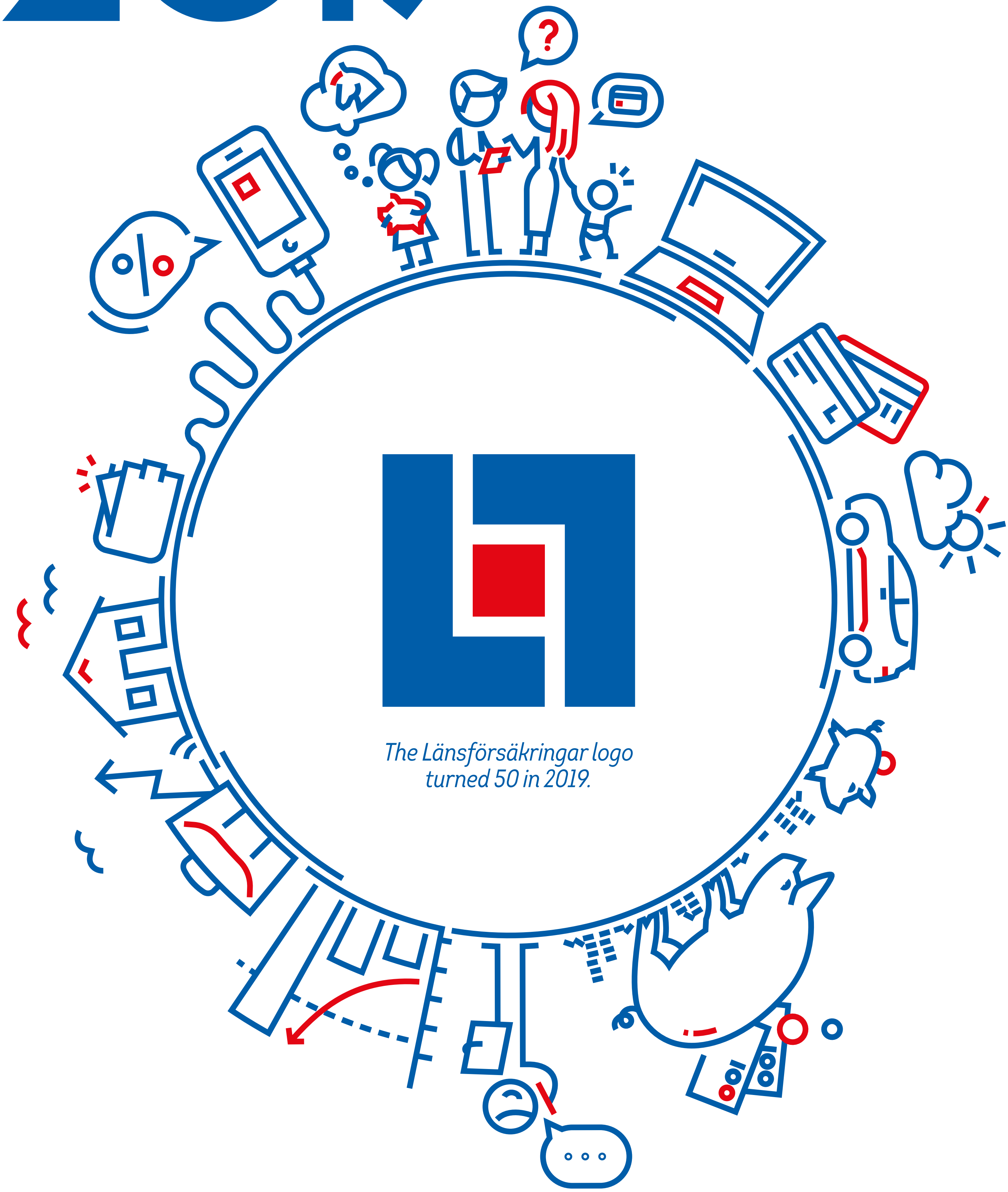
Länsförsäkringar Bank

Risk and capital management

2019



The Länsförsäkringar logo turned 50 in 2019.

Contents

Board declaration on risk management and a brief risk description

The Board of Directors of Länsförsäkringar Bank AB (publ), which is also the responsible institution of the Consolidated Situation, certifies that the risk management arrangement of the Consolidated Situation is satisfactory and that the implemented risk-management system is appropriate in relation to the adopted risk strategy adopted. The Board also upholds the risk description that outlines the risk exposure and risk appetite below.

Consolidated Situation's risks

Risks are a natural element of a bank's business activities and are defined in the Consolidated Situation as the possibility of negative deviations from an expected financial outcome. The main types of risk to which the Consolidated Situation is exposed are presented below.

Type of risk	Definition	Risk exposure and risk appetite
Credit risk	Credit risk pertains to the risk of losses arising due to counterparties being unable to fulfil their undertakings and of any collateral provided not covering the receivable. Credit risk encompasses lending risk, issuer risk, counterparty risk, settlement risk and creditworthiness risk.	Lending primarily comprises mortgages for private individuals. The approach to risk is conservative and the credit quality of the loan portfolio is high. The Consolidated Situation's appetite for credit risk is moderate and risk-taking in relation to total assets is to be low. Business is conducted in line with adopted business plans, with high profitability and results in a well-diversified credit portfolio with high credit quality. Credit risk in the Consolidated Situation represents 89% of the total risk exposure amount.
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. Market risk includes interest-rate risk, currency risk, credit-spread risk, equities risk, property risk, option risk and pension risk.	The primary market risks are interest-rate risk and currency risk. The Consolidated Situation does not have a trading book. The risk appetite for market risk is low and based on earnings and capital measures.
Liquidity risk	Liquidity risk is defined as the risk that payment commitments cannot be fulfilled due to insufficient cash funds. Liquidity risk includes structural liquidity risk, financing risk, rollover risk and intraday liquidity risk.	The main financing sources are deposits in Länsförsäkringar Bank and funding based on Länsförsäkringar Hypotek's covered bonds with the highest possible credit rating. The risk appetite for liquidity risk is low and based on well-diversified funding and a satisfactory liquidity reserve.
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, including legal risks. Operational risk includes product and process risk, personnel risk, security risk, legal risks, compliance risks, IT risks and model risk.	Operational risk is related to the operating activities of the business. The risk appetite for operational risk is low and based on actively preventing risk, capital measures and low incident levels. Operational risk in the Consolidated Situation represents 11% of the total risk exposure amount.
Business risk	Business risk pertains to the risk of lower earnings, higher expenses or loss of confidence from customers or other stakeholders. Business risk encompasses strategic risk, reputation risk and conduct risk.	Business risks are found in all products and portfolios in the Consolidated Situation. A large part of the banking operations comprises mortgages, which have a low level of volatility and thus a low business risk. Business risk is managed in the internal capital and liquidity adequacy assessment process (ICAAP and ILAAP).

1 | Introduction

This document "Risk and capital management Länsförsäkringar Bank AB" has been prepared in accordance with the requirements set out in the Regulation CRR (EU) 575/2013 and the Capital Requirements Directive CRD 2013/36/EU. The purpose of the document is for the institution to provide detailed and clear information on the risks to which the institution is exposed, the structure of its risk management and the compliance of the institution's capital situation with the regulatory capital requirements.

The Bank Group comprises the Parent Company Länsförsäkringar Bank AB and its subsidiaries, Länsförsäkringar Hypotek AB, Wasa Kredit AB and Länsförsäkringar Fondförvaltning AB (referred to below as the "Bank Group").

With the introduction of CRR and CRD IV, the parent mixed financial holding company, Länsförsäkringar AB, is also subject to prudential and reporting requirements. As a result, Länsförsäkringar AB is consolidated with the Bank Group. The consolidated situation comprises Länsförsäkringar AB, Länsförsäkringar Bank AB, Länsförsäkringar Hypotek AB, Wasa Kredit AB and Länsförsäkringar Fondförvaltning AB (referred to below as the "Consolidated Situation"). Länsförsäkringar AB sold its holding in the property-holding company Utile Dulci 2 HB during the year.

The comparative period is per 31 December 2018.

1.1 LÄNSFÖRSÄKRINGAR BANK AB IN BRIEF

1.1.1 Strategy and goals

Länsförsäkringar Bank AB was founded in 1996 and is the fifth largest retail bank in Sweden with a business volume of SEK 656 billion. The banking operations are conducted only in Sweden and business volumes are continuing to grow in all areas. The strategy is to offer banking services to the Länsförsäkringar Alliance's customers and leverage 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. The aim is, based on low risk, to maintain healthy growth in volumes and profitability, have the most satisfied customers and increase the share of customers who have both banking and insurance with Länsförsäkringar. According to the 2019 Swedish Quality Index customer satisfaction survey, Länsförsäkringar Bank is the player on the banking market with the most satisfied retail customers, an award that Länsförsäkringar Bank has won 14 times in the past 16 years. Länsförsäkringar Bank is also the player with the most satisfied corporate customers and one of the leading players in terms of customer satisfaction for retail mortgage customers, according to the 2019 Swedish Quality Index. The high customer satisfaction is confirmation of Länsförsäkringar's clear customer focus and high quality. With Länsförsäkringar's comprehensive banking and insurance offering, customers receive a total solution that creates security and added value.

Customer ownership

The Länsförsäkringar Alliance consists of 23 local, customer-owned regional insurance companies and the jointly owned Länsförsäkringar AB, which is Länsförsäkringar Bank AB's Parent Company. The insurance customers own the regional insurance companies, which means that the principles of customer ownership also apply to the banking operations. Long-term respect for customers' security is fundamental to Länsförsäkringar, since customers are both the principal and owner. The Bank Group has low risk tolerance, which provides a stable performance over time. Lending is characterised by low risk and the in-depth, local customer and market knowledge of the regional insurance companies, combined with the conservative view of risk, generates growth with high credit quality.

Customer meetings and local market knowledge

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

Forefront of digital services

The bank's goal is to be the leading company in digital banking, and digital services are an important supplement to local customer meetings. The digital services in the mobile app and Internet bank make it convenient and easy for customers to do all their banking. The process of renewing the Länsförsäkringar Bank's platform for deposits, lending and payments was completed in 2019 and the BaNCS new core banking system was implemented in April. Länsförsäkringar Bank also launched an Open Banking platform with the aim of building new, innovative services.

Customer-driven and effective business model

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

A strong brand

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

__Risk in the operations__

The operations are characterised by a low risk profile. The Bank Group is exposed to a number of risks, primarily comprising credit risk, liquidity risk, operational risk and market risk. The macroeconomic situation in Sweden is critical for credit risk, since all loans are granted in Sweden. Credit losses remained low. The Bank Group has highly diversified funding and a liquidity reserve comprising securities with high liquidity and creditworthiness. Lending improved to SEK 307 billion (290) and the loan portfolio continued to maintain high credit quality.

__Rating__

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

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

__Regulatory development__

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

__Capital adequacy rules__

In 2019, the EU decided on the "Banking Package." The measures in the Banking Package are to aid the implementation of risk-reduction global standards at EU level and are also part of completing the Banking Union, and are expected to come into effect in 2020/2021.

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

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

__New EU rules on covered bonds__

In November 2019, the EU decided on new regulations regarding covered bonds. The aim of the regulations is to create standardised rules for covered bonds within the EU. These rules include a new directive and certain changes to the Capital Requirements Regulation. The directive includes introducing a special requirement on a cover pool liquidity buffer. A higher match funding requirement is also proposed, meaning the degree to which the value of the cover pool is to exceed the nominal value of the covered bonds. Proposals on the implementation of the rules in Swedish law are expected to be prepared in 2020. The new legislation must be in place by mid-2021 and be fully applicable 12 months later.

__MREL__

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

__Increased capital requirements on banks loans for commercial real estate__

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

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

__Anti-money laundering__

Under the Swedish Money Laundering Act, financial companies are to assess, limit and monitor their risks of being utilised to launder money and finance terrorism. They are also to actively identify and report suspicious activities. The rules are comprised of three central pillars: risk assessment, customer due diligence, and monitoring and reporting. The fifth EU Money Laundering Directive, adopted in 2018, will essentially come into effect in January 2020 through implementation in Swedish law and in the regulations of the Swedish Financial Supervisory Authority. The amendments include greater protection for whistle-blowers and improving the basis for cooperation and exchanging information between various supervisory authorities. Furthermore, the new law also includes managing and trading in virtual currencies.

2 | Organisation

This section describes the Consolidated Situation based on the consolidation requirements of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD IV) and how these differ from the consolidation requirements under accounting regulations.

2.1 THE BANK GROUP

The accounting regulations define the Bank Group based on its legal ownership structure and on Länsförsäkringar Bank AB. The Bank Group comprises Länsförsäkringar Bank AB, and the wholly owned subsidiaries Länsförsäkringar Hypotek AB, Wasa Kredit AB and Länsförsäkringar Fondförvaltning AB.

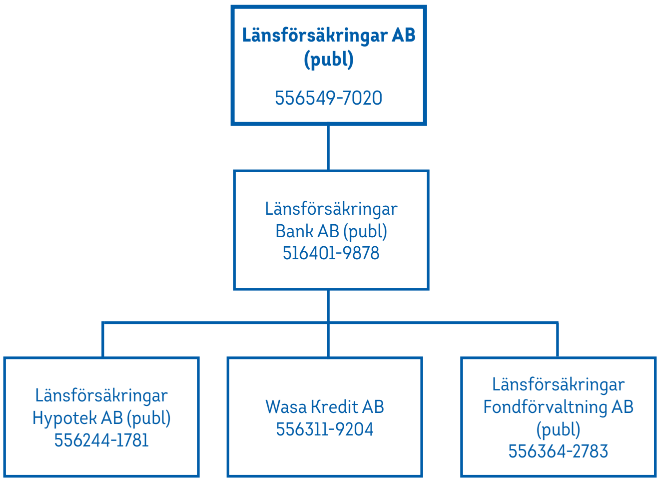
2.2 CONSOLIDATED SITUATION

The consolidated situation encompasses: Länsförsäkringar AB, Länsförsäkringar Bank AB, Länsförsäkringar Hypotek AB, Wasa Kredit AB and Länsförsäkringar Fondförvaltning AB. This structure is defined in the CRR and CRD IV as the Consolidated Situation and its composition does not correspond to the accounting structure. Länsförsäkringar AB sold its holding in the property-holding company Utile Dulci 2 HB during the year.

In addition to Länsförsäkringar Bank AB, Länsförsäkringar AB has the subsidiaries of Länsförsäkringar Fondliv Försäkrings AB, Länsförsäkringar Sak Försäkrings AB and Länsförsäkringar Liv Försäkrings AB. These companies are not subject to prudential requirements for credit institutions and are thus not included in the Consolidated Situation. They are instead subject to the solvency rules for insurance companies. Only capital from companies included in the consolidated situation may be included in own funds. The capital adequacy rules impose requirements that investments in financial entities above a certain level are to be deducted from own funds. For more information about the Group, refer to Länsförsäkringar AB's Annual Report.

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

Figure 2.1 Legal entities in the Consolidated Situation



All of the Boards of Directors of the companies have their registered offices in Stockholm.

Table 2.1 Carrying amount and Parent Company's participating interests

Company name	Carrying amount SEK M	Parent Company's participating interest (%)	Corporate Registration Number	Consolidation method
Länsförsäkringar AB Parent Company				
Länsförsäkringar Bank AB	9,229.6	100	516401-9878	Complete
Länsförsäkringar Fondliv Försäkrings AB	5,305.4	100	516401-8219	Deducted from own funds
Länsförsäkringar Sak Försäkrings AB	3,206.5	100	502010-9681	Deducted from own funds
Länsförsäkringar Liv Försäkrings AB	8.2	100	516401-6627	Deducted from own funds
Länsförsäkringar Bank AB Parent Company				
Länsförsäkringar Hypotek AB	8,560.5	100	556244-1781	Complete
Länsförsäkringar Fondförvaltning AB	165.0	100	556364-2783	Complete
Wasa Kredit AB	1,039.8	100	556311-9204	Complete

3 | Risk management and Risk governance

This section outlines the Consolidated Situation's risks and the Board's risk appetite. It also explains how risks are managed in the business based on the Consolidated Situation's risk-management and risk-governance system.

3.1 CONSOLIDATED SITUATION'S RISKS

Risks are a natural element of a bank's business activities and are defined in the Risk Policy as the possibility of negative deviations from an expected financial outcome.

A summary of the Consolidated Situation's main risks is presented below.

Table 3.1 Consolidated Situation risks

Credit risk	Credit risk pertains to the risk of losses arising due to counterparties being unable to fulfil their undertakings and of any collateral provided not covering the receivable. Credit risk encompasses lending risk, issuer risk, counterparty risk, settlement risk and creditworthiness risk.
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. Market risk includes interest-rate risk, currency risk, credit-spread risk, equities risk, property risk, option risk and pension risk.
Liquidity risk	Liquidity risk is defined as the risk that payment commitments cannot be fulfilled due to insufficient cash funds. Liquidity risk includes structural liquidity risk, financing risk, rollover risk and intraday liquidity risk.
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, including legal risks. Operational risk includes product and process risk, personnel risk, security risk, legal risks, compliance risks, IT risks and model risk.
Business risk	Business risk pertains to the risk of lower earnings, higher expenses or loss of confidence from customers or other stakeholders. Business risk encompasses strategic risk, reputation risk and conduct risk.

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

3.2 RISK APPETITE

The risk appetite is defined as the overall level per risk type to which the Consolidated Situation intends to be, and can be, exposed in order to achieve established strategic targets. The Board approves both the Consolidated Situation's risk appetite and the strategic targets that form the basis of the Consolidated Situation's risk strategy. The Consolidated Situation is to expose itself only to those risks necessary for achieving established targets. The Consolidated Situation's risk appetite is to be characterised by a low risk profile whose lending operations focus on private housing and family-owned agricultural operations. Risk is limited within the framework of the risk limits established by the Board.

3.3 RISK-MANAGEMENT SYSTEM AND INTERNAL-CONTROL FUNCTIONS

The Consolidated Situation has an effective risk-management system, comprising risk frameworks and risk-management processes that ensure correct monitoring, management and reporting of the Consolidated Situation's risks. A well-functioning risk-management system aims to maintain a healthy risk culture throughout the entire operations and ensure that the Board has an objective and clear understanding of the overall risk profile of the operations.

3.3.1 Three lines of defence

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

First line of defence

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

Second line of defence

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

Third line of defence

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

3.3.2 Risk-management system

The risk-management system consists of strategies, processes, procedures, internal rules, limits, controls and reporting procedures needed to ensure that the Consolidated Situation is able to continuously identify, measure, govern, report and have control over the risks to which the operations are, or could be expected to become, exposed to, and the interdependence of these risks.

All risk activities are based on the risk framework that is adopted by the Board. The risk framework is described in governance documents, including a risk policy, a policy for risk and risk limits, and guidelines for the independent Risk Management function.

The Consolidated Situation's risk framework is designed to meet internal needs, sound market practice and regulatory requirements. Accordingly, the risk framework is an integrated part of the decision-making processes and contributes to achieving the business objectives with a high degree of certainty.

The Consolidated Situation manages and evaluates its exposure to the risks to which its operations are exposed on the basis of:

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

3.4 RISK GOVERNANCE

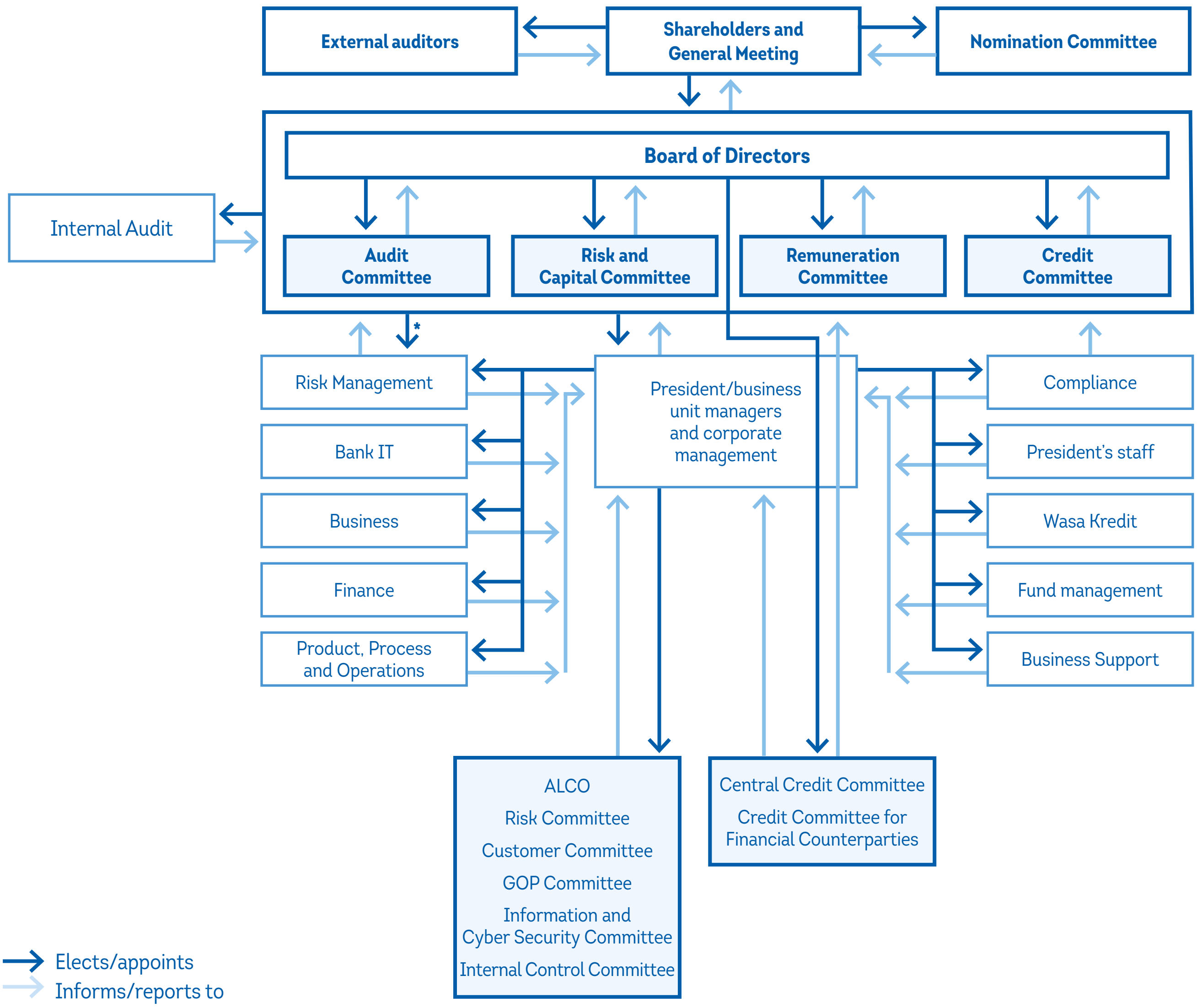
The Consolidated Situation's risk governance is based on governance documents adopted by the Board and a clear decision process in the operations.

Board of Directors

The Board is responsible for ensuring that an efficient risk-management system is in place and that it is customised to the Consolidated Situation's risk profile. The Board determines risk appetite and risk limits by adopting relevant governance documents. The Board approves all significant elements of the internal models used within the Consolidated Situation and is also responsible for ensuring that regulatory compliance and risks are managed in a satisfactory manner through the independent Risk Management, Compliance and Internal Audit functions.

The Board's Risk and Capital Committee supports the Board in risk and capital issues, and prepares cases ahead of Board decisions, for example, regarding market, liquidity, credit and operational risk, and capital and financing matters.

Figure 3.1 Länsförsäkringar Bank's governance structure



*) Chief Risk Officer approved by Board of Directors

President

The President is responsible for ensuring that daily management takes place in accordance with the strategies, guidelines and governance documents established by the Board.

The President also ensures that the methods, models, systems and processes that form the internal measurement and control of identified risks work in the manner intended and decided by the Board. The President is to continuously ensure relevant reporting from each unit, including Risk Management, to the Board. The President is the Chairman of the Asset Liability Committee (ALCO), which follows up on capital and financial matters, as well as the Chairman of the Risk Committee, which follows up on all risks, appetites, limits and internally assessed capital requirements.

Operations

Company managers have the overall responsibility for day-to-day risk management in their respective areas and for ensuring that such risk management takes place in accordance with the risk framework. The operations assume risk and also own the risk.

Risk Management

The task of Risk Management is to provide support to the business, Board, President and management to ensure that proper risk management and risk control have been carried out for all business operations and to assess that risks are managed in line with the risk framework established by the Board. Risk Management is to carry out its activities independently from the business activities. The individual responsible for Risk Management is the Chief Risk Officer (CRO), who is directly subordinate to the President and reports directly to the President, the Risk and Capital Committee, Audit Committee and the Board. The Board approves the appointment and replacement of the CRO. Risk Management's areas of responsibility are defined and documented in the guidelines adopted by the Board. Risk Management is also responsible for the Consolidated Situation's capital-adequacy process.

3.4.1 Monitoring and reporting

Risk Management reports on the Consolidated Situation's risk development to the Board, the Risk and Capital Committee, the Risk Committee, the ALCO and the President.

Monitoring risks is a significant part of the Consolidated Situation's ongoing operations. Controls and risk reports of market and liquidity risk and credit risk with financial counterparties take place every day. Other types of risk reporting take place on an ongoing basis. In addition, an aggregated risk and capital report, containing all risk areas, is submitted to the Board and the Board's Committees every quarter.

4 | Capital management

4.1 CAPITAL ADEQUACY

Capital requirements are divided into Pillar I requirements, which are general minimum requirements for all institutions, and Pillar II requirements that are based on individual assessments performed by each institution. The minimum capital requirements under Pillar I are expressed as a percentage of the Risk Exposure Amount (REA), which at all times must meet the following:

- A Common Equity Tier 1 capital ratio of 4.5%
- A Tier 1 ratio of 6%
- A total capital ratio of 8%

Alongside the minimum capital requirement, there are additional capital requirements in the form of a combined buffer. These capital buffers are regulated in the Swedish Capital Buffers Act (2014:966). There are five different buffers, three that cover systemic risk, a capital conservation buffer and a countercyclical capital buffer. All of these are to be held in the form of Common Equity Tier 1 capital. If these buffer requirements are breached, restrictions are introduced on paying dividends and interest payments on Additional Tier 1 instruments. The Consolidated Situation is subject to the requirements of satisfying a capital conservation buffer and a countercyclical capital buffer of 2.5% for each buffer on 31 December 2019.

There is the additional requirement that institutions are to make their own assessments of their internal capital requirement, usually named Pillar II, which is to include a margin for the risks that the institution is exposed to but that are not managed under Pillar I. Capital requirements are described in detail in section 4.3 below.

As presented in Table 4.1, the Consolidated Situation's Common Equity Tier 1 capital ratio on 31 December 2019 amounted to 15.4% (15.7) and the total capital ratio to 16.6% (18.3).

Internal capital and liquidity adequacy assessment processes

The Consolidated Situation's internal capital adequacy assessment process (ICAAP) is part of the capital planning and is to ensure that the Consolidated Situation, at any given time, has a sufficiently large amount of capital in relation to its current and future risk exposure level. A buffer of the statutory minimum capital requirements, the owner's yield requirements and external requirements from investors and rating agencies are taken into account in capital planning in addition to the assessment of the Consolidated Situation's internal capital requirements performed under the ICAAP. The ICAAP is also to take the development of the operations into consideration. A capital forecast is prepared when the capital requirement is determined and reported four times a year to the ALCO, the Risk and Capital Committee and the Board. The forecast is prospective and is to provide a view of the capital requirements over both the long and the short term. The purpose of the forecast is to ensure that the Consolidated Situation has sufficient own funds base and the correct capital composition.

The CRO of Länsförsäkringar Bank is responsible for coordinating the process work that leads to an ICAAP for the Consolidated Situation and forms the basis of business planning and Board decisions concerning capital policy and forecasts. The Consolidated Situation's ICAAP is designed based on the requirements of CRR and CRD IV and the requirements established by the Board of Directors for the operations. The process, which is to be performed at least once annually, is to be documented in respect of the approach taken, the implementation and the results of the ICAAP, and reported to the Swedish Financial Supervisory Authority. The process includes the following activities:

- Identifying all risks
- Risk assessment
- Stress tests
- Capital calculations

All of the Consolidated Situation's identified risks are included in the calculation of the capital requirements in the ICAAP. The Consolidated Situation applies methods used to calculate the capital requirement under the framework of Pillar I. For risks not included in Pillar I, known as Pillar II risks, internal models are used to allocate a capital requirement to each risk. The following additional risks are taken into account in the calculation of capital requirements under the Pillar II framework:

- Credit-related concentration risk
- Credit risk in exposures to governments
- Market risk, comprising currency risk, interest-rate risk in the bank book and spread risk
- Pension risk

Table 4.1 Trend in capital adequacy measures

	Consolidated Situation		Bank Group	
SEK M	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**
Common Equity Tier 1 capital	18,740.3	17,749.3	14,633.1	13,639.3
Tier 1 capital	19,483.8	18,676.9	16,833.1	14,839.3
Tier 2 capital	768.1	2,035.5	2,589.7	2,589.7
Own funds	20,251.9	20,712.4	19,422.7	17,429.0
Risk Exposure Amount	121,827.0	113,283.1	104,924.9	95,927.8
Capital requirement	9,746.2	9,062.6	8,394.0	7,674.2
Common Equity Tier 1 capital ratio	15.4%	15.7%	13.9%	14.2%
Tier 1 ratio	16.0%	16.5%	16.0%	15.5%
Total capital ratio	16.6%	18.3%	18.5%	18.2%
Capital conservation buffer	3,045.7	2,832.1	2,623.1	2,398.2
Countercyclical capital buffer	3,045.7	2,265.7	2,623.1	1,918.6

The Financial Supervisory Authority's method for assessing the total capital requirement also includes for the Consolidated Situation the capital conservation buffer and the countercyclical capital buffer.

The internal capital requirement provides a view of the Consolidated Situation's current position. Scenario analyses and stress tests are performed under the ICAAP framework to ensure that the Consolidated Situation is well-capitalised for the future. The basic prerequisites for stress tests are to be decided by the Board of Directors at least once annually. This discussion provides guidance for the continuing work involving stress tests. Work on stress tests is based on a number of scenarios and the impact of these scenarios on the Consolidated Situation. The base scenario is based on the business plan and the most probable trend in volumes, earnings and credit losses. Assumptions in this base scenario are stress-tested by applying the most unfavourable conditions in the external business world for the Consolidated Situation that could be expected to occur once every 20–25 years. The purpose of the stress-test scenario is to ensure that the amount and composition of own funds are sufficient to absorb losses arising as a result of a serious financial stress. The performance in this scenario forms the basis for calculating a capital planning buffer by taking into account the change in the capital requirement and own funds. The capital planning buffer comprises the part of the capital requirement that exceeds the capital conservation buffer.

The Consolidated Situation also carries out an ILAAP every year, with the aim of ensuring a satisfactory liquidity situation, and robust strategies and processes to manage liquidity risk over time. The ILAAP describes the internally assessed liquidity requirements and the liquidity reserve that the Bank Group has at its disposal, in relation to the liquidity and financing risk to which the Consolidated Situation is exposed.

4.2 OWN FUNDS

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

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

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

Common Equity Tier 1 capital

Equity comprises share capital, capital contributed, reserves and net profit for the year. During the period, equity included in the Common Equity Tier 1 capital in the Consolidated Situation increased net, primarily due to profit generated from the Bank Group. Profit may be included prior to a decision by a general meeting only if approved by the Swedish Financial Supervisory Authority, after deductions have been made for proposed dividends or other foreseeable charges and the company's auditors have verified the profit. A deduction for the expected, proposed dividend from the Parent Company Länsförsäkringar AB to the shareholders of SEK 700 M was made from Common Equity Tier 1 capital at year-end.

Changes in equity attributable to cash flow hedges may not be included in own funds, which is why this effect is excluded. Common Equity Tier 1 capital is also adjusted due to the regulatory requirements regarding prudent valuation of items measured at fair value. Adjustments for the IRB deficit when, according to the accounts, the reserves for credit losses ("loss allowance") are less than the expected losses in capital adequacy, are to be made within Common Equity Tier 1 capital. If the reserves in the accounts exceed the expected loss, a limited portion may be included in the Tier 2 capital. IRB surplus and IRB deficit are evaluated separately for the defaulted and non-defaulted portfolio.

Common Equity Tier 1 capital is to be reduced by deductions for significant investments in financial companies if the invested capital comprises Common Equity Tier 1 instruments and exceeds 10% of gross Common Equity Tier 1 capital, or 17.65% of the net Common Equity Tier 1 capital when aggregated with deferred tax assets. Amounts under the threshold are risk-weighted at 250%. The deduction in the Consolidated Situation derives from Länsförsäkringar AB's holdings in the insurance sector.

Deferred tax assets recognised in the balance sheet are to reduce Common Equity Tier 1 capital if they meet certain criteria and exceed certain threshold amounts. The deferred tax assets that existed on 31 December 2019 did not give rise to any deduction but are included in the calculation of the threshold levels above.

Other deductions from Common Equity Tier 1 capital that are applicable to the Consolidated Situation are intangible assets and goodwill. Common Equity Tier 1 capital after applicable deductions amounted to SEK 18,740 M (17,749).

Tier 1 capital

Additional Tier 1 capital in the Consolidated Situation solely comprises Additional Tier 1 instruments. Additional Tier 1 capital is subordinated liabilities which fulfil certain conditions in order to be included as Tier 1 capital when calculating the size of own funds. Länsförsäkringar Bank has issued two Additional Tier 1 Capital loans totalling SEK 2,200 M (1,200). However, when consolidated own funds are compiled, Tier 1 instruments issued by Länsförsäkringar Bank may only be included to the extent required to cover the Bank Group's Tier 1 capital requirements, including Pillar II and the buffer requirements. Eligible Tier 1 capital amounted to SEK 743 M (928). Tier 1 capital in the Consolidated Situation was impacted by an answer on qualifying own funds published by the European Banking Authority (EBA) in November 2019. The EBA responded to a question on how own funds qualify for inclusion in consolidated own funds. The answer clarified the application of the limitation rules on own funds qualifying for inclusion in a consolidated situation. The clarification from the EBA means that as per 31 December 2019 the Consolidated Situation only includes own funds issued externally by Länsförsäkringar Bank in the portion of capital required to cover the capital requirements of Länsförsäkringar Bank, and not, as previously, also including its subsidiaries' capital requirements.

Tier 2 capital

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

Tier 2 capital comprises fixed-term subordinated debt issued by Länsförsäkringar Bank. The instruments are subject to the same rules as for Tier 1 instruments above. Eligible Tier 2 capital amounted to SEK 768 M (2,036). The calculation of eligible Tier 2 capital in the Consolidated Situation is the same as the calculation of Tier 1 capital and was thus impacted by the same reinterpretation as Tier 2 capital. Own funds and capital requirements are presented in Table 4.2.

Table 4.2 Own funds and capital requirements

SEK M	Consolidated Situation 31 Dec 2019	Consolidated Situation 31 Dec 2018	Bank Group 31 Dec 2019	Bank Group 31 Dec 2018
Common Equity Tier 1 capital: instruments and reserves				
Capital instruments and the related share premium accounts	6,513.4	6,513.4	2,864.6	2,864.6
of which: share capital	1,042.5	1,042.5	2,864.6	2,864.6
Retained earnings	14,818.0	11,613.1	11,740.8	10,545.9
Accumulated Other comprehensive income	4,220.9	4,938.9	234.0	314.1
Independently reviewed interim profits net of any foreseeable charge or dividend	1,245.2	2,488.3	1,427.9	1,179.5
Common Equity Tier 1 capital before regulatory adjustments	**26,797.4**	**25,553.7**	**16,267.3**	**14,904.1**
Common Equity Tier 1 capital: regulatory adjustments				
Additional value adjustments	-63.0	-54.4	-60.5	-53.5
Intangible assets (net related tax liability)	-1,968.3	-1,734.2	-1,252.0	-989.6
Fair value reserves related to gains or losses on cash flow hedges	170.1	151.2	170.1	151.2
Negative amounts resulting from the calculation of expected loss amounts	-491.8	-372.9	-491.8	-372.9
Direct, indirect and synthetic holdings by the institution of Common Equity Tier 1 instruments of financial sector entities where the institution has a significant investment in those entities	-5,704.0	-5,794.1	–	–
Amounts exceeding threshold of 15%	–	–	–	–
of which: direct, indirect and synthetic holdings by the institution of Common Equity Tier 1 instruments of financial sector entities where the institution has a significant investment in those entities	–	–	–	–
of which: deferred tax assets arise from temporary differences	–	–	–	–
Total regulatory adjustments to Common Equity Tier 1 capital	**-8,057.1**	**-7,804.4**	**-1,634.2**	**-1,264.8**
Common Equity Tier 1 capital	**18,740.3**	**17,749.3**	**14,633.1**	**13,639.3**
Additional Tier 1 capital: instruments				
Capital instruments and the related share premium accounts	–	–	2,200.0	1,200.0
of which: classified as equity within the meaning of the applicable accounting standards	–	–	2,200.0	1,200.0
Qualifying Tier 1 capital included in consolidated Additional Tier 1 capital issued by subsidiaries and held by third parties	743.4	927.6	–	
Additional Tier 1 capital	**743.4**	**927.6**	**2,200.0**	**1,200.0**
Tier 1 capital (Tier 1 capital = Common Equity Tier 1 capital + Additional Tier 1 capital)	**19,483.8**	**18,676.9**	**16,833.1**	**14,839.3**
Tier 2 capital: instruments and provisions				
Capital instruments and the related share premium accounts	–	–	2,589.7	2,589.7
Qualifying own funds instruments included in consolidated Tier 2 capital issued by subsidiaries and held by third parties	768.1	2,035.5	–	–
Tier 2 capital	**768.1**	**2,035.5**	**2,589.7**	**2,589.7**
Total capital (total capital = Tier 1 capital + Tier 2 capital)	**20,251.9**	**20,712.4**	**19,422.7**	**17,429.0**
Total risk-weighted assets	**121,827.0**	**113,283.1**	**104,924.9**	**95,927.8**
Capital ratios and buffers				
Common Equity Tier 1 capital (as a percentage of total risk exposure amount)	15.4%	15.7%	13.9%	14.2%
Tier 1 capital (as a percentage of total risk exposure amount)	16.0%	16.5%	16.0%	15.5%
Total capital (as a percentage of total risk exposure amount)	16.6%	18.3%	18.5%	18.2%
Institution-specific buffer requirements	9.5%	9.0%	9.5%	9.0%
of which: capital conservation buffer requirement	2.5%	2.5%	2.5%	2.5%
of which: countercyclical capital buffer requirement	2.5%	2.0%	2.5%	2.0%
of which: systemic risk buffer requirement	–	–	–	–
of which: Global Systemically Important Institution or Other Systemically Important Institution buffer	–	–	–	–
Common Equity Tier 1 capital available to meet buffers (as a percentage of risk exposure amount)	8.6%	10.3%	9.4%	9.5%

Presentation of own funds in accordance with Article 5 of the European Commission Implementing Regulation (EU) No 1423/2013.
There are no items encompassed by the provisions applied before Regulation (EU) No 575/2013 or any prescribed residual amounts under the Regulation.
Empty rows in the presentation template in the Regulation have been excluded to provide a better overview.

Table 4.3 presents outstanding subordinated loans on 31 December 2019

Table 4.3 Outstanding subordinated loans 31 December 2019

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

Disclosures on own funds are found on the Länsförsäkringar Bank AB website.

4.3 CAPITAL REQUIREMENT

Risk Exposure Amount

The advanced Internal Ratings-based Approach (A-IRB) for retail exposures is applied in order to calculate REA. The Foundation IRB Approach (F-IRB) is used for exposures to corporates and the Standardised Approach is used for other exposure classes. The Standardised Approach is applied to the calculation of capital requirements for operational risk and credit valuation adjustment risk.

As shown in Table 4.5, total REA in the Consolidated Situation on 31 December 2019 amounted to SEK 121,827 M (113,283). The increase in REA was mainly attributable continued growth in lending, primarily to households in the form of mortgages, which also increases REA in accordance with the Financial Supervisory Authority's macroprudential measures under the framework of Article 458 of CRR. REA for operational risk has increased since the preceding year due to the annual upward adjustment of the income included in the calculation according to the Standardised Approach.

Buffer requirement

The purpose of the capital conservation buffer is that it can be used during critical periods and is to amount to 2.5% of REA, which corresponded to SEK 3,046 M (2,832) on 31 December 2019. The aim of the countercyclical capital buffer is to strengthen banks' resilience and ensure that sufficient capital exists for maintaining access to credit during stressed scenarios in the financial system. The Financial Supervisory Authority raised the requirement of the countercyclical capital buffer from 2% to 2.5% during the year, which corresponded to SEK 3,046 M (2,266) on 31 December 2019.

Both buffers are to be covered by Common Equity Tier 1 capital. The Pillar I capital requirement for the Consolidated Situation amounted to 13.0% (12.5), including the capital conservation buffer and countercyclical capital buffer.

Internally assessed capital requirement

The internally assessed capital requirement comprises the minimum capital requirement under Pillar I and the capital requirement for risks managed under Pillar II. The internally assessed capital requirement for the Consolidated Situation on 31 December 2019 amounted to SEK 11,710 (11,290) M.

Own funds that meet the capital requirement under the Pillar I and Pillar II requirements, including buffers, amounted to SEK 20,252 M.

4.4 LEVERAGE RATIO

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

4.5 NEW AND AMENDED RULES

Capital adequacy rules

Impending changes to capital adequacy rules

In 2019, the EU adopted amendments to regulations and directives related to capital adequacy and bank recovery and resolution. The changes include amendments and revisions to the Capital Requirements Regulation, the Capital Requirements Directive and the Crisis

Table 4.4 Leverage ratio

SEK M	31 Dec 2019	31 Dec 2018
Leverage Ratio exposure, SEK M		
Derivatives: Current replacement cost	7,708	5,278
Variation margin	–2,569	–1,855
Derivatives: Add-on under the mark-to-market method	3,818	3,454
Off-balance sheet items, conversion factor applied	12,769	12,503
Other assets	386,074	357,549
Asset amount deducted – Tier 1 capital	–8,164	–7,901
Other adjustments	–29	–5
Total Leverage Ratio exposure	**399,608**	**369,022**
Tier 1 capital	**19,484**	**18,677**
Leverage ratio	**4.9%**	**5.1%**

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

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

The European Banking Authority (EBA) also deferred the implementation of certain new requirements for internal models in the review of the IRB regulatory framework. The purpose of the review is to ensure consistency in the results of the internal models and to make risk-weighted exposures more comparable between banks. The new standards include a new definition of default and estimates of PD and LGD, which will be introduced not later than 2021. Combined, this will entail extensive changes for many banks.

Increased capital requirements on banks loans for commercial real estate

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

New EU rules on covered bonds

In November 2019, the EU decided on new regulations regarding covered bonds comprising a new directive and regulation on amendments to the Capital Requirements Regulation. The new rules are part of the European Commission's work on deepening the Capital Markets Union since the covered bond market is unequally developed in EU countries. The aim of the regulations is to create standardised rules for covered bonds within the EU. The directive regulates the minimum level of harmonisation based on national systems so as not to jeopardise the functioning of the existing markets. The proposal includes introducing a separate requirement for a cover pool liquidity buffer, which is to cover the net liquidity outflow for a period of 180 days. A higher match funding requirement is also proposed, meaning the degree to which the value of the cover pool is to exceed the nominal value of the covered bonds. The requirement entails a rise from the current level of 2% to 5%. Adjustments are needed to introduce the directive and the regulation amendments to Swedish law. The Swedish government decided in December 2019 to appoint a special investigator to present proposals on law amendments by 31 October 2020. The new directive is expected to take effect in 2021.

Crisis management

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

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

Table 4.5 Capital requirement and Risk Exposure Amount

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

5 | Credit risk

Credit risk refers to the risk that a counterparty is unable to fulfil its commitments and that any collateral provided does not cover the receivable so that a financial loss arises.

5.1 RISK APPETITE

The risk-taking for credit risk is based on a sound credit process and the credit portfolio is highly diversified with an overall low risk level. Risk is limited within the framework of the Consolidated Situation's established risk appetites and risk limits.

5.2 RISK MANAGEMENT

This section presents the credit process, risk-classification system and method for calculating the Consolidated Situation's capital requirement for credit risk.

5.2.1 Credit process

The banking operations impose strict requirements in terms of customer selection, customers' repayment capacity and the quality of collateral.

Länsförsäkringar Bank is responsible for ensuring that lending is carried out according to uniform procedures based on the Board's adopted guidelines, which ensures a common view on loan origination throughout the organisation. The quality of the loan portfolio and borrowers' repayment capacity are continuously monitored and reviewed. Combined with system support for risk classification, this leads to balanced and consistent lending.

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

The credit regulations also set out minimum requirements for underlying documentation for credit-granting decisions. Compliance with the credit regulations is regularly monitored. The credit regulations and credit process, combined with local customer and market knowledge, create a loan portfolio that maintains high credit quality.

Environmental and climate risks

Environmental risks and environmental responsibility for agriculture and companies are regulated by the extensive external rules of a variety of supervisory authorities. Sustainability and environmental risks are analysed in the loan process for business credits based on, for example, licensable and non-licensable operations and a comprehensive assessment of the company's operations. Risks are subsequently followed up in annual turnovers.

5.2.2 IRB system

An Internal Ratings-based Approach is used in the area of credit risk, or IRB Approach, to calculate the capital requirement for credit risk. This complies with the requirements set by the CRR and forms the basis of the IRB risk-classification system. The IRB system is a core component of the credit process and consists of methods, models, processes, controls and IT systems to support and further develop the quantification of credit risks. The IRB system is specifically used in:

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

Some of the core concepts in the IRB system are described below.

Exposure at Default (EAD)

Exposure at Default is the exposure amount that the counterparty is expected to utilise upon default. For on-balance sheet exposures, EAD is defined as capital liability plus accrued and overdue unpaid interest and fees. For off-balance sheet commitments, EAD is calculated by using a conversion factor, see below.

Probability of Default (PD)

The Probability of Default is the probability that a counterparty will default within a 12-month period. A counterparty is considered to be in default if a payment is more than 60 days past due[1]. A counterparty is also considered to be in default if there are other reasons to expect that the counterparty cannot meet its undertakings. The Bank Group has received permission from the Swedish Financial Supervisory Authority to apply a new definition of default that meets the clarification requirements of the EBA's guidelines[4]. The new definition will be implemented in the first half of 2020.

An initial PD is calculated for each counterparty, adjusted to reflect the average proportion of default over business cycles. Finally, a safety margin is added to the PD to ensure that the risk is not underestimated. Following the calculation of PD, all non-defaulted counterparties are ranked and are divided into eleven risk classes.

The information that is most relevant to each type of counterparty has been taken into consideration in the development of models for estimating PD. The PD estimate for retail exposures is calculated entirely by using models based on predictive statistical analysis, while the PD estimate for exposures to corporates is based on a predictive statistical analysis combined with individual expert assessments. These risk models take both internal and external information into consideration.

Loss Given Default (LGD)

Loss Given Default is defined as the expected loss percentage of the total counterparty exposure given default.

An internal estimate of LGD is used for the Advanced IRB Approach, which is based on internal information about such factors as loss portions, loan-to-value (LTV) ratio and product type. A safety margin is added to these estimates to ensure that the LGD is not underestimated, before a final LGD adjustment is made to reflect the loss ratio in a period of recession.

[1] 90 days is applied for Wasa Kredit.
[4] EBA/GL/2016/07 Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013

Conversion Factor (CF)
The Conversion Factor is used to calculate off-balance sheet commitments that are expected to be utilised by the counterparty in the event of default. An internal estimate of CF is calculated for the Advanced IRB Approach, which is based on internal information about such factors as degree of realisation, degree of utilisation and type of product. A safety margin is added to these estimates to ensure that the CF is not underestimated.

Validation
The entire IRB system is validated every year in accordance with applicable regulation and internally adopted guidelines. The quantitative risk models applied to risk estimates are evaluated based on predictive ability and risk-differentiating properties. Great importance is attached to ensuring that the models are stable over time. In addition to the purely quantitative aspects of the IRB system, the use and integration of the system in the operations is evaluated to ensure that the credit risk is consistently and uniformly measured. The entire validation process is performed by the Risk Management department.

5.2.3 Method for calculating capital requirements for credit risk
This section provides an overview of which exposures are subject to each of the respective methods (Standardised Approach and IRB Approach), and the dates on which approval for applying the IRB Approach to each portfolio was received.

Standardised Approach (SA)
Exposures calculated according to the Standardised Approach primarily comprise exposures to governments and institutions, and holdings of covered bonds. All holdings in securities have a very high credit rating.

Internal Ratings-based Approach (IRB)
The IRB Approach is applied to lending to the retail exposures and exposures to corporates classes[2)]. The Foundation Internal Ratings-Based Approach is applied to exposures to corporates, with PD estimated by using internal models, while prescribed amounts are used for LGD and CF. Permission to apply the IRB Approach was obtained or applied for as follows:
- In December 2006, permission was granted by the Financial Supervisory Authority to apply the IRB Approach to retail exposures. This Approach has been applied to capital requirement calculations since February 2007.
- In December 2009, permission was granted to apply the Foundation IRB Approach to capital requirement calculations for credit risk for companies with agricultural operations, which comprises most of the corporate portfolio. This Approach has been applied since March 2010.
- In May 2012, permission was received to apply the IRB Approach for exposures to corporates, excluding Wasa Kredit AB. This Approach has been applied since June 2012.
- In April 2015, Länsförsäkringar Bank AB and the subsidiary Länsförsäkringar Hypotek AB received permission from the Financial Supervisory Authority to change their IRB model for calculating LGD for loans secured by immovable property. This Approach has been applied to capital requirement calculations since May 2015.
- In April 2015, Länsförsäkringar Bank AB and its subsidiaries Länsförsäkringar Hypotek AB and Wasa Kredit AB received approval for all IRB portfolios in the Bank Group to change the limit for what is classified as retail exposures and exposures to corporates. The new limit has been applied to capital requirement calculations since May 2015.
- In March 2019, the Financial Supervisory Authority granted permission to adjust the PDTTC levels of the models for corporates to meet the requirements of the Authority's new directive[3)].
- In November 2019, the Financial Supervisory Authority granted permission to apply a new definition of default for the Consolidated Situation to meet the requirements of the Authority's new directive. The new definition will be implemented in the first half of 2020.

The following IRB applications were withdrawn during the year:
- In February 2017, an application was submitted to the Financial Supervisory Authority for permission to adjust the PDTTC levels of the models for retail to meet the requirements of the Authority's new directive[3)]. This application was withdrawn in July 2019.

5.3 CREDIT QUALITY
This section describes the Consolidated Situation's credit risk exposure based on approach, exposure class and geographic and industry distribution. The IRB exposure is also reported specified by risk class and an evaluation of the credit risk models is provided.

The IRB retail exposure increased SEK 21,082 M (7.6%), while exposures to corporates rose SEK 130 M (0.6%), primarily due to volume growth in mortgages in the retail segment. Volumes grew while retaining the risk weight level, as shown in Table 5.1.

[2)] Some exposures in Wasa Kredit to which the Standardised Approach is applied are included in the IRB roll-out plan approved by the Financial Supervisory Authority.
[3)] Refer to the Swedish Financial Supervisory Authority's memorandum: "FI's supervision of banks' calculations of risk weights for exposures to corporates."

Table 5.1 Exposure by exposure class

SEK M	31 Dec 2019			31 Dec 2018			Period average[1]		
Exposure class	**Original exposure**	**EAD**	**RW (%)**	**Original exposure**	**EAD**	**RW (%)**	**Original exposure**	**EAD**	**Average RW (%)**
Standardised Approach									
Central governments and central banks	19,814	21,237	0	18,987	20,280	0	23,344	24,718	0
Regional governments or local authorities	192	4,757	0	196	4,424	0	197	4,625	0
Exposures to public sector entities	1,593	0	0	1,355	0	0	1,546	0	0
Multilateral development banks	2,339	2,339	0	1,555	1,555	0	2,033	2,033	0
Institutions	17,068	6,655	29	13,702	4,735	28	27,684	6,740	28
Corporates	2,554	2,531	90	2,287	2,275	90	2,393	2,376	90
of which, SMEs	1,645	1,634	85	1,497	1,492	84	1,575	1,568	85
Retail	4,433	2,817	75	4,115	2,639	75	4,343	2,769	75
of which, SMEs	11	11	58	2	2	58	7	7	58
Defaulted exposures	60	25	108	45	18	112	57	24	110
Covered bonds	36,350	36,350	10	30,601	30,601	10	35,090	35,090	10
Exposures associated with particularly high risk	0	0	–	0	0	–	0	0	–
Equity exposures	2,542	2,542	245	2,428	2,428	246	2,476	2,476	245
Other items	3,271	3,271	103	4,672	4,672	101	4,705	4,705	102
Total, Standardised Approach	**90,216**	**82,524**	**24**	**79,943**	**73,627**	**26**	**103,868**	**85,556**	**24**
IRB Approach									
Corporates	20,456	20,271	43	20,333	20,141	37	20,586	20,397	42
of which, SMEs	20,444	20,262	43	20,323	20,133	37	20,574	20,388	42
Retail	301,591	297,194	10	279,813	276,112	10	295,926	291,355	10
of which, SMEs	24,151	24,129	11	36,877	36,412	17	23,482	23,459	10
of which, secured by immovable property	270,822	267,213	7	250,123	247,169	7	265,308	261,523	7
of which, other retail credits	30,769	29,980	39	29,690	28,943	39	30,618	25,696	45
Total, IRB Approach	**322,047**	**317,465**	**12**	**300,146**	**296,253**	**12**	**316,512**	**311,752**	**12**
Total	**412,263**	**399,989**	**15**	**380,089**	**369,880**	**15**	**420,380**	**397,308**	**15**

[1] Average exposure and risk weight in 2019, calculated by quarter.

Table 5.2 shows the exposure by class and industry based on NACE codes.

Table 5.2 Exposure by industry and class, IRB

31 Dec 2019, SEK M	Agriculture, forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas, steam and air conditioning supply	Water supply, sewerage, waste management and remediation activities	Construction	Wholesale and retail trade; repair of motor vehicles and motorcycles	Transportation and storage	Accommodation and food service activities	Information and communication	Financial and insurance activities	Real estate activities	Professional, scientific and technical activities	Administrative and support service activities	Public administration and defence	Education	Human health and social work activities	Arts, entertainment and recreation	Other service activities	Other	TOTAL
Standardised Approach																					
Central governments and central banks	0	0	0	0	0	0	0	0	0	0	10,177	0	0	0	11,060	0	0	0	0	0	21,237
Regional governments or local authorities	0	0	0	0	2	0	0	0	0	0	0	0	0	0	4,620	66	61	2	0	6	4,757
Exposures to public sector entities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Multilateral development banks	0	0	0	0	0	0	0	0	0	0	2,339	0	0	0	0	0	0	0	0	0	2,339
Institutions	0	0	0	0	0	0	0	0	0	0	6,655	0	0	0	0	0	0	0	0	0	6,655
Corporates	279	12	424	7	46	427	356	268	57	30	57	79	158	203	0	51	16	33	13	15	2,531
of which, SMEs	274	9	212	0	14	338	121	217	31	8	53	40	76	174	0	39	0	2	12	14	1,634
Retail	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2,817	2,817
of which, SMEs	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	11	11
Defaulted exposures	0	0	0	0	0	1	2	1	0	0	0	0	0	0	0	0	0	0	0	21	25
Covered bonds	0	0	0	0	0	0	0	0	0	0	36,350	0	0	0	0	0	0	0	0	0	36,350
Exposures associated with particularly high risk	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equity exposures	0	0	0	0	0	0	0	0	0	0	2,417	0	0	3	0	0	0	0	0	122	2,542
Other items	0	0	0	0	0	0	0	0	0	0	12	0	0	0	129	0	0	0	0	3,130	3,271
Total, Standardised Approach	**279**	**12**	**424**	**7**	**48**	**428**	**358**	**269**	**57**	**30**	**58,007**	**79**	**158**	**206**	**15,809**	**117**	**77**	**35**	**13**	**6,111**	**82,524**
IRB Approach																					
Corporates	11,513	6	296	12	4	598	481	89	122	33	101	6,356	178	153	0	24	48	61	65	131	20,271
of which, SMEs	11,513	6	296	5	4	598	481	89	122	33	101	6,356	178	151	0	24	48	61	65	131	20,262
Retail	23,402	42	2,131	68	100	5,923	3,378	1,960	1,123	1,214	110	2,202	4,276	1,502	0	1,248	982	2,191	1,870	243,472	297,194
of which, SMEs	20,860	38	1,506	11	82	4,127	1,915	1,622	825	272	71	1,813	1,262	830	0	300	266	708	468	1,304	38,280
of which, secured by immovable property	20,532	7	813	59	19	2,568	1,715	445	349	984	49	1,766	3,419	799	0	1,063	793	1,837	1,546	228,450	267,213
of which, other exposures	2,870	35	1,318	9	81	3,355	1,663	1,515	774	230	61	436	857	703	0	185	189	354	324	15,021	29,980
Total, IRB Approach	**34,915**	**48**	**2,427**	**80**	**104**	**6,521**	**3,859**	**2,049**	**1,245**	**1,247**	**211**	**8,558**	**4,454**	**1,655**	**0**	**1,272**	**1,030**	**2,252**	**1,935**	**243,603**	**317,465**
Total	**35,194**	**60**	**2,851**	**87**	**152**	**6,949**	**4,217**	**2,318**	**1,302**	**1,277**	**58,218**	**8,637**	**4,612**	**1,861**	**15,809**	**1,389**	**1,107**	**2,287**	**1,948**	**249,714**	**399,989**

Table 5.2 Exposure by industry and class, IRB, cont.

31 Dec 2018, SEK M	Agriculture, forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas, steam and air conditioning supply	Water supply; sewerage, waste management and remediation activities	Construction	Wholesale and retail trade; repair of motor vehicles and motorcycles	Transportation and storage	Accommodation and food service activities	Information and communication	Financial and insurance activities	Real estate activities	Professional, scientific and technical activities	Administrative and support service activities	Public administration and defence	Education	Human health and social work activities	Arts, entertainment and recreation	Other service activities	Other	TOTAL
Standardised Approach																					
Central governments and central banks	0	0	0	0	0	0	0	0	0	0	9,719	0	0	0	10,561	0	0	0	0	0	20,280
Regional governments or local authorities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	4,288	76	60	0	0	0	4,424
Exposures to public sector entities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Multilateral development banks	0	0	0	0	0	0	0	0	0	0	1,555	0	0	0	0	0	0	0	0	0	1,555
Institutions	0	0	0	0	0	0	0	0	0	0	4,735	0	0	0	0	0	0	0	0	0	4,735
Corporates	213	17	450	7	51	371	369	217	74	27	61	56	137	153	0	30	10	21	11	0	2,275
of which, SMEs	211	16	283	0	24	336	144	158	43	0	56	10	59	114	0	26	0	1	11	0	1,492
Retail	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2,639	2,639
of which, SMEs	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	2
Defaulted exposures	0	0	0	0	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0	16	18
Covered bonds	0	0	0	0	0	0	0	0	0	0	30,601	0	0	0	0	0	0	0	0	0	30,601
Exposures associated with particularly high risk	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equity exposures	0	0	0	0	0	0	0	0	0	0	2,308	0	0	3	0	0	0	0	0	117	2,428
Other items	0	0	0	0	0	0	0	0	0	0	18	0	0	0	184	0	0	0	0	4,470	4,672
Total, Standardised Approach	**213**	**17**	**450**	**7**	**51**	**371**	**371**	**217**	**74**	**27**	**48,997**	**56**	**137**	**156**	**15,033**	**106**	**70**	**21**	**11**	**7,242**	**73,627**
IRB Approach																					
Corporates	11,510	2	286	11	1	532	414	101	95	27	93	6,566	149	180	0	29	24	51	70	0	20,141
of which, SMEs	11,510	2	286	4	1	532	414	101	95	27	93	6,566	149	180	0	29	24	51	70	0	20,133
Retail	22,737	38	2,209	72	77	5,663	3,369	2,027	1,059	1,201	123	2,191	4,078	1,378	1	1,128	930	2,068	1,761	224,004	276,112
of which, SMEs	19,439	34	1,502	12	65	3,905	1,833	1,667	788	242	78	1,750	1,190	761	0	275	278	714	449	1,429	36,412
of which, secured by immovable property	19,903	7	924	64	10	2,395	1,745	468	307	990	51	1,739	3,256	705	0	944	760	1,682	1,429	209,792	247,169
of which, other exposures	2,834	32	1,285	7	67	3,268	1,624	1,559	752	211	73	452	822	673	0	184	170	386	333	14,211	28,943
Total, IRB Approach	**34,247**	**40**	**2,495**	**83**	**78**	**6,195**	**3,783**	**2,128**	**1,153**	**1,228**	**216**	**8,757**	**4,227**	**1,558**	**1**	**1,156**	**955**	**2,119**	**1,831**	**224,004**	**296,253**
Total	**34,460**	**57**	**2,945**	**90**	**129**	**6,566**	**4,154**	**2,345**	**1,227**	**1,255**	**49,213**	**8,813**	**4,364**	**1,714**	**15,034**	**1,262**	**1,025**	**2,140**	**1,842**	**231,246**	**369,880**

Table 5.3 presents credit risk exposure by class and region. 96.9% of total credit risk exposure of SEK 399,989 M comprises exposure to Sweden.

Table 5.3 Exposure by region and class

31 Dec 2019, SEK M	Sweden	Denmark	Finland	Norway	Switzerland	Germany	Total
Standardised Approach							
Central governments and central banks	19,346	–	190	–	–	1,700	21,237
Regional governments or local authorities	4,274	170	313	–	–	–	4,757
Multilateral development banks	2,339	–	–	–	–	–	2,339
Institutions	2,059	1,743	2,071	539	243	–	6,655
Corporates	2,531	–	–	–	–	–	2,531
of which, SMEs	1,634	–	–	–	–	–	1,634
Retail	2,817	–	–	–	–	–	2,817
of which, SMEs	11	–	–	–	–	–	2
Defaulted exposures	25	–	–	–	–	–	25
Exposures associated with particularly high risk	–	–	–	–	–	–	–
Covered bonds	30,758	4,739	853	–	–	–	36,350
Equity exposures	2,542	–	–	–	–	–	2,542
Other items	3,271	–	–	–	–	–	3,271
Total, Standardised Approach	**69,962**	**6,652**	**3,427**	**539**	**243**	**1,700**	**82,524**
IRB Approach							
Corporates	20,271	–	–	–	–	–	20,271
of which, SMEs	20,262	–	–	–	–	–	20,262
Retail	297,194	–	–	–	–	–	297,194
of which, SMEs	24,129	–	–	–	–	–	24,129
of which, secured by immovable property	267,213	–	–	–	–	–	267,213
of which, other exposures	29,980	–	–	–	–	–	29,980
Total, IRB Approach	**317,465**	**–**	**–**	**–**	**–**	**–**	**317,465**
Total	**387,427**	**6,652**	**3,427**	**539**	**243**	**1,700**	**399,989**

31 Dec 2018, SEK M	Sweden	Denmark	Finland	Norway	Switzerland	Germany	Total
Standardised Approach							
Central governments and central banks	18,934	–	52	–	–	1,294	20,280
Regional governments or local authorities	4,363	61		–	–	–	4,424
Multilateral development banks	1,555	–	–	–	–	–	1,555
Institutions	1,405	1,431	1,665	196	38	–	4,735
Corporates	2,275	–	–	–	–	–	2,275
of which, SMEs	1,492	–	–	–	–	–	1,492
Retail	2,639	–	–	–	–	–	2,639
of which, SMEs	2	–	–	–	–	–	2
Defaulted exposures	18	–	–	–	–	–	18
Exposures associated with particularly high risk	–	–	–	–	–	–	–
Covered bonds	26,803	3,594		204			30,601
Equity exposures	2,428	–	–	–	–	–	2,428
Other items	4,672	–	–	–	–	–	4,672
Total, Standardised Approach	**65,092**	**5,086**	**1,717**	**400**	**38**	**1,294**	**73,627**
IRB Approach							
Corporates	20,141	–	–	–	–	–	20,141
of which, SMEs	20,133	–	–	–	–	–	20,133
Retail	276,112	–	–	–	–	–	276,112
of which, SMEs	36,412	–	–	–	–	–	36,412
of which, secured by immovable property	247,169	–	–	–	–	–	247,169
of which, other exposures	28,943	–	–	–	–	–	28,943
Total, IRB Approach	**296,253**	**–**	**–**	**–**	**–**	**–**	**296,253**
Total	**361,345**	**5,086**	**1,717**	**400**	**38**	**1,294**	**369,880**

All IRB exposure is found in Sweden and Table 5.4 presents the exposure per county. Exposure is well-diversified throughout Sweden with a slight concentration to the metropolitan areas, specifically the counties of Stockholm, Skåne and Västra Götaland. Exposures secured by immovable property amounted to SEK 284 billion of a total of SEK 317 billion at 31 December 2019.

Table 5.4 Distribution of IRB exposure per county

	31 Dec 2019				31 Dec 2018			
SEK M	Total		Of which, exposures secured by immovable property		Total		Of which, exposures secured by immovable property	
County	**EAD**	**%**	**EAD**	**%**	**EAD**	**%**	**EAD**	**%**
Blekinge	6,479	2.0	5,787	2.0	5,615	1.9	4,993	1.9
Dalarna	13,292	4.2	11,811	4.2	12,384	4.2	11,081	4.2
Gotland	5,979	1.9	5,470	1.9	5,679	1.9	5,218	2.0
Gävleborg	7,997	2.5	7,031	2.5	7,638	2.6	6,747	2.5
Halland	14,600	4.6	13,387	4.7	13,855	4.7	12,765	4.8
Jämtland	6,314	2.0	5,669	2.0	5,962	2.0	5,371	2.0
Jönköping	14,168	4.5	13,023	4.6	12,955	4.4	11,917	4.5
Kalmar	8,640	2.7	7,604	2.7	7,828	2.6	6,924	2.6
Kronoberg	6,004	1.9	5,327	1.9	5,647	1.9	5,018	1.9
Norrbotten	4,209	1.3	3,457	1.2	3,927	1.3	3,251	1.2
Skåne	41,276	13.0	36,611	12.9	37,672	12.7	33,248	12.5
Stockholm	43,672	13.8	38,197	13.4	40,975	13.8	35,860	13.5
Södermanland	8,578	2.7	7,576	2.7	8,160	2.8	7,255	2.7
Uppsala	15,106	4.8	13,901	4.9	14,431	4.9	13,318	5.0
Värmland	5,933	1.9	5,127	1.8	5,363	1.8	4,637	1.7
Västerbotten	11,150	3.5	10,335	3.6	10,200	3.4	9,510	3.6
Västernorrland	5,081	1.6	4,234	1.5	4,661	1.6	3,943	1.5
Västmanland	10,370	3.3	9,427	3.3	9,856	3.3	8,970	3.4
Västra Götaland	54,414	17.1	49,686	17.5	50,818	17.2	46,395	17.4
Örebro	11,936	3.8	10,562	3.7	11,230	3.8	10,016	3.8
Östergötland	22,265	7.0	20,172	7.1	21,397	7.2	19,536	7.3
Total	**317,465**	**100.0**	**284,394**	**100.0**	**296,253**	**100.0**	**265,973**	**100.0**

The Consolidated Situation applies external credit rating for exposures to institutions and exposures in the form of covered bonds. The external rating used is the rating from Moody's or Standard & Poor's that gives rise to the highest risk weight. Table 5.5 shows exposure before and after credit-risk-reducing measures by credit quality step.

Table 5.5 Exposure by credit quality step

SEK M	31 Dec 2019		31 Dec 2018	
Credit quality step	**Original exposure**	**EAD**	**Original exposure**	**EAD**
1	46,966	40,670	38,982	33,572
2	6,386	2,333	5,321	1,764
3	67	2	–	–
4	–	–	–	–
5	–	–	–	–
6	–	–	–	–
Total	**53,418**	**43,005**	**44,303**	**35,336**

Figure 5.1 and Table 5.6 present the credit risk exposure, calculated according to IRB, specified according to risk grades. The results show a distribution of exposure, with 78% (79) of exposure found in the best grades 1–4. A contributing reason for the higher amount in these grades is that a high percentage of lending takes place in the form of mortgages to private individuals for which the probability of default is significantly lower than in other portfolios.

Figure 5.1 Exposure by risk class, IRB

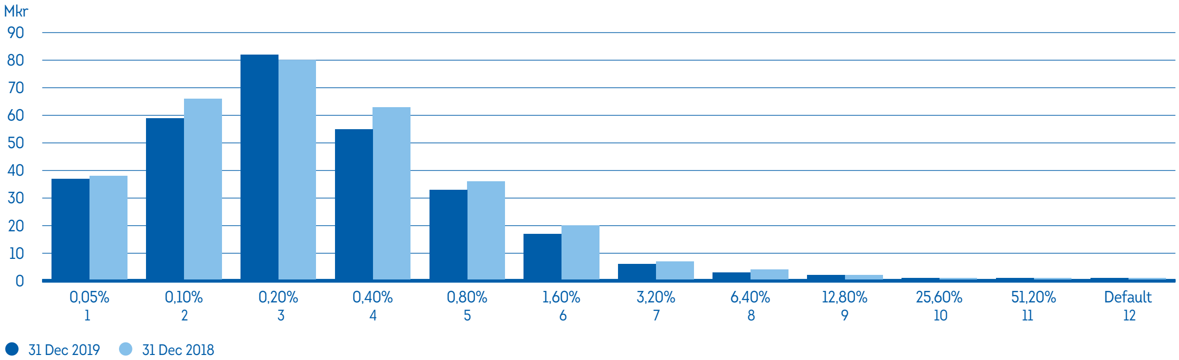


Table 5.6 Exposure by PD grade and class, IRB

SEK M	Retail exposures						Exposures to corporates		Total	
	Secured by immovable property		Other exposures		Total					
PD grade, 31 Dec 2019	EAD	RW (%)	EAD	RW (%)	EAD	RW (%)	EAD	RW (%)	EAD	RW (%)
1	35,791	1	684	7	36,476	1	1,431	12	37,906	2
2	62,337	2	2,730	12	65,066	3	1,278	18	66,345	3
3	74,835	5	3,213	21	78,048	5	1,779	26	79,827	6
4	52,161	8	2,360	28	54,521	9	8,094	37	62,615	13
5	25,058	13	7,101	32	32,159	17	3,874	50	36,032	21
6	11,180	23	6,246	46	17,426	31	2,120	64	19,546	35
7	2,579	30	3,877	58	6,457	47	899	81	7,356	51
8	1,585	46	1,628	61	3,213	53	293	97	3,506	57
9	818	62	924	65	1,742	64	140	133	1,882	69
10	361	68	495	92	855	82	82	136	937	87
11	334	62	259	99	592	78	127	148	720	91
Default	175	115	464	76	639	87	154	0	792	70
Total	**267,213**	**7**	**29,980**	**39**	**297,194**	**10**	**20,271**	**43**	**317,465**	**12**

SEK M	Retail exposures						Exposures to corporates		Total	
	Secured by immovable property		Other exposures		Total					
PD grade, 31 Dec 2018	EAD	RW (%)	EAD	RW (%)	EAD	RW (%)	EAD	RW (%)	EAD	RW (%)
1	33,782	1	933	6	34,715	1	2,579	12	37,294	2
2	55,473	2	2,304	13	57,777	3	749	18	58,526	3
3	73,635	5	3,485	20	77,120	5	5,135	26	82,255	7
4	46,060	8	2,376	29	48,436	9	6,478	37	54,914	12
5	22,833	13	7,026	34	29,859	18	2,947	50	32,806	21
6	10,111	24	5,755	47	15,866	32	1,075	63	16,941	34
7	2,404	31	3,387	56	5,791	45	483	79	6,274	48
8	1,376	46	1,732	58	3,108	52	361	96	3,469	57
9	788	65	842	68	1,630	67	61	120	1,691	69
10	307	73	522	93	829	86	51	172	880	91
11	248	62	213	100	461	80	152	144	613	96
Default	152	120	368	80	520	92	70	0	590	81
Total	**247,169**	**7**	**28,943**	**39**	**276,112**	**10**	**20,141**	**37**	**296,253**	**12**

Table 5.7 provides general statistics of parameters such as EAD, average PD and average LGD, specified per PD interval, used in the capital requirement calculations for exposures for which the IRB Approach is applied. The tables are also specified by Advanced IRB (AIRB) and Foundation IRB (FIRB) Approach.

Table 5.7 Credit risk exposure specified by IRB Approach and PD interval

AIRB - 31 Dec 2019, SEK M

PD interval	Original exposure	Off-balance	Average CF	EAD	PD grade	No. of coun-terparties	Average LGD	REA	Risk weight	EL	Amount adjustment and impairment
0.00% < 0.07%	36,945	1,992	76%	36,476	0.05%	39,963	8.4%	447	1%	2	0
0.07% < 0.13%	65,929	3,039	72%	65,066	0.10%	69,121	11.5%	1,874	3%	7	-1
0.13% < 0.27%	79,420	4,543	70%	78,048	0.20%	81,475	12.7%	4,189	5%	20	-2
0.27% < 0.53%	55,415	3,459	74%	54,521	0.40%	61,468	13.5%	4,849	9%	29	-2
0.53% < 1.07%	32,582	2,182	81%	32,159	0.80%	60,769	17.6%	5,600	17%	45	-10
1.07% < 2.13%	17,645	1,285	83%	17,426	1.60%	45,855	22.6%	5,410	31%	63	-23
2.13% < 4.27%	6,574	747	84%	6,457	3.20%	29,481	31.6%	3,037	47%	65	-45
4.27% < 8.53%	3,237	150	85%	3,213	6.40%	11,957	27.7%	1,713	53%	57	-39
8.53% < 17.07%	1,752	54	82%	1,742	12.80%	5,423	26.7%	1,111	64%	60	-33
17.07% < 34.13%	859	22	82%	855	25.60%	3,638	29.2%	700	82%	64	-29
34.13% < 100.00	594	7	68%	592	51.20%	2,080	25.7%	465	79%	78	-25
100% (Default)	639	3	79%	639	100.00%	4,362	38.5%	556	87%	351	-281
Total	**301,591**	**17,483**	**75%**	**297,194**	**0.94%**	**415,592**	**13.9%**	**29,951**	**10%**	**841**	**-490**

AIRB – 31 Dec 2018 SEK M

PD interval	Original exposure	Off-balance	Average CF	EAD	PD grade	No. of coun-terparties	Average LGD	REA	Risk weight	EL	Amount adjustment and impairment
0.00% < 0.07%	1,443	67	82%	1,431	0.05%	116	35.7%	174	12%	0	0
0.07% < 0.13%	58,414	2,516	75%	57,777	0.10%	62,667	11.4%	1,665	3%	7	-1
0.13% < 0.27%	78,269	4,501	74%	77,120	0.20%	81,828	12.9%	4,117	5%	20	-3
0.27% < 0.53%	49,176	3,240	77%	48,436	0.40%	57,899	13.7%	4,416	9%	26	-5
0.53% < 1.07%	30,261	2,157	81%	29,859	0.80%	63,307	18.3%	5,403	18%	44	-13
1.07% < 2.13%	16,107	1,373	82%	15,867	1.60%	45,719	23.1%	5,057	32%	59	-23
2.13% < 4.27%	5,872	693	88%	5,791	3.20%	25,274	29.4%	2,620	45%	54	-32
4.27% < 8.53%	3,134	193	87%	3,109	6.40%	12,319	27.9%	1,629	52%	56	-33
8.53% < 17.07%	1,644	59	76%	1,630	12.80%	5,761	27.3%	1,087	67%	57	-27
17.07% < 34.13%	833	27	87%	830	25.60%	3,820	31.3%	713	86%	66	-28
34.13% < 100.00	462	4	80%	461	51.20%	1,847	26.2%	367	80%	62	-22
100% (Default)	520	6	88%	519	100.00%	3,787	37.4%	477	92%	268	-233
Total	**279,813**	**16,811**	**78%**	**276,112**	**0.90%**	**403,617**	**14.1%**	**27,985**	**10%**	**720**	**-421**

Table 5.7 Credit risk exposure specified by IRB Approach and PD interval, cont.

FIRB – 31 Dec 2019 SEK M PD interval	Original exposure	Off-balance	Average CF	EAD	PD grade	No. of counterparties	Average LGD	Average term	REA	Risk weight	EL	Amount adjustment and impairment
0.00% < 0.07%	1,443	67	82%	1,431	0.05%	116	35.7%	900	174	12%	0	0
0.07% < 0.13%	1,297	79	77%	1,278	0.10%	163	35.9%	900	230	18%	0	0
0.13% < 0.27%	1,792	52	76%	1,779	0.20%	245	35.7%	900	464	26%	1	0
0.27% < 0.53%	8,161	277	76%	8,094	0.40%	1396	36.3%	900	3,017	37%	12	0
0.53% < 1.07%	3,915	168	75%	3,874	0.80%	786	36.8%	900	1,940	50%	11	0
1.07% < 2.13%	2,140	82	75%	2,120	1.60%	407	37.0%	900	1,362	64%	13	-1
2.13% < 4.27%	909	65	86%	899	3.20%	158	37.9%	900	733	81%	11	-1
4.27% < 8.53%	295	9	75%	293	6.40%	53	37.3%	900	283	97%	7	-1
8.53% < 17.07%	141	1	75%	140	12.80%	23	38.4%	900	186	133%	7	0
17.07% < 34.13%	82	0	75%	82	25.60%	16	35.9%	900	111	136%	8	0
34.13% < 100.00	128	1	75%	127	51.20%	15	37.1%	900	189	148%	24	-1
100% (Default)	154	1	75%	154	100.00%	15	37.1%	900	0	0%	57	-6
Total	**20,456**	**802**	**77%**	**20,271**	**2.01%**	**3,393**	**36.4%**	**900**	**8,689**	**43%**	**151**	**-11**

FIRB – 31 Dec 2018 SEK M PD interval	Original exposure	Off-balance	Average CF	EAD	PD grade	No. of counterparties	Average LGD	Average term	REA	Risk weight	EL	Amount adjustment and impairment
0.00% < 0.07%	2,606	158	82%	2,578	0.05%	244	36.0%	900	312	12%	0	0
0.07% < 0.13%	755	36	82%	749	0.10%	128	36.1%	900	134	18%	0	0
0.13% < 0.27%	5,175	176	77%	5,135	0.20%	720	36.1%	900	1,358	26%	4	-1
0.27% < 0.53%	6,543	268	76%	6,478	0.40%	1196	36.3%	900	2,423	37%	9	-1
0.53% < 1.07%	2,973	106	75%	2,947	0.80%	564	36.5%	900	1,484	50%	9	-6
1.07% < 2.13%	1,091	63	75%	1,075	1.60%	255	38.0%	900	676	63%	7	-1
2.13% < 4.27%	490	78	91%	483	3.20%	76	37.5%	900	382	79%	6	-3
4.27% < 8.53%	365	13	75%	361	6.40%	46	37.2%	900	347	96%	9	-4
8.53% < 17.07%	61	0	75%	61	12.80%	9	37.2%	900	73	120%	3	-1
17.07% < 34.13%	51	1	75%	51	25.60%	9	40.7%	900	88	172%	5	-1
34.13% < 100.00	153	1	75%	152	51.20%	15	36.9%	900	219	144%	29	-5
100% (Default)	70	1	75%	70	100.00%	10	36.2%	900			25	-10
Total	**20,333**	**900**	**79%**	**20,140**	**1.42%**	**3,272**	**36.4%**	**900**	**7,496**	**37%**	**106**	**-32**

A correlation between the internal grades for IRB exposures and external rating that is considered a reasonable comparison is presented in Table 5.8 below.

Table 5.8 Correlation between internal PD grades and external rating (Standard & Poor's)

Internal	PD (%)	Indicative credit rating from S&P
1–4	< 0.53	AAA to BB+
5–6	0.53–2.13	BB to B+
7–8	2.13–8.53	B
9–11	>8.53	B- to C
Default	100	D

Table 5.9 shows the exposure-weighted average PD, LGD and CF (excluding defaulted exposures) for IRB Approach exposures.

Table 5.9 Exposure-weighted PD, LGD and CF, IRB

IRB Approach, 31 Dec 2019	PD	LGD	CF
Corporates	1.26%	36.4%	75.0%
of which, SMEs	1.26%	36.4%	75.0%
Retail	0.73%	13.9%	65.0%
of which, secured by immovable property	0.51%	10.8%	48.8%
of which, other retail credits	2.64%	41.9%	85.7%
of which, SMEs	1.74%	17.9%	83.7%
Total, IRB Approach 2019	**0.76%**	**15.3%**	**65.6%**
Total, IRB Approach 2018	**0.72%**	**15.6%**	**68.0%**

Expected loss and actual outcome

The Expected Loss (EL) is expressed as a percentage of the exposure and calculated based on the internal estimates of PD and LGD. Table 5.10 below shows the estimated expected loss on

31 December 2017 for all non-defaulted retail exposures compared with actual outcome (confirmed loss) for default occurring in 2018 with a follow-up period until 31 December 2019. One of the reasons that EL is higher than the actual outcome is that the estimate for PD is significantly higher than the observed default percentage.

Table 5.10 Expected loss and actual outcome

Exposure class	EL %	Actual outcome, %
Retail	0.18	0.08
of which, secured by immovable property	0.06	0.00
of which, other	1.01	0.81

5.3.1 Risk-reducing measures and contractual maturities

The starting point of the credit assessment is always the customer's repayment capacity, with the approach that collateral received can never compensate for a low repayment capacity. However, collateral received can significantly counteract the losses in the event of a credit default. Loans are mostly granted against collateral in property, for which the operation has extensive experience and robust procedures in place. The market value of properties is updated on an annual basis, or when necessary, following established procedures. The relationship between the loan portfolio and the underlying assets expressed as the exposure-weighted average loan-to-value (LTV) ratio was 61% (61). Table 5.11 shows mortgages specified by per loan-to-value ratio interval (LTV).

Table 5.11 Retail mortgages by loan-to-value ratio interval (LTV)

EAD, SEK M	31 Dec 2019	%	31 Dec 2018	%
0–50%	192,558	80	177,526	80
51–60%	23,321	10	21,699	10
61–70%	15,527	6	13,998	6
71–75%	4,551	2	4,083	2
75%–	4,687	2	4,364	2
Total	**240,645**	**100**	**221,670**	**100**

Other significant risk-reducing measures in the Consolidated Situation are the netting agreements signed with institutional counterparties.

Table 5.12 presents exposure amounts covered by eligible collateral. Collateral for exposures to institutions comprises financial collateral, while collateral for the corporate and retail exposure classes comprises properties for which the covered amount totalled SEK 284 billion on 31 December 2019.

Table 5.12 Eligible collateral for capital adequacy purposes

	31 Dec 2019		31 Dec 2018	
SEK M	**Original exposure**	**Exposure amount covered by collateral**	**Original exposure**	**Exposure amount covered by collateral**
Standardised Approach				
Central governments and central banks	19,814	–	18,987	–
Regional governments or local authorities	192	–	196	–
Exposures to public sector entities	1,593	–	1,355	–
Multilateral development banks	2,339	–	1,555	–
Institutions	17,068	6,009	13,702	4,798
Corporates	2,554	–	2,287	–
of which, SMEs	1,645	–	1,497	–
Retail	4,433	–	4,115	–
of which, SMEs	11	–	2	–
Defaulted exposures	60	–	45	–
Covered bonds	36,350	–	30,601	–
Exposures associated with particularly high risk	0	–	0	–
Equity exposures	2,542	–	2,428	–
Other items	3,271	–	4,672	–
Total, Standardised Approach	**90,216**	**6,009**	**79,943**	**4,798**
IRB Approach				
Corporates	20,456	17,349	20,333	17,331
of which, SMEs	20,444	17,349	20,323	17,331
Retail	301,591	267,041	279,813	246,887
of which, SMEs	24,151	24,092	36,877	22,468
Total, IRB Approach	**322,047**	**284,390**	**300,146**	**264,218**
Total	**412,263**	**290,399**	**380,089**	**269,016**

Table 5.13 presents exposures distributed by exposure class and remaining fixed-interest periods.

Table 5.13 Exposures (EAD) by fixed-interest periods

31 Dec 2019, SEK M	<3 months	3–12 months	1–5 years	>5 years	Total
Standardised Approach					
Central governments and central banks	13,990	1,709	5,050	487	21,237
Regional governments or local authorities	950	966	2,275	567	4,757
Exposures to public sector entities	0	0	0	0	0
Multilateral development banks	162	210	1,368	598	2,339
Institutions	6,655	0	0	0	6,655
Covered bonds	4,641	11,746	15,844	4,119	36,350
Corporates	2,437	70	32	0	2,539
Retail	2,834	0	0	0	2,834
Equities	2,542	0	0	0	2,542
Other items	3,271	0	0	0	3,271
Total, Standardised Approach	**37,480**	**14,702**	**24,570**	**5,771**	**82,524**
IRB Approach					
Corporates	14,236	1,335	4,336	364	20,271
Retail	190,172	16,478	88,218	2,326	297,194
of which, secured by immovable property	160,510	16,358	88,099	2,246	267,213
of which, other exposures	29,662	120	119	79	29,980
Total, IRB Approach	**204,408**	**17,813**	**92,554**	**2,689**	**317,465**
Total	**241,888**	**32,515**	**117,125**	**8,461**	**399,989**

31 Dec 2018, SEK M	<3 months	3–12 months	1–5 years	>5 years	Total
Standardised Approach					
Central governments and central banks	14,574	0	5,706	0	20,280
Regional governments or local authorities	976	0	3,448	0	4,424
Exposures to public sector entities	0	0	0	0	0
Multilateral development banks	0	224	1,331	0	1,555
Institutions	4,735	0	0	0	4,735
Covered bonds	2,164	7,105	20,917	415	30,601
Corporates	2,654	0	0	0	2,654
Retail	2,173	83	22	0	2,278
Equities	2,428	0	0	0	2,428
Other items	4,672	0	0	0	4,672
Total, Standardised Approach	**34,376**	**7,412**	**31,424**	**415**	**73,627**
IRB Approach					
Corporates	11,505	4,538	3,810	287	20,140
Retail	165,569	60,549	48,148	1,847	276,113
of which, secured by immovable property	136,842	60,452	48,076	1,799	247,169
of which, other exposures	28,727	97	72	47	28,943
Total, IRB Approach	**177,074**	**65,087**	**51,958**	**2,134**	**296,253**
Total	**211,450**	**72,499**	**83,382**	**2,549**	**369,880**

5.4 NON-PERFORMING RECEIVABLES, CREDIT LOSSES AND LOSS ALLOWANCE

This section describes the Bank Group's non-performing receivables, credit losses, and reserves for credit losses ("loss allowance") that are based in their entirety on the total loan portfolio from an accounting perspective.

5.4.1 Non-performing receivables

A loan receivable is considered non-performing if it has an outstanding payment that is more than nine days past due and is not credit-impaired. Table 5.14 presents non-performing receivables that are not credit-impaired by exposure class and segment, while Table 5.15 presents non-performing receivables that are not credit-impaired by legal entity.

Table 5.14 Non-performing loan receivables by exposure class and segment

31 Dec 2019, SEK M	Segment	Receivables overdue by 10–30 days	Receivables overdue by 31–60 days	Receivables overdue by 61–90 days	Total
Standardised Approach	Private individuals	0.3	22.6	8.8	31.7
	Agriculture	0.0	2.7	0.0	2.7
	Other corporates	6.2	26.0	0.2	32.4
Total, Standardised Approach		**6.6**	**51.3**	**9.0**	**66.9**
IRB Approach					
of which, Retail	Private individuals	1.0	184.6	36.0	221.6
	Agriculture	0.3	13.0	6.7	20.0
	Other corporates	28.4	208.6	25.1	262.1
Total Retail		**29.7**	**406.2**	**67.8**	**503.8**
of which, Corporates	Agriculture	0.0	0.0	0.0	0.0
	Other corporates	0.0	0.1	0.0	0.1
Total Corporates		**0.0**	**0.1**	**0.0**	**0.1**
Total, IRB Approach		**29.7**	**406.3**	**67.8**	**503.8**
Total		**36.3**	**457.6**	**76.8**	**570.7**

31 Dec 2018, SEK M	Segment	Receivables overdue by 10–30 days	Receivables overdue by 31–60 days	Receivables overdue by 61–90 days	Total
Standardised Approach	Private individuals	0.7	22.0	8.4	31.1
	Agriculture	0.0	2.5	0.1	2.6
	Other corporates	6.9	23.2	0.1	30.2
Total, Standardised Approach		**7.6**	**47.8**	**8.5**	**63.8**
IRB Approach					
of which, Retail	Private individuals	50.4	115.7	32.5	198.6
	Agriculture	0.7	20.9	3.1	24.8
	Other corporates	47.2	163.5	24.8	235.6
Total Retail		**98.4**	**300.2**	**60.5**	**459.0**
of which, Corporates	Agriculture	0.0	0.0	0.0	0.0
	Other corporates	19.7	0.3	0.0	20.0
Total Corporates		**19.7**	**0.3**	**0.0**	**20.0**
Total, IRB Approach		**118.0**	**300.4**	**60.5**	**478.9**
Total		**125.6**	**348.2**	**69.0**	**542.8**

Table 5.15 Non-performing loan receivables that are not credit-impaired, by legal entity

31 Dec 2019, SEK M	Länsförsäkringar Bank AB	Länsförsäkringar Hypotek AB	Wasa Kredit AB	Total
Receivables overdue by 10–30 days	0.0	0.0	36.3	36.3
Receivables overdue by 31–60 days	20.9	61.1	375.6	457.6
Receivables overdue by 61–90 days	0.0	0.0	76.8	76.8
Total	**20.9**	**61.1**	**488.7**	**570.7**

31 Dec 2018, SEK M	Länsförsäkringar Bank AB	Länsförsäkringar Hypotek AB	Wasa Kredit AB	Total
Receivables overdue by 10–30 days	30.6	50.8	44.2	125.6
Receivables overdue by 31–60 days	7.8	0.0	340.4	348.2
Receivables overdue by 61–90 days	0.0	0.0	69.0	69.0
Total	**38.4**	**50.8**	**453.5**	**542.8**

5.4.2 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.

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

Table 5.16 presents the credit losses in the Bank Group, which remained low and were almost exclusively attributable to Wasa Kredit. Credit losses amounted to SEK 207 M (95), net, on 31 December 2019, corresponding to a credit loss level of 0.06% (0.04). Credit-impaired loan receivables and credit losses continued to account for a minor percentage of total loans.

Table 5.16 Credit losses

SEK M	31 Dec 2019	31 Dec 2018
Change in loss allowance for loan receivables		
Stage 1 (not credit-impaired)	24.0	-6.3
Stage 2 (not credit-impaired)	39.2	22.8
Stage 3 (credit-impaired)	80.0	53.2
Total change in loss allowance for loan receivables	**143.3**	**69.7**
Expense for confirmed credit losses	146.0	119.3
Recoveries	-90.5	-83.7
Net expense for credit losses for loan receivables	**198.7**	**105.4**
Change in loss allowance for commitments and guarantees	5.5	-2.0
Net expense for other credit losses	2.6	-8.7
Net expense of modification result	0.3	0.0
Net expense for credit losses for the year	**207.2**	**94.7**

Table 5.17 presents the amount of the loss allowance at the beginning of the year and changes during the year.

Table 5.17 Change in loss allowance

Reconciliation of loss allowance	Not credit-impaired	Credit-impaired	
Loans to the public, SEK M	**Stage 1 & 2**	**Stage 3**	**Total loss allowance**
Opening balance, 1 January 2019	**183.3**	**242.1**	**425.4**
New or acquired loans	67.2	0.5	67.7
Change in loss allowance model or method	0.0	0.2	0.2
Repayment	-69.9	-42.0	-111.9
Change in risk parameters	174.6	69.9	244.5
Revaluation due to changed credit risk	-104.9	199.5	94.6
Other adjustments	-3.8	-2.6	-6.4
Write-offs	0.0	-145.5	-145.5
Closing balance, 31 December 2019	**246.5**	**322.1**	**568.6**

Reconciliation of loss allowance	Not credit-impaired	Credit-impaired	
Loans to the public, SEK M	**Stage 1 & 2**	**Stage 3**	**Total loss allowance**
Opening balance, 1 January 2018	**166.8**	**188.9**	**355.7**
New or acquired loans	62.4	2.1	64.5
Change in loss allowance model or method	-6.0	0.2	-5.8
Repayment	-68.1	-34.4	-102.6
Change in risk parameters	110.4	47.2	157.6
Revaluation due to changed credit risk	-82.2	160.1	77.9
Other adjustments	0.1	0.0	0.1
Write-offs	0.0	-122.0	-122.0
Closing balance, 31 December 2018	**183.3**	**242.1**	**425.4**

Table 5.18 presents the loss allowance for loan receivables, commitments and guarantees, by segment.

Table 5.18 Loss allowance for loan receivables, commitments and guarantees, by industry

			Not credit-impaired	Credit-impaired	Total
31 Dec 2019, SEK M		**Stage 1**	**Stage 2**	**Stage 3**	
Standardised Approach	**Segment**	**Loss allowance**	**Loss allowance**	**Loss allowance**	**Loss allowance**
	Private individuals	7.5	17.9	27.2	52.6
	Agriculture	0.0	0.0	0.0	0.0
	Other corporates	13.6	15.7	8.1	37.4
Total, Standardised Approach		**21.1**	**33.6**	**35.3**	**90.0**
IRB Approach					
of which, Retail	Private individuals	47.4	56.8	177.1	281.3
	Agriculture	1.5	2.1	1.9	5.5
	Other corporates	33.8	66.8	102.5	203.1
Total Retail		**82.7**	**125.7**	**281.5**	**489.9**
of which, Corporates	Private individuals	0.1	0.1	0.0	0.2
	Agriculture	0.8	2.8	5.3	8.8
	Other corporates	0.9	0.4	0.4	1.8
Total Corporates		**1.8**	**3.3**	**5.7**	**10.8**
Total, IRB Approach		**84.5**	**129.0**	**287.2**	**500.7**
Total		**105.7**	**162.5**	**322.5**	**590.7**

			Not credit-impaired	Credit-impaired	Total
31 Dec 2018, SEK M		**Stage 1**	**Stage 2**	**Stage 3**	
Standardised Approach	**Segment**	**Loss allowance**	**Loss allowance**	**Loss allowance**	**Loss allowance**
	Private individuals	6.6	15.8	25.0	47.4
	Agriculture	0.0	0.0	0.0	0.0
	Other corporates	7.6	8.8	2.0	18.4
Total, Standardised Approach		**14.3**	**24.6**	**27.0**	**65.8**
IRB Approach					
of which, Retail	Private individuals	38.1	54.8	124.8	217.8
	Agriculture	0.8	1.2	1.6	3.6
	Other corporates	23.1	39.1	86.0	148.3
Total Retail		**62.1**	**95.1**	**212.4**	**369.6**
of which, Corporates	Private individuals	0.1	0.1	0.0	0.2
	Agriculture	0.5	2.1	2.4	4.9
	Other corporates	0.5	0.3	0.6	1.4
Total Corporates		**1.1**	**2.4**	**2.9**	**6.5**
Total, IRB Approach		**63.2**	**97.5**	**215.4**	**376.1**
Total		**77.5**	**122.1**	**242.4**	**442.0**

5.5 CREDIT QUALITY OF NON-PERFORMING EXPOSURES ANDFORBORNE EXPOSURES

This section describes the Consolidated Situation's credit quality for performing and non-performing exposures as well as forborne exposures.

As Table 5.19 shows, forborne exposures declined by 19% during the year. Forborne exposures in 31 December 2019 amounted to SEK 748 M (918). The decline was primarily due to performing forborne exposures, where exposures ceased to be classified as forborne exposures because they are no longer included in the probation period.

Non-performing exposures increased 22% during the year, refer to Table 5.20 and Table 5.21. Non-performing exposures on 31 December 2019 amounted to SEK 1,107 M (905). The share of non-performing loans amounted to 0.35% (0.30). The increase in non-performing exposures was mainly attributable to the volume of defaulted exposures increasing 34% to SEK 853 M (635) during the year. The increase in defaulted volumes also led to an increase in stage 3 exposures and loss allowance for these exposures. Stage 3 exposures amounted to SEK 942 M (757).

Table 5.19 Credit quality of forborne exposures

	Gross carrying amount/ nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Non-performing forborne						
31 Dec 2019	**Performing forborne**	**Total**	***of which: Defaulted***	***of which: Of which impaired***	**On performing forborne exposures**	**On non-performing forborne exposures**	**Total**	***of which: Collateral and financial guarantees received on non-performing exposures with forbearance measures***
Loans and advances	638.9	108.8	58.7	80.0	–7.9	–5.2	593.3	94.0
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-financial corporations	194.8	22.7	17.7	17.7	–5.4	–2.6	98.8	14.4
Households	444.1	86.1	41.0	62.3	–2.5	–2.7	494.5	79.6
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loan commitments given	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**638.9**	**108.8**	**58.7**	**80.0**	**–7.9**	**–5.2**	**593.3**	**94.0**

	Gross carrying amount/ nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Non-performing forborne						
31 Dec 2018	**Performing forborne**	**Total**	***of which: Defaulted***	***of which: Of which impaired***	**On performing forborne exposures**	**On non-performing forborne exposures**	**Total**	***of which: Collateral and financial guarantees received on non-performing exposures with for bearance measures***
Loans and advances	789.7	128.3	45.8	79.3	–5.1	–10.9	753.7	96.0
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-financial corporations	209.6	45.6	29.5	29.5	–2.9	–8.2	133.2	21.5
Households	580.0	82.6	16.3	49.8	–2.2	–2.8	620.5	74.6
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loan commitments given	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**789.7**	**128.3**	**45.8**	**79.3**	**–5.1**	**–10.9**	**753.7**	**96.0**

Table 5.20 Credit quality of performing and non-performing exposures by past due days

31 Dec 2019, SEK M	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
	Total	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 year ≤ 5 years	Past due > 5 year ≤ 7 years	Past due > 7 years	of which: defaulted
Loans and advances	**317,068.3**	**316,536.3**	**532.1**	**1,101.7**	**642.8**	**170.4**	**152.8**	**127.0**	**2.9**	**5.8**	**0.0**	**849.5**
Central banks	9,831.1	9,831.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments	159.7	159.5	0.2	2.8	2.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	631.6	631.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	69.1	68.9	0.1	0.4	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.4
Non-financial corporations	18,462.9	18,244.6	218.2	214.6	117.5	38.6	27.4	30.2	0.9	0.0	0.0	199.1
of which: SMEs	17,668.3	17,456.8	211.5	209.0	111.9	38.6	27.4	30.2	0.9	0.0	0.0	193.6
Households	287,914.1	287,600.6	313.5	883.9	522.5	131.8	125.4	96.4	2.1	5.8	0.0	649.9
Debt securities	**55,116.6**	**55,116.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Central banks	3,783.2	3,783.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments	6,151.5	6,151.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	45,181.9	45,181.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Off-balance-sheet exposures	**21,867.7**			**5.7**								**3.3**
Central banks	0.0			0.0								0.0
General governments	35.2			0.0								0.0
Credit institutions	0.6			0.0								0.0
Other financial corporations	80.0			0.0								0.0
Non-financial corporations	2,559.0			2.9								2.1
Households	19,192.9			2.8								1.2
Total	**394,052.7**	**371,652.9**	**532.1**	**1,107.5**	**642.8**	**170.4**	**152.8**	**127.0**	**2.9**	**5.8**	**0.0**	**852.8**

Table 5.20 Credit quality of performing and non-performing exposures by past due days, cont.

	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
31 Dec 2018, SEK M	Total	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 year ≤ 5 years	Past due > 5 year ≤ 7 years	Past due > 7 years	of which: defaulted
Loans and advances	**293,740.5**	**293,323.5**	**417.0**	**896.1**	**550.4**	**123.7**	**130.1**	**82.2**	**9.0**	**0.1**	**0.6**	**628.1**
Central banks	4,099.9	4,099.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments	4,180.2	4,180.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	643.2	643.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	68.4	68.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-financial corporations	17,752.9	17,578.9	174.0	224.3	135.5	32.6	32.9	23.3	0.0	0.0	0.0	174.4
of which: SMEs	17,038.5	16,872.7	165.9	222.0	133.8	32.2	32.9	23.1	0.0	0.0	0.0	173.5
Households	266,995.8	266,753.1	242.8	671.7	414.8	91.1	97.2	58.9	9.0	0.1	0.6	453.6
Debt securities	**48,528.9**	**48,528.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Central banks	5,000.6	5,000.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments	7,140.1	7,140.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	36,388.1	36,388.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Off-balance-sheet exposures	**20,868.0**			**8.7**								**7.2**
Central banks	0.0			0.0								0.0
General governments	34.2			0.0								0.0
Credit institutions	2.1			0.0								0.0
Other financial corporations	77.4			0.0								0.0
Non-financial corporations	2,485.6			3.2								2.3
Households	18,268.7			5.6								4.8
Total	**363,137.3**	**341,852.3**	**417.0**	**904.8**	**550.4**	**123.7**	**130.1**	**82.2**	**9.0**	**0.1**	**0.6**	**635.2**

Table 5.21 Performing and non-performing exposures and related provisions

31 Dec 2019, SEK M	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accu-mulated partial write-off	Collateral received and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
	Total	of which: stage 1	of which: stage 2	Total	of which: stage 2	of which: stage 3	Total	of which: stage 1	of which: stage 2	Total	of which: stage 2	of which: stage 3		On performing exposures	On non-performing exposures
Loans and advances	**317,068.3**	**309,208.7**	**7,859.6**	**1,101.7**	**70.5**	**938.1**	**-245.4**	**-90.7**	**-154.7**	**-323.3**	**-0.9**	**-322.1**	**–**	**296,265.8**	**668.1**
Central banks	9,831.1	9,831.0602	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–	0.0	0.0
General governments	159.7	137.8	21.9	2.8	1.1	0.0	-4.2	-2.9	-1.3	-0.2	-0.1	0.0	–	0.0	0.0
Credit institutions	631.6	631.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–	0.0	0.0
Other financial corporations	69.1	55.1	13.9	0.4	0.0	0.4	-0.5	-0.3	-0.2	-0.4	0.0	-0.4	–	68.3	0.0
Non-financial corporations	18,462.9	15,852.8	2,610.1	214.6	9.0	200.6	-103.5	-32.7	-70.8	-99.6	-0.3	-99.3	–	18,112.2	66.3
of which: SMEs	17,668.3	15,246.4	2,421.9	209.0	8.9	195.1	-92.9	-28.9	-63.9	-98.6	-0.3	-98.3	–	17,419.5	65.6
Households	287,914.1	282,700.4	5,213.6	883.9	60.4	737.1	-137.1	-54.8	-82.3	-223.1	-0.6	-222.4	–	278,085.3	601.8
Debt securities	**55,116.6**	**52,608.6**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.9**	**-0.9**	**0.0**	**0.0**	**0.0**	**0.0**	**–**	**0.0**	**0.0**
Central banks	3,783.2	3,783.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–	0.0	0.0
General governments	6,151.5	6,151.5	0.0	0.0	0.0	0.0	-0.3	-0.3	0.0	0.0	0.0	0.0	–	0.0	0.0
Credit institutions	45,181.9	42,674.0	0.0	0.0	0.0	0.0	-0.6	-0.6	0.0	0.0	0.0	0.0	–	0.0	0.0
Other financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–	0.0	0.0
Non-financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–	0.0	0.0
Off-balance-sheet exposures	**21,867.7**	**21,566.1**	**301.6**	**5.7**	**0.7**	**3.6**	**21.7**	**14.8**	**6.9**	**0.4**	**0.0**	**0.4**	**–**	**0.0**	**0.0**
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–	0.0	0.0
General governments	35.2	29.5	5.7	0.0	0.0	0.0	1.3	0.7	0.5	0.0	0.0	0.0	–	0.0	0.0
Credit institutions	0.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–	0.0	0.0
Other financial corporations	80.0	76.6	3.3	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	–	0.0	0.0
Non-financial corporations	2,559.0	2,465.1	94.0	2.9	0.4	2.2	9.1	6.6	2.5	0.2	0.0	0.2	–	0.0	0.0
Households	19,192.9	18,994.3	198.6	2.8	0.3	1.4	11.2	7.4	3.8	0.1	0.0	0.1	–	0.0	0.0
Total	**394,052.7**	**383,383.5**	**8,161.2**	**1,107.5**	**71.2**	**941.7**	**-224.6**	**-76.8**	**-147.8**	**-322.9**	**-0.9**	**-321.7**	**–**	**296,265.8**	**668.1**

Table 5.21 Performing and non-performing exposures and related provisions, cont.

31 Dec 2018, SEK M	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							Collateral received and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
	Total	of which: stage 1	of which: stage 2	Total	of which: stage 2	of which: stage 3	Total	of which: stage 1	of which: stage 2	Total	of which: stage 2	of which: stage 3	Accumulated partial write-off	On performing exposures	On non-performing exposures
Loans and advances	**293,740.5**	**286,518.2**	**7,222.3**	**896.1**	**114.3**	**748.7**	**-182.3**	**-66.8**	**-115.4**	**-243.1**	**-1.0**	**-242.1**	**–**	**268,625.5**	**547.5**
Central banks	4,099.9	4,099.9179	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–	0.0	0.0
General governments	4,180.2	4,123.8	56.4	0.0	0.0	0.0	-3.3	-1.9	-1.4	0.0	0.0	0.0	–	14.5	0.0
Credit institutions	643.2	642.0	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–	0.0	0.0
Other financial corporations	68.4	64.8	3.6	0.0	0.0	0.0	-0.2	-0.2	-0.1	0.0	0.0	0.0	–	2.3	0.0
Non-financial corporations	17,752.9	15,503.4	2,249.5	224.3	42.0	175.9	-61.8	-21.9	-39.9	-78.2	-0.6	-77.5	–	11,035.3	95.6
of which: SMEs	17,038.5	14,943.7	2,094.8	222.0	42.0	174.9	-55.8	-19.6	-36.1	-77.5	-0.6	-76.8	–	11,007.9	95.6
Households	266,995.8	262,084.3	4,911.5	671.7	72.3	572.8	-116.9	-42.8	-74.1	-164.9	-0.3	-164.6	–	257,573.4	451.9
Debt securities	**48,528.9**	**47,637.9**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.8**	**-0.8**	**0.0**	**0.0**	**0.0**	**0.0**	**–**	**0.0**	**0.0**
Central banks	5,000.6	5,000.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–	0.0	0.0
General governments	7,140.1	7,140.1	0.0	0.0	0.0	0.0	-0.3	-0.3	0.0	0.0	0.0	0.0	–	0.0	0.0
Credit institutions	36,388.1	35,497.2	0.0	0.0	0.0	0.0	-0.4	-0.4	0.0	0.0	0.0	0.0	–	0.0	0.0
Other financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–	0.0	0.0
Non-financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–	0.0	0.0
Off-balance-sheet exposures	**20,868.0**	**20,530.8**	**337.2**	**8.7**	**0.8**	**8.0**	**16.3**	**10.6**	**5.7**	**0.3**	**0.0**	**0.3**	**–**	**0.0**	**0.0**
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–	0.0	0.0
General governments	34.2	31.8	2.3	0.0	0.0	0.0	0.7	0.6	0.1	0.0	0.0	0.0	–	0.0	0.0
Credit institutions	2.1	2.1	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	–	0.0	0.0
Other financial corporations	77.4	77.0	0.4	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	–	0.0	0.0
Non-financial corporations	2,485.6	2,390.6	95.0	3.2	0.4	2.8	5.4	3.6	1.8	0.1	0.0	0.1	–	0.0	0.0
Households	18,268.7	18,029.3	239.4	5.6	0.3	5.2	10.0	6.2	3.8	0.2	0.0	0.2	–	0.0	0.0
Total	**363,137.3**	**354,687.0**	**7,559.4**	**904.8**	**115.0**	**756.7**	**-166.7**	**-57.1**	**-109.7**	**-242.8**	**-1.0**	**-241.8**	**–**	**268,625.5**	**547.5**

Table 5.22 Collateral obtained by taking possession and execution processes (only Wasa Kredit)

SEK M	31 Dec 2019 Collateral obtained by taking possession: Value at initial recognition	31 Dec 2019 Collateral obtained by taking possession: Accumulated negative changes	31 Dec 2018 Collateral obtained by taking possession: Value at initial recognition	31 Dec 2018 Collateral obtained by taking possession: Accumulated negative changes
Property, plant and equipment (PP&E)	–	–	–	–
Other than PP&E	–	–	–	–
Residential immovable property	–	–	–	–
Commercial immovable property	–	–	–	–
Movable property	15	–	11	–
Equity and debt instruments	–	–	–	–
Other than PP&E	–	–	–	–
Total	**15**	**–**	**11**	**–**

5.6 COUNTERPARTY RISK FOR DERIVATIVES

Counterparty risk is the risk of a counterparty being unable to fulfil its commitments, which could lead to losses. The Board determines limits on the maximum exposure amount per counterparty. The market value method is used for calculating capital requirements for counterparty risk regarding derivatives. The Consolidated Situation has only swap counterparties with a high credit rating and for which ISDA agreements have been prepared. ISDA agreements allow net accounting of positive and negative derivatives, which reduces the risk to the net position per counterpart. The ISDA agreements also have associated CSA agreements. CSA agreements involve commitments concerning delivery and receipt of collateral in the event of market changes. These agreements are unilateral for Länsförsäkringar Hypotek's covered-bond operations, with only the counterparty providing collateral. There are no CSA agreements for which the Consolidated Situation is required to provide collateral for downgrades. Table 5.23 presents the derivative exposure for the Consolidated Situation. Exposure to central counterparties is recognised without any rating. The entire exposure to central counterparties and banks on 31 December 2019 comprised exposure to Nasdaq Clearing AB. Nasdaq Clearing AB does not have any rating but is a very strong counterparty due to the strong statutory regulations that apply to Nasdaq Clearing AB and other central counterparties. Nasdaq Clearing AB has been certified by the Swedish Financial Supervisory Authority as an EMIR counterparty and is subject to the supervision of the Authority.

Table 5.23 Derivatives at fair value

SEK M	31 Dec 2019					31 Dec 2018				
Rating	**Gross**	**Netting gain**	**Collateral**	**Net exposure**	**EAD**	**Gross**	**Netting gain**	**Collateral**	**Net exposure**	**EAD**
AA-/Aa3	2,443	284	980	1,159	2,775	1,629	362	389	1,061	1,823
A+/A1	0	0	0	0	0	407	217	197	3	213
A/A2	0	0	0	0	0	3,487	132	3,859	9	1,559
a-/a3	3,543	119	3,216	177	1,741	0	0	0	0	0
BBB+/Baa1	1,404	64	1,293	36	394	0	0	0	0	0
n/a	834	285	932	0	636	533	113	434	0	503
Total	**8,224**	**752**	**6,421**	**1,371**	**5,546**	**6,055**	**824**	**4,879**	**1,073**	**4,098**

6 | Market risk

Market risk pertains to the risk of loss arising due to changes in the market price of assets, liabilities and financial instruments.

6.1 RISK APPETITE

The Board of Directors determines the risk appetite for market risk. The Consolidated Situation has a low appetite for market risks, meaning that these risks are to be limited to a reasonable extent. The Consolidated Situation does not have a trading book.

6.2 RISK MANAGEMENT

The aim of risk management is to reduce the immediate effect that an unexpected change in the market could have on the Consolidated Situation. Day-to-day management of market risks takes place in the Treasury unit. The management takes place in a cost-effective manner, within set limits. The Consolidated Situation applies a number of supplementary risk measures and stress tests to measure market risk.

The Consolidated Situation's primary market risk is interest-rate risk. Interest-rate risk is primarily minimised by matching fixed lending with corresponding funding. Secondly, interest-rate risk is reduced by utilising interest-rate derivatives.

6.2.1 Governance

The overall framework for the financial operations is adopted by the Board in the Risk Policy. The Board also adopts the limits for interest-rate risk, spread risk and currency risk. Limits are determined by the Board of each company. The methods for calculating market risks are established by the Risk Committee.

6.2.2 Interest-rate risk

Interest-rate risk is defined as the risk of losses due to changes in market interest rates.

Interest-rate risk arises in the Consolidated Situation primarily through different interest-rate fixing periods for assets and liabilities, but also in ensuring access to a large liquidity reserve and funding in foreign currency.

Interest-rate risk is calculated as the effect of a sharp momentary stress scenario. The capital requirement calculation for interest-rate risk in Pillar II uses a Value-At-Risk model.

Table 6.1 shows the changes in present value arising from a 100-basis-point shift in market interest rates, specified by currency. The analysis does not include equity that the Consolidated Situation has or the possibility of adapting to changed interest-rate levels. Interest-rate risk is almost exclusively in SEK and has changed due to natural fluctuations arising from different interest-rate fixing periods for assets and liabilities. Table 6.3 shows the interest-rate fixing period of assets, liabilities and derivatives for the Consolidated Situation. Non-interest-bearing assets and liabilities have been excluded.

Table 6.1 Interest-rate risk by currency

SEK M	31 Dec 2019	31 Dec 2018
SEK	-51.3	46.2
CHF	0.0	0.0
EUR	4.0	-0.5
NOK	-0.1	-0.1
GBP	0.0	0.0
USD	0.0	0.0
Total	**55.4**	**46.7**

Net interest income risk is the risk of a negative effect on net interest income, some of the causes of which are changes in market interest rates or the company's financing costs. Net interest income is a new measure that was introduced in connection with the EBA's new guidelines on the management of interest-rate risk arising from non-trading book activities, which came into effect in 2019. Table 6.2 presents the two scenarios and their impact on net interest income over the next few years.

Table 6.2 Net interest income

SEK M	31 Dec 2019	31 Dec 2018
Parallel shift, up 100 bp	168.2	198.2
Parallel shift, down 50 bp	-83.8	-101.9

Table 6.3 Interest-rate fixing period of assets, liabilities and derivatives – Interest-rate exposure, nominal values

31 Dec 2019, SEK M	Up to 3 months	3-12 months	1-5 years	More than 5 years	Total
Loans	211,453.3	18,572.6	86,144.2	1,389.3	317,559.5
Bonds, etc.	9,391.4	14,555.9	28,867.3	682.0	53,496.6
Total	**220,844.7**	**33,128.6**	**115,011.5**	**2,071.3**	**371,056.1**
Deposits	123,799.0	1,435.4	510.3	0.0	125,744.7
Debt securities in issue, etc.	29,029.3	22,845.7	136,424.5	37,678.5	225,978.0
Total	**152,828.3**	**24,281.1**	**136,934.8**	**37,678.5**	**351,722.7**
Difference assets and liabilities	**68,016.3**	**8,847.5**	**-21,923.3**	**-35,607.1**	
Interest-rate derivatives, net	-47,165.6	-6,288.8	22,838.2	35,839.5	
Net exposure	**20,850.8**	**2,558.6**	**914.9**	**232.3**	

6.2.3 Spread risk

Spread risk is defined as the risk of losses arising due to changes in spreads between market interest rates.

In the Consolidated Situation, credit-spread risk arises in the liquidity reserve and currency-basis spread risk arises when hedging funding in foreign currency. Credit-spread and currency-basis spread risk are measured using sensitivity measures for each spread. The capital requirement calculation for spread risks in Pillar II uses a Value-At-Risk model.

6.2.4 Currency risk

Currency risk is the risk of losses arising due to exchange-rate fluctuations and is calculated as the total of the absolute amounts of the change in value per currency.

Currency risk arises in funding in foreign currency, primarily in EUR, CHF and NOK, and is measured as the effect of a momentary +/–10% change in the exchange rate. This risk is managed for each funding by converting the funding to SEK using swap contracts, which then results in no significant currency risk. Total currency risk on 31 December 2019 amounted to SEK 0.0 M (0.6).

6.2.5 Monitoring and reporting

All market risks are measured and controlled on a daily basis. Risk Management monitors the Board's limits every day. The CRO makes continuous reports to the Board, both in writing and verbally, at least once every quarter.

7 | Liquidity risk

Liquidity risk is defined as the risk that payment commitments cannot be fulfilled due to insufficient cash funds, or are only able to be fulfilled by funding at a significantly higher cost than normal or by divesting assets at a substantial deficit price.

7.1 RISK APPETITE

The Consolidated Situation's risk appetite for liquidity risk is low. The Board establishes the risk appetite, liquidity risk limits and the direction of liquidity risk management.

7.2 RISK MANAGEMENT

Liquidity risk is minimised and prevented by forecasting future liquidity requirements, high access to funds, explicit functional definitions and a high level of control. Liquidity risk is managed by the Treasury unit, which is also responsible for meeting the limits for liquidity risk set by the Board. The objective of liquidity-risk management is that the Consolidated Situation, at any given time, is to have sufficient liquid assets to fulfil its commitments under both normal and stressed market conditions.

The overall strategy for managing liquidity risk is based on highly diversified funding regarding investor base, instruments, currencies and maturities, and a satisfactory liquidity reserve. The operational liquidity risk management is based on the Bank Group, but also takes into account Länsförsäkringar AB with regard to LCR, NSFR and ALMM, with the requirement that the operations at all times are to meet their liquidity and financing undertakings.

7.2.1 Governance

Governance of the Consolidated Situation is based on limits, governance documents and established business targets. The central measure in the management of liquidity risk comprises the Bank Group's "survival horizon," meaning the period of time during which the Bank Group is able to meet its commitments without requiring access to new financing. The liquidity limit for the survival horizon has been set at 12 months.

Plans for managing disruptions that affect the Bank Group's liquidity are in place and updated annually. A contingency plan group has been appointed and action plans prepared and adopted by the ALCO.

Figure 7.1 illustrates the Bank Group's survival horizon at 31 December 2019. The graph shows that contractual undertakings can be satisfied for 32 months (32) by utilising the liquidity reserve alone.

Figure 7.1 Survival horizon on 31 Dec 2019

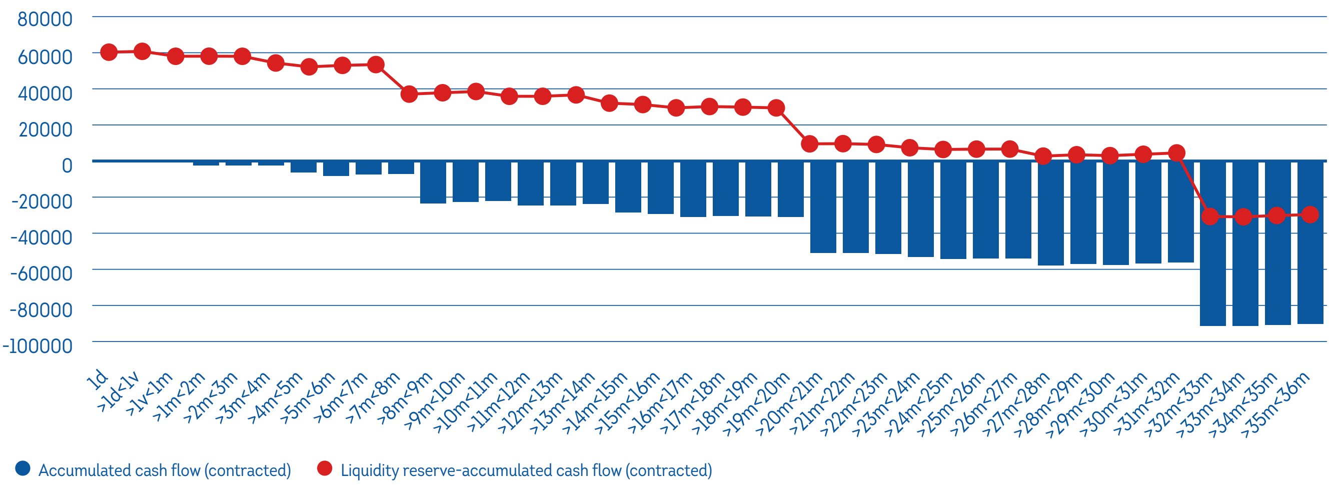
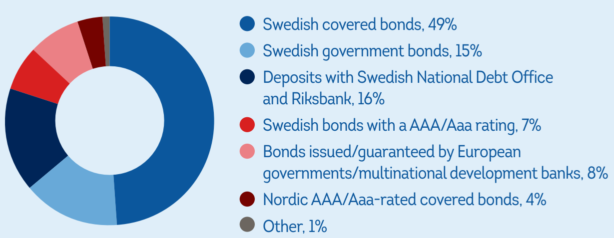


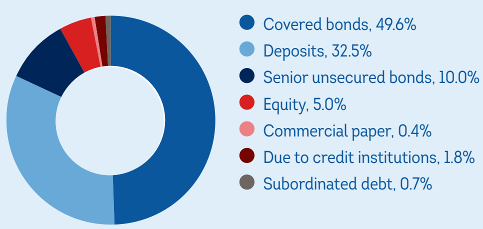
Figure 7.2
Liquidity reserve*



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

*99% pertains to AAA-rated bonds

Figure 7.3
Financing sources



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

Liquidity reserve

The Bank Group's liquidity reserve comprises securities of very high liquidity, credit quality and deposits with the Riksbank or the Swedish National Debt Office. Most of the securities holdings are eligible for transactions with the Riksbank and, where applicable, with the ECB or the Federal Reserve, and can be quickly converted to cash and cash equivalents. The Treasury unit monitors and manages the liquidity reserve on a daily basis and is responsible for the amount of the reserve totalling the limits set by the Board.

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. For a specification of the liquidity reserve, see figure 7.2.

Funding

Every year, the Board decides on a funding plan that states the funding requirements and planned liquidity for the Bank Group. The financing plan contains key figures and targets for fulfilment of the objectives. Outcomes are monitored against the plan at every ALCO and Board meeting, and the plan is updated as required.

Funding takes place in a manner that creates a sound maturity profile without maturity concentrations, and is broadly diversified in terms of investors and markets. The Bank Group also endeavours to regularly launch issuances to build trust in the international capital markets. Funding takes place primarily through covered bonds since the majority of the Bank Group's lending comprises Swedish mortgages, although senior debt and short-term commercial paper programmes are also used. Wholesale funding primarily takes place in the Swedish market and in SEK. Other funding primarily takes place in SEK, EUR, CHF and NOK. For a specification of the Bank Group's financing and maturity structure, see figures 7.3, 7.4 and 7.5.

In its funding operations, the Bank Group is to act predictably and actively in the market and aim at achieving as high liquidity as possible in outstanding debt to ensure healthy diversification and maintain investors' interest and credit limits. Regular meetings are held with both Swedish and international investors to ensure that these investors have a clear overview of the Consolidated Situation's operations, low risk profile and high-quality risk management.

Länsförsäkringar Bank's credit rating from Moody's and S&P remained unchanged at A1/Stable and A/Stable, respectively, during 2019. The stability of Länsförsäkringar Bank's credit rating from rating agencies is positive for the bank's ability to finance its operations at low costs in the capital markets. In addition, Länsförsäkringar Hypotek's covered bonds have the highest rating from both Moody's and Standard & Poor's.

7.2.2 Risk measurement

Liquidity risk is quantified using daily liquidity forecasts based on all contracted cash flows and expected business volumes of deposits and lending.

The liquidity portfolio is regularly stress-tested using highly disadvantageous scenarios for the Bank Group. Two stress tests illustrate how long the liquid assets will last, given that the funding market is entirely closed and:

- Business volumes are constant (survival horizon).
- Lending growth is modelled according to the business plan and deposits reduce markedly.

Furthermore, the cover pool is stress tested in various scenarios with housing prices assumed to fall between 5% and 30%.

To comprehensively analyse the liquidity risk, the liquidity limit is supplemented with a number of structural and quantitative risk measures adapted to the Consolidated Situation's risk profile, including a minimum requirement for unutilised amount in the cover pool for the issuance of covered bonds.

The Consolidated Situation's Liquidity Coverage Ratio, as defined by the European Commission delegated act (LCR DA), amounted to 295% (305) at total level on 31 December 2019 and to 2,691% (6,487) in EUR. Refer to Table 7.1 and 7.2 for more information about liquidity buffer and LCR.

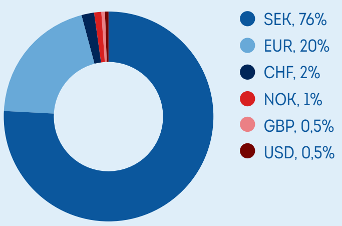
The Net Stable Funding Ratio (NSFR) for the consolidated situation amounted to 131% (130) on 31 December 2019 [1)]. A specification of NSFR is presented in Table 7.3.

7.2.3 Monitoring and reporting

Liquidity risk is measured, controlled and reported on a daily basis. Outcomes are monitored against the Board's established guidelines and strategies at every ALCO and Board meeting. Material deviations are immediately reported to the Board, following guidelines established by the Board.

[1)] The calculation is based on the application of the regulatory requirements according to the future update of the Capital Requirements Regulation.

Figure 7.4
Funding by currency



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

Figure 7.5 Maturity profile

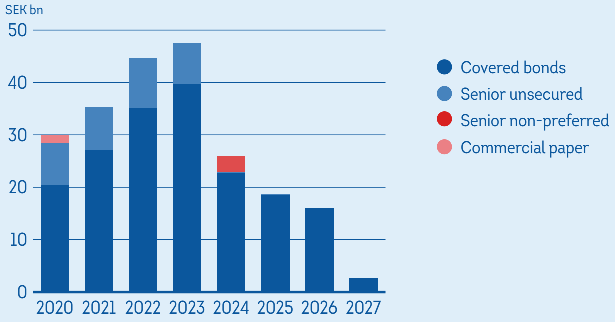


Table 7.1 Liquidity buffer

SEK M	31 Dec 2019	31 Dec 2018	Change
Level 1	57,127	48,145	8,981
of which, central banks	13,614	9,099	4,516
of which, sovereigns, multilateral development banks, etc.	14,367	12,846	1,522
of which, covered bonds	29,145	26,201	2,944
Level 2	1,517	1,174	343
Other securities	1,664	833	832
Other	141	4,200	–4,059
Liquidity reserve	**60,449**	**54,352**	**6,097**
Less deposits	–141	–4,200	4,059
Other securities	–1,664	–833	–832
Hedge adjustment	–233	–284	51
Market value deductions	–2,264	–2,001	–262
Liquidity buffer	**56,147**	**47,034**	**9,113**

Table 7.2 Liquidity Coverage Ratio (LCR)

SEK M	31 Dec 2019	31 Dec 2018	Change
Deposits	14,815	13,184	1,632
of which, household deposits	5,588	4,876	712
of which, other deposits	9,228	8,308	919
Maturity	545	1,265	–720
Off-balance/Growth	1,142	1,090	52
Derivatives/CSA	2,424	2,414	10
Inflows and other	104	0	104
Net outflows	**19,031**	**15,413**	**3,618**
Liquidity buffer	56,147	47,034	9,113
Liquidity Coverage Ratio (LCR)	**295%**	**305%**	**–10 pe**

Table 7.3Net Stable Funding Ratio (NSFR)

SEK M	31 Dec 2019	31 Dec 2018	Change
Required Stable Funding (RSF)	**254,419**	**251,685**	**2,734**
of which, liquid assets	4,398	3,593	805
of which, other collateral	5,611	3,424	2,187
of which, lending	237,311	224,749	12,562
of which, derivatives	1,287	405	882
of which, other assets	4,723	6,364	–1,641
of which, off-balance	1,090	1,169	–79
Available Stable financing (ASF)	**332,428**	**331,853**	**575**
of which, own-fund items	20,252	20,712	–460
of which, household deposits	96,168	87,444	8,724
of which, other non-financial counterparties (except for central banks)	5,248	4,727	521
of which, financial counterparties and central banks	207,134	197,447	9,687
of which, other liabilities	3,626	557	3,069
Net Stable Funding Ratio (NSFR)	**131%**	**130%**	**96 bp**

7.2.4 Encumbered assets

Encumbered assets are the portion of the company's assets that are pledged in some form. Asset encumbrance entails restrictions on the asset's area of use since the assets serves as collateral and its availability must be ensured at all times. The Consolidated Situation's main business area is mortgages and to enable market financing via covered bonds, the Consolidated Situation has a high percentage of encumbered assets that comprise the cover pool in Länsförsäkringar Hypotek AB. Refer to Table 7.4 and 7.5 for more information.

Table 7.4 Encumbered assets

31 Dec 2019, SEK M	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Consolidated Situation's assets	**212,112**		**182,186**	
Shares and participations	–	–	106	106
Bonds and other interest-bearing instruments	2,155	2,119	52,961	50,453
Other assets	209,957		97,456	

Table 7.5 Encumbered collateral

31 Dec 2019, SEK M	Fair value of encumbered collateral for received and own issued bonds	Fair value of collateral received or issued own bonds
Consolidated Situation's collateral received	–	–
Bonds and other interest-bearing instruments	–	–

8 | Operational risk

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

8.1 RISK APPETITE
The risk appetite for operational risk is determined by the Board. The Consolidated Situation has a low appetite for operational risk, meaning that these risks are limited as far as possible.

8.2 RISK MANAGEMENT
Operational risk encompasses the entire banking operations. 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. There is also structured monitoring of trends in operational risk.

8.2.1 Risk assessment
Operational risk is mainly categorised as one of the risk categories described in Table 8.1, which are the main operational risk categories to which the Consolidated Situation is exposed.

Table 8.1 Consolidated Situation's operational risk categories

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

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

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

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

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

These factors are aggregated to determine a risk value for the operational risk. Each manager is responsible for identifying, assessing, monitoring and managing operational risk in their area of responsibility. The process owner is responsible for documenting the process and its controls and for identifying, assessing, monitoring and managing operational risk for the process, including its products and services. The risk methods are regularly evaluated with the aim of minimising the risk of these methods themselves giving rise to significant misjudgements of operational risks.

Risk indicators
The aim of using risk indicators is to create conditions for better insight into the Consolidated Situation's risk profile and the risks that are increasing or reducing at that point in time and over time. The Consolidated Situation has established a number of risk indicators tailored to the Consolidated Situation's operations. The Consolidated Situation works continuously on revising these risk indicators, which are annually.

Approval process
The Consolidated Situation has a process for approving new or significantly changed products, services, markets, processes, IT systems and for major changes to the operations and organisation and in the case of exceptional transactions. The purpose of the approval process is to achieve efficient and appropriate management of the risks that may arise in connection with change work, impact capital, to ensure that products and changes that are approved are compatible with risk strategy and risk appetite and to create customer value. The established risk model is applied to the assessment of each individual risk, as it is to all operational risks. Risk Management and Compliance are two of the stakeholders in implementing the approval process.

Incident reporting

Incidents that occur in the Consolidated Situation's operating activities are to be reported using the incident reporting system, which all employees have access to. Incidents are to be reported and managed as far as possible in the business area or the process in which the risk arises. The responsibility for analysing incidents and taking measures lies with the head of the process or operations.

Risk Management continuously monitors incidents reported in the business activities. Reported incidents are categorised based on a shared risk tree (risk taxonomy).

Continuity management

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

8.2.3 Monitoring and reporting

Risk Management continuously monitors the Consolidated Situation's operational risk. In addition, an aggregated operational risk report is submitted to the Board and relevant committees every quarter.

9 | Remuneration policy

Information about the company's remuneration policy is available on the website:

lansforsakringar.se/stockholm/privat/om-oss/om-lansforsakrings-gruppen/lansforsakringar-ab/ersattningsstruktur/

Länsförsäkringar