** Post-secondary education in auditing, banking and taxation as well as business administration and law from Umeå University. **Other Board appointments:** Chairman of AB Tornstaden and Crepido AB. **Previous experience:** Senior positions at various Swedish listed companies for more than 20 years, mainly in finance and industry.

### 7 Jonas Rosman

Born 1963. President of Länsförsäkringar Skaraborg. Elected 2014. **Education:** Upper-secondary education in economics, agricultural education. **Other Board appointments:** Chairman of Skaraborg Invest AB. Board member of Hällefors Tierp Skogar AB. **Previous experience:** Accounting consultant, Business Manager Federation of Swedish Farmers Consulting, chief economist at Federation of Swedish Farmers Consulting, President of Skaraborg Agricultural Society.

### 8 Mikael Sundquist

Born 1961. President of Länsförsäkringar Bergslagen. Elected 2014. **Education:** M.Sc. in Business and Economics. **Other Board appointments:** Chairman of Chamber of Commerce of Mälardalen. Board member of Länsförsäkringar Fastighetsförmedling AB. **Previous experience:** Board member of I:a Västmanlandsfonden, Länsförsäkringar Sak, Chairman of Länsförsäkringar Mäklarservice, senior positions at Länsförsäkringar and Handelsbanken.

## 9 Maria Wallin Wällberg

Born 1967. President of Likvor AB. Elected 2018. **Education:** M.Sc. in Business and Economics. **Other Board appointments:** Chairman of Länsförsäkringar Västerbotten, Fastighetsbolaget Fabriken AB, Länsförsäkringar Västerbotten Invest AB. **Previous experience:** CEO of Innovationsbron Umeå, Vice President of Innovationsbron AB, CEO of Connect Norr, Chairman of IKSU and Esculapen AB and Board member of SweTree Technologies AB.



## Employee representatives

### 10 Susanne Lindberg

Born 1967. Employee representative. Elected 2012. **Education:** Upper-secondary education in economics, diploma in non-life insurance and life assurance from Swedish Institute of Insurance Training (IFU), diploma in individual claims adjustment training from Länsförsäkringar. **Other Board appointments:** Deputy Chairman of Forena, Chairman of the Länsförsäkringar Alliance's Staff Association, deputy Board member of Länsförsäkringar Fondliv, deputy Board member of Länsförsäkringar Liv, Board member of Insurance Industry's Pension Fund (FPK).

Deputy: Mirek Swartz

### 11 Linnéa Niklasson

Born 1958. Employee representative. Elected 2014. **Education:** Systems developer, upper-secondary education in economics. **Other Board appointments:** Länsförsäkringar Sak, Agria Djurförsäkring, Chairman of Forena Länsförsäkringar AB, treasurer Forena Länsförsäkring, Forena Board. **Previous experience:** Object specialist, Test Manager, Change Management at Länsförsäkringar AB, Systems Developer Agria, Chairman of Agria employee club, Group Manager accounts receivable ledger/IT.

Deputy: Mirek Swartz

### 12 Anna Sandqvist

Born 1963. Compliance. Employee representative. Elected 2014. **Education:** B.A. **Other Board appointments:** Agria Djurförsäkring, Chairman of SACO association at Länsförsäkringar AB. **Previous experience:** AMF Pension, Wasa Försäkring.

Deputy: Tomas Hansson

**Secretary of the Board:** Olle Törnell. Born 1958. Head of Legal Affairs. Employed 1992.

**Education:** LL.M., Uppsala University.

**Previous experience:** Head of Legal Affairs Wasa Försäkring, bank attorney Nordbanken.

**Auditor:** KPMG AB with Mårten Asplund as auditor in charge.



## Corporate management



### 1 Fredrik Bergström

Born 1970. Employed 2018. President and CEO of Länsförsäkringar AB.

**Education:** M.Sc. in Business and Economics, Uppsala University.

**Board appointments:** Chairman of Länsförsäkringar Bank, Länsförsäkringar Fondliv and Länsförsäkringar Sak, Board member of Länsförsäkringar Liv, Deputy Chairman of Insurance Sweden, Board member of Swedish Insurance Employers Association (FAO), European Alliance Partners Company AG and Enebybergs Tennishall AB.

**Previous experience:** President of Länsförsäkringar Stockholm, Head of Retail at SBAB, Head of Distribution Private Sweden at If and other positions at If Skadeförsäkring AB and Dial Försäkrings AB.

### 2 Eva Allqvist

Born 1961. Employed 2019. Head of Strategy and Change Management.

**Education:** LL.M., Uppsala University.

**Previous experience:** Various positions at the Länsförsäkringar Alliance since 1998. Most recently served as Head of Business Development, Communication and HR at Länsförsäkringar Stockholm.

### 3 Susanne Bergh

Born 1969. Employed 1989. Head of Customer and Channel Support.

**Education:** Diploma in market economics.

**Previous experience:** Various positions at the Länsförsäkringar AB Group. Most recently as Head of Digital Channels at Länsförsäkringar Bank.

### 4 Mathias Collén

Born 1981. Employed 2019. President of Länsförsäkringar Fondliv.

**Education:** M.Sc. in Business and Economics, School of Business, Economics and Law at University of Gothenburg.

**Board appointments:** Board member of Ledamot Försäkringsgirot AB.

**Previous experience:** Head of Business at Länsförsäkringar Fondliv, Head of Commercial Business area at Länsförsäkringar Stockholm and senior positions at Livförsäkringsbolaget Skandia.

### 5 Björn Dalemo

Born 1975. Employed 2019. Head of LB Sak.

**Education:** M.Sc. in Business and Economics.

**Previous experience:** Chief Underwriting Officer, Trygg-Hansa/Codan.

### 6 Sven Eggefalk

Born 1969. Employed 2018. President of Länsförsäkringar Bank AB.

**Education:** B.A. in Economics, North Park University Chicago.

**Board appointments:** Chairman of Länsförsäkringar Hypotek and Wasa Kredit. Board member of Länsförsäkringar Fondförvaltning, Länsförsäkringar Fastighetsförmedling and Swedish Bankers' Association.

**Previous experience:** President of Länsförsäkringar Östgöta, President of Wasa Kredit, 15 years at SEB in various senior positions.

## 7 Ulrica Holmgren

Born 1973. Employed 2019. CIO.

**Education:** M.Sc. in Engineering, Faculty of Science and Engineering, Linköping University.

**Previous experience:** Senior positions such as CIO at Telenor, Management Consultant PriceWaterhouseCoopers, Etransformer and Cartina.

## 8 Malin Rylander-Leijon

Born 1970. Employed 2001. CFO. Head of Finance.

**Education:** Administration Programme, specialising in Economics, Uppsala University.

**Previous experience:** Auditor at SET Revisionsbyrå and various positions at the Länsförsäkringar AB Group, most recently as Head Controller at the Länsförsäkringar AB Group and Head of Finance & Control Länsförsäkringar Liv, Board member of Länsförsäkringar Fondliv, Länsförsäkringar Liv, Tribona AB and Utile Dulci 2 HB.

## 9 Ann Sommer

Born 1959. Employed 1988. President of Länsförsäkringar Sak.

**Education:** M.Sc. in Business and Economics.

**Board appointments:** Chairman Länsförsäkringar Gruppliv, Agria Djurförsäkring and Swedish Theft Prevention Association (SSF). Board member of SOS International, AMICE (Association of Mutual Insurers and Insurance Cooperatives in Europe), ICMIF and Co-operatives Sweden.

**Previous experience:** President of WASA International and Wasa International UK, Board member of Equatorial Re Singapore, Swedish Forest Agency and Landstingens Ömsesidiga Försäkringsbolag.

## 10 Olle Törnell

Born 1958. Employed 1992. Head of Legal Affairs.

**Education:** LL.M., Uppsala University.

**Previous experience:** Head of Legal Affairs Wasa Försäkring, bank attorney Nordbanken.



# Definitions

## Direct insurance

Insurance contract concluded directly between the insurer and the policyholder. In contrast to assumed reinsurance, the insurance company is directly responsible to the policyholder.

## Operating expenses in the insurance operations

Includes costs of marketing, sales and administration in insurance operations.

## Expense ratio, non-life insurance

Operating expenses in the insurance operations as a percentage of premiums earned after ceded reinsurance.

## After ceded reinsurance

The proportion of an insurance transaction for which the insurance company assumes the risk, and which is not reinsured with another insurance company. Sometimes the term "for own account" is used.

## Claims payments

The cost for claims incurred, including costs for claims that have not yet been reported to the insurance company. The cost also includes the run-off result, meaning the profit or loss arising in the provision for claims outstanding made in the immediately preceding year-end accounts. Run-off profit/loss arises since some of the claims in the provision are either settled during the period at amounts differing from those allocated or are re-valued pending final settlement.

## Technical provisions

Provision for unearned premiums and unexpired risks, life-assurance reserves and provision for claims outstanding and comparable commitments in accordance with signed insurance contracts. For life assurance, this shall correspond to the insurance company's guaranteed insurance commitments.

## Management cost ratio, life assurance

Total operating expenses and claims adjustment costs as a percentage of average managed assets.

## Investment income transferred from financial operations

Premiums are paid in advance, while operating expenses and claims costs are paid in arrears. Funds that have not yet been paid out are invested in order to obtain a return. The estimated interest on these investments – the cost of capital – is transferred from investment income to the insurance operations.

## Solvency ratio

Own funds in relation to the solvency capital requirement, according to the Solvency II Directive in Swedish law.

## Own funds, bank

Own funds comprises the sum of Tier 1 and Tier 2 capital and the difference between expected losses and reserves established for probable credit losses.

## Capital adequacy ratio, bank

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

## Cost/income ratio, bank

Total expenses in relation to total income. The cost/income ratio is calculated before and after credit losses.

## Collective consolidation, life assurance

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

## Solvency margin, non-life insurance

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

## Solvency capital

The sum of equity, untaxed reserves, deferred tax liabilities, subordinated debt as well as surplus values on assets.

## Credit losses net, bank

Confirmed credit losses and reserves for credit losses ("loss allowance") less recoveries of receivables and net expense for the year for credit losses for guarantees and other contingent liabilities.

## Credit losses in relation to loans, bank

Net credit losses in relation to the carrying amount of loans to the public and to credit institutions.

## Common Equity Tier 1 capital, bank

Total Tier 1 capital excluding Additional Tier 1 capital.

## Common Equity Tier 1 capital ratio, bank

Common Equity Tier 1 capital in relation to the risk-weighted amount.

## Cost ratio, non-life insurance

The sum of operating expenses in the insurance operations and claims adjustment costs in relation to premiums earned after ceded reinsurance.

## Investment margin, bank

Net interest income in relation to average total assets.

## Premium income

Premiums paid in during the year or recognised as receivables at year-end since they have fallen due for payment. Premium income is a common measure of the volume of insurance operations.

## Premiums earned

The proportion of premium income attributable to the fiscal year.

## Tier 1 capital, bank

Tier 1 capital is part of own funds and comprises equity and Additional Tier 1 capital. Deductions are made for such items as deferred tax assets, goodwill and other intangible assets, investments in financial companies and the difference between expected losses and reserves established for probable credit losses.

## Tier 1 ratio, bank

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

## Earnings per share

Profit/loss for the year attributable to the Parent Company shareholders in relation to the average number of shares during the year.

## Risk Exposure Amount, bank

The Risk Exposure Amount is calculated by multiplying an institution's capital requirement for assets in the balance sheet, off balance sheet items, operational risk and credit valuation adjustment risk by 12.5.

## Return on equity

Operating profit less standard tax at a rate of 21.4% in relation to average equity adjusted for capital contributions and Additional Tier 1 Capital loans.

## Net interest income, bank

Interest income from loans to the public, credit institutions and income from interest-bearing securities less expenses for deposits and funding from the public, credit institutions and expenses for interest-bearing securities.

## Technical result for non-life insurance operations

Premiums earned less claims payments, claims adjustment costs and operating expenses in the insurance operations plus profit/loss from ceded reinsurance and investment income transferred from financial operations.

## Claims ratio

The ratio between claims payments, including claims adjustment costs and premiums earned after ceded reinsurance.

## Tier 2 capital, bank

Primarily comprises fixed-term subordinated debt.

## Total return ratio

The sum of direct yield, realised gains and losses, and unrealised changes in the value of assets in relation to the average fair value of managed assets.

## Combined ratio, non-life insurance

The sum of operating expenses, claims payments and claims adjustment costs in relation to premiums earned after ceded reinsurance.

## Reinsurance

If an insurance company cannot, or does not wish to, assume the entire liability to policyholders, it reinsures part of its underwritten policies with other insurance companies. In this connection, the reinsurance is said to be "ceded" by the first company and "assumed" by the second company.

## Länsförsäkringar Liv Försäkrings AB income statement and balance sheet

Income statement		
SEK M	2019	2018
Premium income, net	1,539	1,684
Investment income, net	9,949	-527
Claims payments	-4,928	-4,939
Change in technical provisions	-520	4,992
Operating expenses	-426	-412
<b>Technical result, life-assurance operations</b>	<b>5,614</b>	<b>798</b>
Non-technical items	-	-
<b>Profit before appropriations and tax</b>	<b>5,614</b>	<b>798</b>
Tax allocation reserve	50	-14
Tax	-97	-175
<b>Net profit for the year</b>	<b>5,567</b>	<b>609</b>
Other comprehensive income	-	-
<b>Comprehensive income for the year</b>	<b>5,567</b>	<b>609</b>

More detailed information about Länsförsäkringar Liv is available at <https://www.lansforsakringar.se/other-languages/english/about-lansforsakringar/financial-reports/lansforsakringar-liv/>

Consolidated balance sheet		
SEK M	31 Dec 2019	31 Dec 2018
<b>Assets</b>		
Investment assets	115,979	110,662
Reinsurers' portion of technical provisions	0	397
Receivables	2,730	1,399
Other assets	3,634	3,979
Prepaid expenses and accrued income	53	72
<b>Total assets</b>	<b>122,396</b>	<b>116,509</b>
<b>Equity, provisions and liabilities</b>		
Equity	27,974	23,703
Untaxed reserves	291	340
Technical provisions	85,018	84,850
Provisions for other risks and expenses	32	30
Deposits from reinsurers	0	397
Liabilities	8,902	7,006
Accrued expenses and deferred income	179	183
<b>Total equity, provisions and liabilities</b>	<b>122,396</b>	<b>116,509</b>

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# Financial calendar 2020

## First quarter:

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

## Second quarter:

Interim report January–June 2020, Länsförsäkringar Bank 22 July  
Interim report January–June 2020, Länsförsäkringar Hypotek 22 July  
Interim report January–June 2020, Länsförsäkringar Alliance 3 September

## Third quarter:

Interim report January–September 2020, Länsförsäkringar Bank 23 October  
Interim report January–September 2020, Länsförsäkringar Hypotek 23 October



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