2015


# Annual Report Länsförsäkringar Hypotek

Länsförsäkringar

# The 2015 fiscal year

## The year in brief

- Net interest income increased 32% to SEK 1,326 M (1,001).
- Loan losses amounted to SEK –10 M (–11), net, corresponding to a loan loss of –0.01% (–0.01).
- Operating profit rose 26% to SEK 509 M (405) and return on equity was 6.0% (5.5).
- Lending rose 17% to SEK 147 billion (126).
- The Common Equity Tier 1 capital ratio amounted to 37.4% on 31 December 2015.
- The number of customers rose 7% to 216,000.

**SEK 147 billion**
LOANS

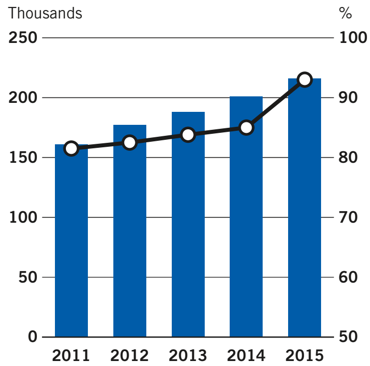
**216,000**
CUSTOMERS

KEY FIGURES

| SEK M | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Return on equity, % | **6.0** | 5.5 | 4.8 | 5.2 | 3.6 |
| Return on total capital, % | **0.32** | 0.29 | 0.23 | 0.26 | 0.17 |
| Investment margin, % | **0.84** | 0.71 | 0.64 | 0.65 | 0.45 |
| Cost/income ratio before loan losses | **0.16** | 0.19 | 0.22 | 0.22 | 0.30 |
| Capital adequacy ratio, % | **42.9** | 23.8 | 25.3[1)] | 24.2[1)] | 22.8[1)] |
| Common Equity Tier 1 capital ratio, % | **37.4** | 21.9 | 23.4[1)] | 22.3[1)] | 20.6[1)] |
| Percentage of impaired loans, net, % | **0.00** | 0.00 | 0.01 | 0.00 | 0.00 |
| Reserve ratio in relation to loans, % | **0.02** | 0.03 | 0.04 | 0.04 | 0.04 |
| Loan losses in relation to loans, % | **–0.01** | –0.01 | 0.01 | 0.00 | 0.00 |

[1)] According to Basel II.

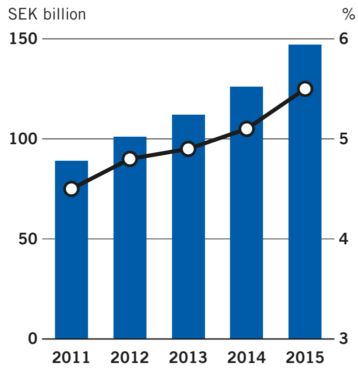
### Customer trend




■ Retail mortgage customers, thousands
-O Percentage of retail mortgage customers who have Länsförsäkringar as their primary bank, %

The number of customers has increased by an average of 8% per year over the past five years.

### Loans and market shares




■ Loans, SEK billion
-O Market shares, retail mortgages, %

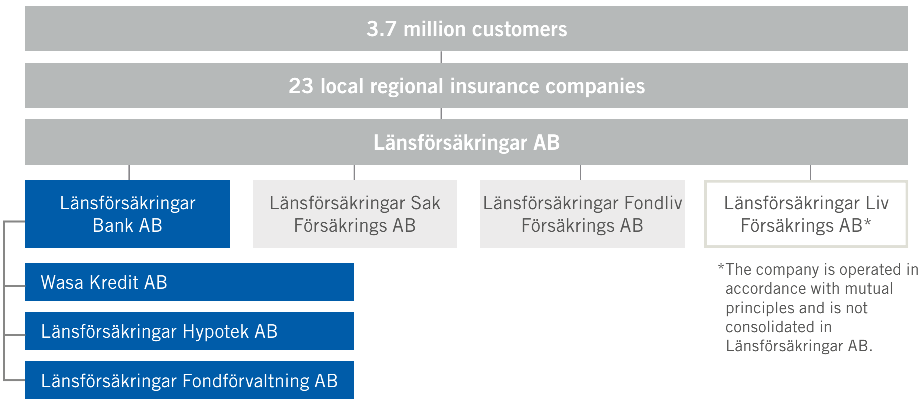
Loans have increased an average of 13% per year over the past five years. The market position is continuously strengthened.

# Länsförsäkringar's mortgage institution

Länsförsäkringar Hypotek is one of Sweden's largest mortgage institutions with loans of SEK 147 billion and 216,000 customers. The strategy is to offer attractive mortgages to the Länsförsäkringar Alliance's 3.7 million customers. Close customer relationships are created during personal meetings at 128 regional insurance companies' branches throughout Sweden and via digital services and telephone. Loans are granted solely in Sweden and in SEK, and have very high credit quality. The aim is to have the most satisfied customers, to have continued profitable growth based on low risk, and to increase the share of retail mortgage customers who have both banking and insurance with Länsförsäkringar. The bank has once again Sweden's most satisfied retail customers, according to the 2015 Swedish Quality Index.

## Länsförsäkringar in brief | Local companies with customers who are owners and the only principal

Länsförsäkringar comprises 23 local and customer-owned regional insurance companies and the jointly owned Länsförsäkringar AB with subsidiaries. Customers are provided with a complete solution for banking, insurance, pension and real-estate brokerage services through the regional insurance companies. The regional insurance companies are owned by the insurance customers – there are no external shareholders and customers' needs and requirements are always Länsförsäkringar's primary task. Long-term respect for customers' money and their security is fundamental. The Länsförsäkringar Alliance jointly has slightly more than 3.7 million customers and approximately 6,000 employees.




# Contents

# Strengthened market position

**Statement by the President | 2015 was a strong year for Länsförsäkringar Hypotek. We continued to strengthen our market share in the Swedish mortgage market based on our local presence and high customer satisfaction. Credit quality remained very high and we are gratified that we can report strong earnings.**

### Housing prices continuing to rise

Housing prices continued to rise during the year, while household indebtedness increased. Signs of a slowdown in price increases could be seen towards the end of the year. Prices were impacted by low interest rates, although the main reason for the price increases can be attributed to the imbalance in the supply and demand for housing. The rate of housing construction has been low for a long time at the same time as population growth is increasing, thus creating a structural shortage of housing. The debate on housing prices has intensified and several courses of action have been discussed. The announced mortgage amortization requirements have been delayed but are expected to come into effect during 2016. The quality of Länsförsäkringar Hypotek's loan origination is high and the "left to live on" calculations were made more stringent during the year. It is important for Länsförsäkringar Hypotek to promote a better mortgage amortization culture, but above else political action is needed to stimulate housing construction.

### Security for customers

Rising housing prices could entail a higher macroeconomic risk. In an uncertain economic environment, it is even more vital for Länsförsäkringar Hypotek that our customers have sound and stable household finances, which is why we are actively working with, for example, mortgage amortization as an important savings option as part of our customer advice. We were the first, and to date only, mortgage provider to have certified all of our mortgage advisors back in 2014 in order to safeguard customer security and ensure quality customer advice. This is something that will be a requirement when the Mortgage Credit Directive is already implemented but which we already have in place.

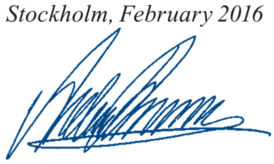
### Strong financial position

Länsförsäkringar Hypotek maintains a very strong liquidity situation. The high credit quality of mortgage lending together with strong capitalisation are the keys to our low financing costs. The company's covered bonds have an unchanged 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.

### Positive performance

Länsförsäkringar Hypotek's strong performance continued in 2015. Lending grew by SEK 21 billion, while operating profit exceeded SEK 0.5 billion for the first time. Our success is based on Länsförsäkringar's strong brand and local presence that create detailed customer knowledge and in-depth expertise of the local markets. Combined with Länsförsäkringar's attractive digital offering, this leads to high customer satisfaction and excellent conditions for driving Länsförsäkringar Hypotek's stable growth and successively strengthening our market position.

*Stockholm, February 2016*



**ANDERS BORGCRANTZ**
*President*

# One of Sweden's largest mortgage institutions

**Strategy, offering and position | Länsförsäkringar Hypotek continued to strengthen its position in 2015. The goal is to have the most satisfied customers and continued stable growth while maintaining favourable profitability.**

### Strategy and goals

Länsförsäkringar Hypotek was founded in 2001 and is now one of Sweden's largest mortgage institutions with a market share of 5.5%. The strategy is to offer mortgages, within the context of banking operations, to the Länsförsäkringar Alliance's large customer base of 3.7 million customers. The 23 customer-owned regional insurance companies are responsible for customer relationships and provide retail mortgages with support from Länsförsäkringar Hypotek. Close customer relationships are created during personal meetings at one of the regional insurance companies' branches and via digital services and telephone. The goal is to have the most satisfied customers, and continued stable growth while maintaining favourable profitability. Länsförsäkringar Hypotek has a low risk tolerance. All loans are granted with low risk, providing provides high credit quality. The local customer and market knowledge of the regional insurance companies, combined with a conservative view of risk, generates growth with high credit quality.

LENDING VOLUME: SEK 147 BILLION

**+17%**

NUMBER OF CUSTOMERS: 216,000

**+7%**

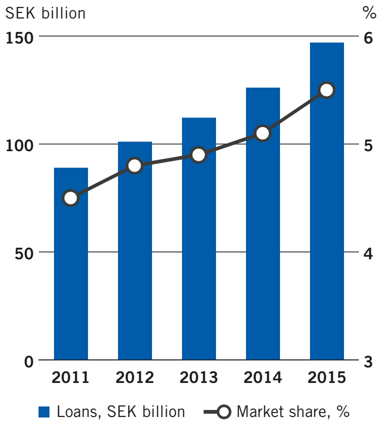
PRIMARY BANK CUSTOMERS WHO ARE ALSO RETAIL MORTGAGE CUSTOMERS

**93%**

### Retail mortgages

The offering primarily comprises mortgages for private individuals. Mortgages up to 75% of the market value are offered by Länsförsäkringar Hypotek and any excess lending is offered by Länsförsäkringar Bank, up to a maximum of 85% of the market value. The offering also includes first-lien mortgages for multi-family housing. Mortgages are an integral part of the banking offering and the vast majority of retail mortgage customers are insurance and bank customers.

**Loans and market shares**




Source: Swedish Quality Index

Länsförsäkringar Hypotek is strengthening its position in the market.

### Customer ownership

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

### Customer meetings and local market knowledge

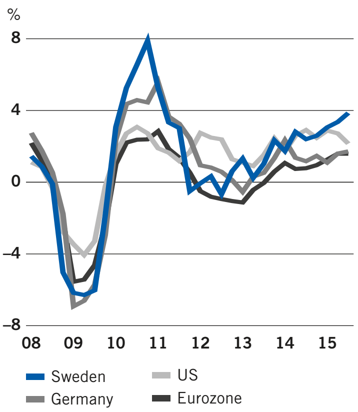
The banking and retail mortgage operations have a local presence through the customer-owned regional insurance companies that manage all customer contact. Business decisions are made locally and the regional insurance companies' local commitment and networks provide broad and in-depth customer and market knowledge. Personal customer meetings are a high priority at Länsförsäkringar and they create trust and long-term relationships. Mobile services, combined with telephone and Internet banking, enable flexible and efficient management of all mortgage transactions.

# Continued strong Swedish economy

**Economic environment and market | Global growth in 2015 was slightly lower than expected, while the Swedish economy performed well. Inflation remained low, which resulted in the unusual situation of a negative key interest rate, rapidly rising housing prices and higher household indebtedness. However, incoming statistics towards the end of the year showed signs of a slowdown in price increases.**

2015 was a year of major fluctuations in the financial markets. Stock-market upswings continued at the start of the year, but greater uncertainty started to make its mark felt in April. A low risk appetite and major fluctuations then prevailed on the financial markets as a result of the, at times, widespread concern for the global economy, primarily driven by uncertainty regarding the Chinese economy and also speculations about if and when the Federal Reserve would raise interest rates. The oil price fell sharply during the year, which led to lower inflation pressure and ultimately pressure on additional easing from the central banks. The US economy performed well during the year and the labour market continued to strengthen. This trend led to the Federal Reserve raising interest rates towards the end of the year, the first rise since 2006. The eurozone economy continued to recover during the year, partly due to the highly expansive measures from the ECB. The stimulus packages implemented by the ECB at the start of the year led to long-term interest rates reaching historically low levels in the spring. Concern about the global economy also impacted more risk-exposed assets with the stock markets generally reporting major fluctuations. The stock markets in Sweden, the US and Europe reported positive returns, while returns for emerging markets fell. Long-term interest rates have risen slightly since reaching a low point in April but have remained low, while heightened uncertainty, combined with poor liquidity in the secondary market, has led to credit spreads widening. The spread for Swedish covered bonds also increased during the year. The Swedish economy performed well. However, inflation remained low, which resulted in the highly unusual situation of a negative key interest rate and high growth. This in turn accentuated the discussion on the housing market where prices are continuing to rise at a fast pace with household indebtedness following suit. The authorities' work on introducing mortgage amortization requirements continued during the year. However, incoming statistics towards the end of the year showed signs of a slowdown in housing-price increases.

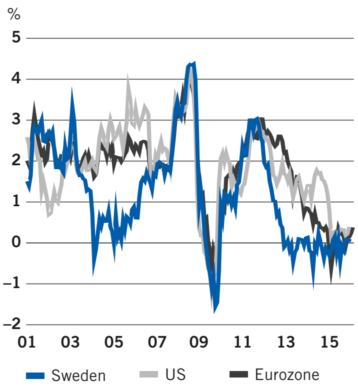
**GDP growth**




Source: Macrobond

The Swedish economy performed well during the year.

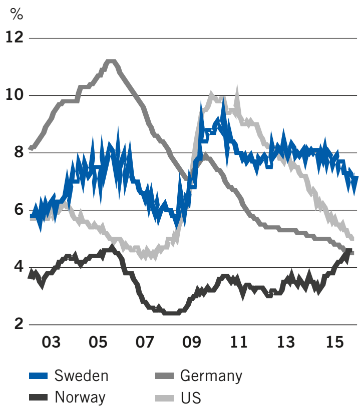
**Inflation**




Source: Macrobond

Inflation (CPI) in Sweden remained low and is far below the Riksbank's target of 2%.

**Unemployment**




Source: Macrobond

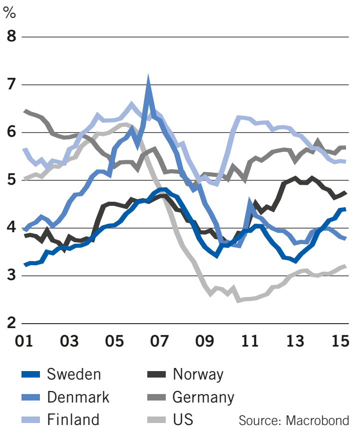
The trend in the labour market remained strong during the year.

### Regulatory development

Regulatory development is continuing to have a significant impact on banks, with uncertainty prevailing in many areas. The Mortgage Credit Directive, which aims to increase consumer protection and regulates how mortgages are offered, will affect the retail mortgage lending operations. The new IFRS 9 accounting rules that take effect on 1 January 2018 will also impact such areas as the recognition of loan losses, whereby reserves will be more prospective-based than previously.

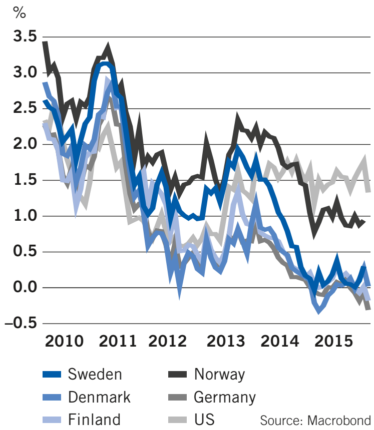
Uncertainty regarding capital adequacy regulations remains. The Basel Committee is working to improve comparability between banks' capital adequacy, which will entail new standardised approaches for calculating capital requirements for credit, market and operational risks combined with capital floors for banks using internal models. Widespread uncertainty continues to prevail regarding certain significant regulations, but based on the current situation, Länsförsäkringar Hypotek is well-prepared and positioned to meet forthcoming requirements.

**Housing construction**



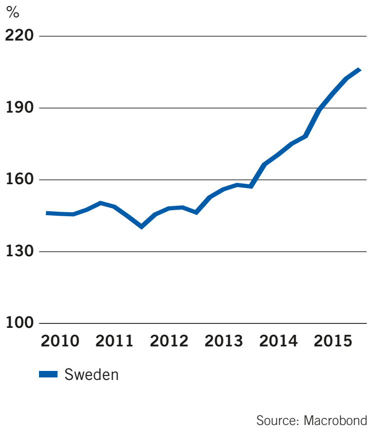

Sweden has a huge shortage of housing that will take many years to overcome, caused by low housing investments for nearly 20 years.

**Government bond rates (five-year)**




The financial market has a positive view of Sweden which, combined with low inflation, contributed to falling Swedish government bond rates.

**Housing-price trends**




Swedish housing prices continued to rise in 2015, due to high demand combined with a limited supply of residential properties and low interest rates.

# Loan portfolio with high credit quality

**Loans and credit quality | All loans are granted in Sweden and in SEK and have high credit quality. Origination is primarily directed towards retail mortgages for private individuals and all loans are granted on the basis of standardised and stringent credit regulations which are in turn based on a conservative risk appetite.**

### Credit process

All loans are granted in Sweden, in SEK and have a well-diversified geographic distribution. Origination is primarily directed towards retail mortgages for private individuals and all loans are granted on the basis of standardised and stringent credit regulations. The credit scoring process is managed by integrated system support. In the business model between Länsförsäkringar Hypotek and the regional insurance companies, there is a strong incentive to maintain very high credit quality.

The credit regulations, which are based on a conservative risk appetite, combined with the credit scoring process and the local customer and market knowledge of the advisors, create a loan portfolio that maintains high credit quality. The credit regulations impose strict requirements on customers' repayment capacity and the quality of collateral. Although repayment rules have not yet come into effect, the bank applies repayment requirements to all new loans, which will help strengthen the repayment culture over time. Länsförsäkringar Hypotek has also tightened the requirements of the "left to live on" calculations. The quality of the loan portfolio and value of the collateral are continuously monitored and reviewed.

### Retail mortgages

The loan portfolio amounted to SEK 147 billion. Mortgages for private individuals' housing comprises 95% of the mortgage institution's loan portfolio. Vacation homes account for 73% of the collateral and tenant-owned apartments for 22%. The remaining 5% of the loan portfolio pertains to first-lien mortgages for multi-family housing.

Market-value analyses of the collateral in retail mortgages are performed continuously and the values are updated at least once per year.

### Cover pool

The cover pool includes 94% of the loan portfolio, corresponding to SEK 137 billion. The collateral comprises only private homes, of which 75% are single-family homes, 23% tenant-owned apartments and 2% vacation homes. At the end of 2015, the weighted average loan-to-value ratio (LTV) amounted to 60% and OC (overcollateralization) amounted to 38%. The geographic spread throughout Sweden is well-diversified and the average loan amount is SEK 466,000. Only 1% of the cover pool's mortgages have a loan amount of more than SEK 5 M. No impaired loans are included in the cover pool. The collateral in the cover pool is stress tested continuously at a 20% decline in the market value of the assets. A stress test of the cover pool, based on a 20% price drop in housing prices, resulted in a weighted average LTV of 67% on 31

**COVER POOL**

| | 31 Dec 2015 | 31 Dec 2014 |
|---|---|---|
| Total volume, SEK billion | 146 | 129 |
| Swedish mortgages, SEK billion | 138 | 117 |
| Substitute collateral, SEK billion | 9 | 12 |
| Collateral | Private homes | Private homes |
| Weighted average LTV, % | 60 | 62 |
| OC[1], nominal, current level, % | 38 | 30 |
| Seasoning, months | 59 | 60 |
| Number of loans | 295,057 | 270,806 |
| Number of borrowers | 133,245 | 123,077 |
| Number of properties | 133,274 | 123,512 |
| Average commitment, SEK 000s | 1,032 | 949 |
| Average loan, SEK 000s | 466 | 433 |
| Interest rate type, variable, % | 61 | 59 |
| Interest rate type, fixed, % | 39 | 41 |
| Impaired loans | None | None |

[1] OC is calculated using nominal values and excludes accrued interest rates.
Debt securities in issue in other currencies than SEK are translated into SEK using the swap rate.
Debt securities in issue include repurchase agreements.

December 2015. Market-value analyses of the cover pool are performed continuously.

### Standard for greater transparency

To increase transparency, Länsförsäkringar Hypotek publishes information in accordance with the European Covered Bond Council (ECBC) "The Covered Bond Label." This is a joint standard for greater transparency in the European covered bond market. Länsförsäkringar Hypotek's website is updated every month with reports on this, as well as further information about the cover pool.

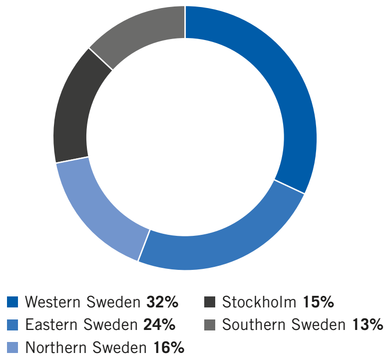
### Impairment and impaired loans

A settlement model has been applied since 1 January 2014 regarding the commitment that the regional insurance companies have for loan losses related to the business they have originated. The model entails that the regional insurance companies cover 80% of the provision requirement on the date when an impairment is identified, by off-setting this against a buffer of accrued commission. The transition to this settlement model means that the credit reserves attributable to the regional insurance companies business on the date of introduction will be gradually reversed by SEK 21 M. SEK 8 M was reversed in 2015.

Loan losses amounted to SEK –10 M (–11), net, corresponding to a loan loss of –0.01% (–0.01). Loan losses before reversal remained low at SEK –2 M (–1), net. Reserves amounted to SEK 30 M (39), corresponding to a reserve ratio in relation to loans of 0.02% (0.03). Impaired loans, gross, amounted to SEK 0 M (0.3), corresponding to a percentage of impaired loans, gross, of 0.00% (0.00).

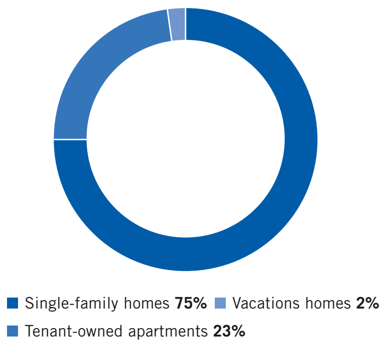
For more information concerning credit risks and credit quality, see note 3 Risks and capital adequacy on page 27. For more information concerning loans, impaired loans and impairment of loan receivables, see Accounting policies on page 21.

**Cover pool, geographic allocation**




The cover pool is highly diversified throughout Sweden. There is no collateral outside Sweden.

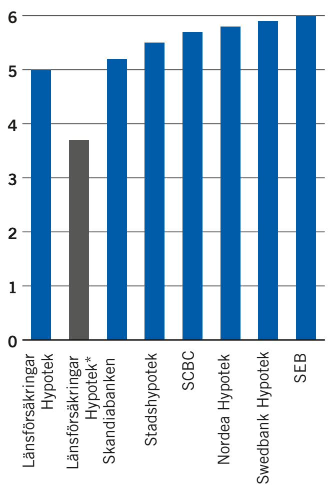
**Cover pool, collateral distribution**




The collateral in the cover pool exclusively comprises private homes, and predominantly single-family homes.

**Moody's collateral score**

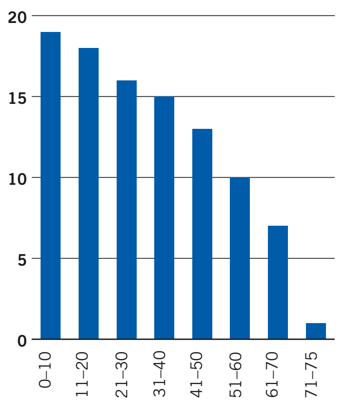
Source: Moody's




*Excluding 5% floor for systemic risk

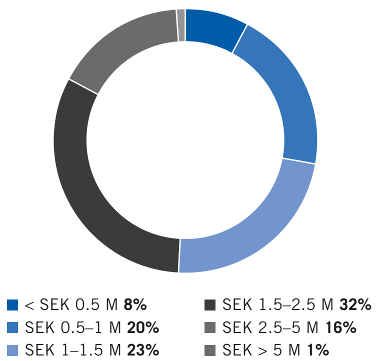
Länsförsäkringar Hypotek's collateral in the cover pool has the highest credit quality compared with all Swedish covered-bond issuers, with a collateral score of 5.0%. The lower the collateral score, the higher the credit quality according to Moody's. Average collateral score among Swedish issuers is 5.6%.

**Average loan-to-value ratio**




The cover pool's weighted average LTV amounted to 60% on 31 December 2015.

**Distribution of commitments in cover pool**




Commitments with a maximum loan amount of SEK 1.5 M account for 5%. Only 1% of the loans have a loan amount of more than SEK 5 M.

# Strong liquidity

**Funding and liquidity | The mortgage operations' main financing sources comprise funding with Länsförsäkringar Hypotek's covered bonds. These have the highest credit ratings which remained unchanged: Aaa from Moody's and AAA/Stable from Standard & Poor's.**

### Objectives

The aim of the funding operations is to ensure that the banking and retail mortgage operations have a sufficiently strong liquidity position to manage turbulent periods in capital markets, when access to funding is limited or even impossible. The liquidity risk is controlled and limited on the basis of a survival horizon, meaning how long all known cash flows can be met without access to capital-market financing.

### Financing sources

The retail mortgage operations' financing sources mainly comprise funding with Länsförsäkringar Hypotek's covered bonds, which have the highest credit rating, Aaa from Moody's and AAA/Stable from Standard & Poor's. Capital market funding is conducted under a number of funding programmes.

The single most important source of financing is the Swedish covered bond market, where Länsförsäkringar Hypotek has a number of outstanding liquid benchmark bonds. At year-end, Länsförsäkringar Hypotek had five outstanding benchmark loans with maturities until 2021.

The Swedish covered bond market is one of Europe's largest and most liquid, which secures excellent access to long-term financing.

### Diversification

Since all assets in the balance sheet are in SEK, the mortgage operations have no structural need for financing in foreign currency. However, a certain portion of the capital-market funding is conducted in international markets to diversify and broaden the investor base. Funding takes place regularly through the issuance of Euro Benchmark Covered Bonds, which increases diversification and strengthens the brand in both the Swedish and European capital markets. In addition, diversification takes place through issuances of bonds, primarily in NOK and CHF currencies. The international markets were primarily used for long maturities.

### Refinancing and liquidity risk management

Länsförsäkringar Hypotek works proactively with its outstanding liabilities by repurchasing bonds with short remaining terms against issuance of long-term liabilities as a means of managing and minimising the liquidity and refinancing risk.

The market risks that arise in the lending and funding operations are managed through derivative instruments.

### Funding operations during the year

Länsförsäkringar Hypotek continuously had highly favourable access to funding in both the Swedish market and markets outside Sweden. A covered funding transaction of EUR 500 M with a seven-year term took place in April, which was the largest transaction in 2015 directed to the foreign investor base. A relatively large portion of the funding in the Swedish market took place during the early part of the year, although issues were implemented throughout the year. As in previous years, Länsförsäkringar Hypotek was active in the repurchase of own debt. SEK 10 billion was repurchased during the year, mainly benchmark bond 508 due in March 2016.

### Liquidity

The management of liquidity and financing is characterised by effective long-term

**FUNDING PROGRAMME**

| Programme | Limit, Nom, SEK billion | Issued in 2015 Nom, SEK billion | Issued in 2014 Nom, SEK billion | Outstanding, 31 Dec 2015, Nom, SEK billion | Outstanding, 31 Dec 2014, Nom, SEK billion | Remaining average term, years 31 Dec 2015 | Remaining average term, years 31 Dec 2014 |
|---|---|---|---|---|---|---|---|
| Swedish covered Benchmark | Unlimited | 26.4 | 16.6 | 81.5 | 67.8 | 3.1 | 3.0 |
| MTCN | SEK 30 | 3.5 | 1.1 | 5.3 | 4.9 | 4.1 | 2.8 |
| EMTCN | EUR 5 | 4.7 | 6.2 | 20.2 | 26.0 | 5.4 | 3.8 |
| **Total** | | **34.6** | **23.9** | **107.0** | **98.7** | **3.6** | **3.2** |

**SWEDISH COVERED BENCHMARK BONDS**

| Loans | Date of maturity | Outstanding, SEK billion | Coupon, % |
|---|---|---|---|
| 508 | 15 March 2016 | 7.9 | 4.00 |
| 507 | 21 June 2017 | 12.9 | 4.50 |
| 511 | 20 June 2018 | 19.5 | 2.50 |
| 512 | 19 June 2019 | 15.4 | 2.50 |
| 513 | 16 September 2020 | 18.5 | 3.25 |
| 514 | 15 September 2021 | 6.1 | 1.75 |
| 515 | 21 September 2022 | 1 | 2.25 |
| **Total** | | **81.3** | |

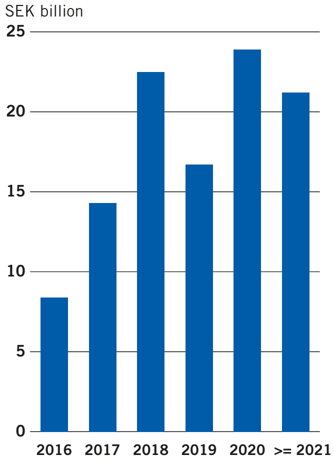
planning and a high level of control. A satisfactory liquidity reserve is in place to ensure that sufficient liquidity is always available. The management and investment of the liquidity reserve are conservative.

On 31 December 2015, the liquidity reserve amounted to SEK 9 billion according to the Swedish Bankers' Association's definition, comprising 100% Swedish covered bonds with an AAA/Aaa credit rating.

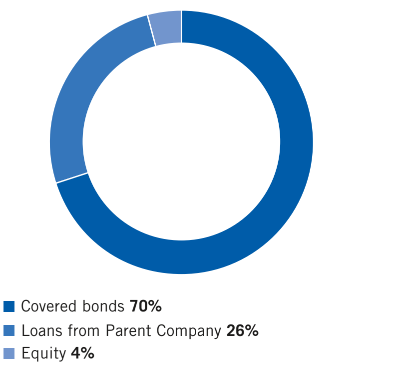
## Rating

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. Länsförsäkringar Bank's long-term credit rating is A/Stable from Standard & Poor's and A3/Stable from Moody's. The short-term credit ratings are A–1 from Standard & Poor's and P–2 from Moody's.

### Funding programme by maturity

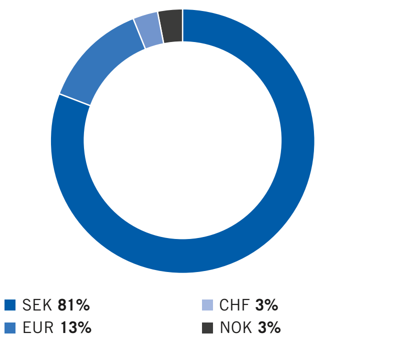



### Financing sources




Some 70% of loans were financed by covered bonds, 26% by loans from the Parent Company and 4% by equity.

### Funding by currency




Funding primarily takes place in SEK, which amounted to 81% of funding by currency at year-end.

# Board of Directors' Report

## The Board of Directors and President of Länsförsäkringar Hypotek AB (publ) hereby submit the Annual Report for 2015.

### Ownership

Länsförsäkringar Hypotek (publ) is part of the Länsförsäkringar Alliance, which comprises 23 local, independent and customer-owned regional insurance companies that jointly own Länsförsäkringar AB (publ) and its subsidiaries. Länsförsäkringar AB (publ) is responsible for conducting joint business activities, strategic development activities and providing service. The aim is to create possibilities for the regional insurance companies to continue to grow and be successful in their respective markets.

Länsförsäkringar Hypotek AB (publ) (556244-1781) is a subsidiary of Länsförsäkringar Bank AB (publ) (516401-9878), which is the Parent Company of the Bank Group and a subsidiary of Länsförsäkringar AB (publ) (556549-7020). The Bank Group includes Länsförsäkringar Hypotek AB (publ), Länsförsäkringar Fondförvaltning AB (publ) (556364-2783) and Wasa Kredit AB (556311-9204). The abbreviated forms of all of these company names are used in the remainder of the Board of Directors' Report.

The operations of Länsförsäkringar Hypotek are outsourced to Länsförsäkringar Bank. The President and parts of the finance department are employed at Länsförsäkringar Hypotek. Other administration is handled in its entirety by Länsförsäkringar Bank.

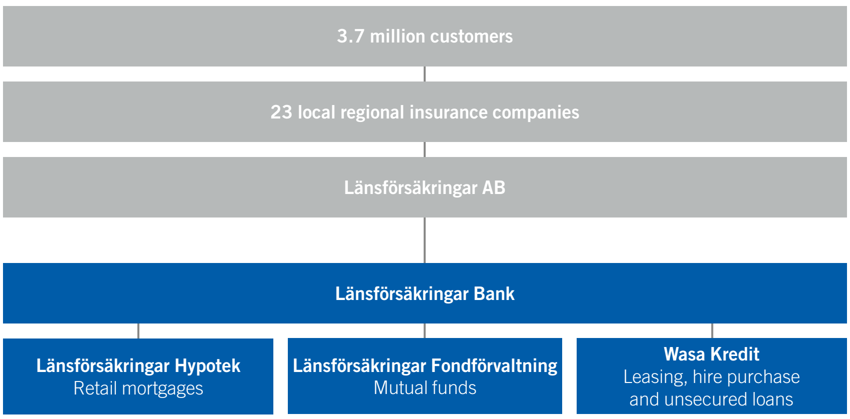
### Focus of operations

The company conducts mortgages operations involving the origination of loans against collateral in the form of single-family homes, tenant-owned apartments and vacation homes and, to some extent, multi-family housing and industrial and office properties. Lending, which is provided to private individuals and home-owners, is conducted at 128 branches of the regional insurance companies throughout Sweden and via digital services and telephone. Sales and certain administration of banking and mortgage services are carried out in the branches of the regional insurance companies. The regional insurance companies are reimbursed for sales and administration through a reimbursement system based on volumes managed. Another part of the full-service offering is the 158 (154) branches of Länsförsäkringar Fastighetsförmedling throughout Sweden.

### Market commentary

2015 was a year of major fluctuations in the financial markets. Stock-market upswings continued at the start of the year, but greater uncertainty started to make its mark felt in April. A low risk appetite and major fluctuations then prevailed on the financial markets as a result of the, at times, widespread concern for the global economy, primarily driven by uncertainty regarding the Chinese economy and also speculations about if and when the Federal Reserve would raise interest rates. The oil price fell sharply during the year, which led to lower inflation pressure and ultimately pressure on additional easing from the central banks. The US economy performed well during the year and the labour market continued to strengthen. This trend led to the Federal Reserve raising interest rates towards the end of the year, the first rise since 2006. The eurozone economy continued to recover during the year, partly due to the highly expansive measures from the ECB. The stimulus packages implemented by the ECB at the start of the year led to long-term interest rates reaching historically low levels in the spring. Concern about the global economy also impacted more risk-exposed assets with the stock markets generally reporting major fluctuations. The stock markets in Sweden, the US and Europe reported positive returns, while returns for emerging markets fell. Long-term interest rates have risen slightly since reaching a low point in April but have remained low, while heightened uncertainty, combined with poor liquidity in the secondary market, has led to credit spreads widening. The spread for Swedish covered bonds also increased

**Länsförsäkringar Hypotek – part of the Länsförsäkringar Alliance**



during the year. The Swedish economy performed well. However, inflation remained low, which resulted in the highly unusual situation of a negative key interest rate and high growth. This in turn accentuated the discussion on the housing market where prices are continuing to rise at a fast pace with household indebtedness following suit. The authorities' work on introducing mortgage amortization requirements continued during the year. However, incoming statistics towards the end of the year showed signs of a slowdown in housing-price increases.

**Growth and customer trend**

Loans to the public rose 17%, or SEK 21 bn, to SEK 147 billion (126), with continued very high credit quality. The number of customers rose 7% or 15,000 to 216,000 (201,000), and 86% (85) of retail mortgage customers have Länsförsäkringar as their primary bank.

**Earnings and profitability**

Profit before loan losses increased 27% to SEK 499 M (394), and operating profit rose 26% to SEK 509 M (405). The increase was attributable to higher net interest income. Return on equity amounted to 6.0% (5.5).

**Income**

Operating income increased 22% to SEK 594 M (486), due to higher net interest income as a result of increased volumes and improved margins. Net interest income increased 32% to SEK 1,326 M (1,001). Net gains from financial items amounted to SEK 68 M (49). Net commission amounted to an expense of SEK –800 M (–564), due to higher remuneration to the regional insurance companies related to higher business volumes and improved margins.

**Expenses**

Operating expenses amounted to SEK 95 M (91). The cost/income ratio before loan losses amounted to 0.16 (0.19).

**Loan losses**

The new settlement model, which was introduced on 1 January 2014, regarding the commitment that the regional insurance companies have regarding loan losses related to the business they have originated, entails that the regional insurance companies cover 80% of the provision requirement on the date when an impairment is identified, by off-setting this against a buffer of accrued commission. The transition to the settlement model means that the credit reserves on the date of introduction will be gradually reversed by SEK 21 M. SEK 8 M was reversed during the year. Loan losses amounted to SEK –10 M (–11), net, corresponding to a loan loss of –0.01% (–0.01). Loan losses before reversal remained low at SEK –2 M (–1), net. Reserves amounted to SEK 30 M (39), corresponding to a reserve ratio in relation to loans of 0.02% (0.03). Impaired loans, gross, amounted to SEK 0,0 M (0.3), corresponding to a percentage of impaired loans, gross, of 0.00% (0.00). For more information regarding loan losses, reserves and impaired loans, see notes 15 and 19.

**Loans**

All loans are granted in Sweden and in SEK. Loans to the public rose 17% during the year to SEK 147 billion (126). The credit quality of the loan portfolio, comprising 73% (74) single-family homes, 22% (20) tenant-owned apartments and 5% (6) multi-family housing, remained favourable. On 31 December 2015, the market share for retail mortgages was 5.5% (5.1), according to data from Statistics Sweden.

**Cover pool**

A total of 94% of the loan portfolio, corresponding to SEK 137 billion, is included in the cover pool. The collateral comprises private homes, of which 75% (76) are single-family homes, 23% (22) tenant-owned apartments and 2% (2) vacation homes. The geographic spread throughout Sweden is favourable and the average loan amount is only SEK 466,000 (433,000). The weighted average loan-to-value ratio, LTV, was 60% (62) and the nominal, current OC amounted to 38% (30).

On 31 December 2015, a stress test of the cover pool based on a 20% price drop in the market value of the mortgages' collateral led to an unchanged weighted average LTV of 67%. No impaired loans are included in the cover pool. According to Moody's report from 25 August 2015, the assets in Länsförsäkringar Hypotek's cover pool continue to maintain the highest credit quality among all Swedish covered-bond issuers, and are among the best in Europe.

**Funding**

The funding structure is favourable and the maturity profile is well diversified. Debt securities in issue increased 9% to SEK 110 billion (101). Issued covered bonds during the year totalled a nominal SEK 35 billion (24) and repurchases of a nominal SEK 10 billion (8) were executed. Matured covered bonds amounted to a nominal SEK 16 billion (17).

**Liquidity**

On 31 December 2015, the liquidity reserve totalled SEK 9 billion (13), according to the Swedish Bankers' Association's definition. The liquidity situation remained healthy and the survival horizon was about two years. The liquidity reserve comprised 100% (100) Swedish covered bonds with the credit rating of AAA/Aaa.

**Rating**

Länsförsäkringar Hypotek is one of three issuers in the Swedish market with the highest credit rating for covered bonds from both Standard & Poor's and Moody's. The Parent Company Länsförsäkringar Bank's credit rating is A/Stable from Standard & Poor's and A3/Stable from Moody's.

**Capital adequacy**

REA on 31 December 2015 amounted to SEK 18,120 M (17,842). The increase was mainly due to lending to households in the form of mortgages, SEK 223 M. In Pillar II, the risk weight floor for mortgages of 25% entailed an additional capital requirement of SEK 3,071 M (2,973). During the fourth quarter, Common Equity Tier 1 capital and Tier 1 capital were mainly positively impacted by generated profit. This countercyclical capital buffer that is to be applied from 13 September 2015 (1.0% of REA) amounted to SEK 181 M. This capital conservation buffer that is to correspond to 2.5% of REA amounted to SEK 453 M on 31 December 2015. For more information on the calculation of capital adequacy, see note 3.

## Employees

As part of the Bank Group, the mortgage institution is included in the Länsförsäkringar AB Group and HR work is conducted jointly. Dedicated employees, active change management, a positive work environment and competent leadership are important prerequisites for Länsförsäkringar AB in order to achieve results. An employee survey is conducted once per year, with a focus on feeding back the results and a joint improvement process. The results of this year's employee survey revealed a higher index in all question areas compared with Swedish companies. In 2015, the average number of employees was 7 (7), of whom 1 (1) were women and 6 (6) men.

## Environment

The aim of the Länsförsäkringar AB Group's environmental work, which the mortgage institution is also part of, is reduced costs, improved customer service and clear environmental benefits that contribute to sustainable development for customers and society. The environmental work of the retail mortgage operations is directly linked to the joint environmental policy. The mortgage institution can primarily impact the environment in such areas as loan origination, paper-based communication and product management with customers, and by directing customers to digital services.

## Risks and uncertainties

The operations are characterised by a low risk profile. Länsförsäkringar Hypotek is exposed to a number of risks, primarily credit risks, refinancing risks and market risks. The macroeconomic situation in Sweden is critical for credit risks since all loans are granted in Sweden. Market risks primarily comprise interest-rate risks. Loan losses remain low and the refinancing of business activities was highly satisfactory during the year.

For information about the risks in the operations, risk and capital management and principles for risk governance, see Note 3 Risks and capital adequacy on page 27.

## Expectations regarding future development

Länsförsäkringar Hypotek intends to maintain its strategic focus by achieving profitable growth with high credit quality and maintaining a favourable level of capitalisation. Growth in lending will take place by paying close attention to changes in the business environment, the financial situation and the prevailing circumstances in the capital market. Strong liquidity will be maintained. The continued market strategy is to conduct sales and customer marketing activities targeting the regional insurance companies' customers.

## Events after year-end

No significant events took place after the close of the year.

## Proposed appropriation of profit

The following profit is at the disposal of the Annual General Meeting:

| | SEK |
|---|---|
| Fair value reserve | 89,651,490 |
| Retained earnings | 6,225,540,801 |
| Net profit for the year | 308,268,985 |
| Profit to be appropriated | 6,623,461,276 |

The Board proposes that SEK 6,623,461,276 be carried forward.

For more information on the company's recognised earnings, financial position and average number of employees, see the following income statement, balance sheet, cash-flow statement, changes in shareholders' equity and notes on pages 18–44. See page 13 for the five-year summary. All figures in the Annual Report are reported in SEK M unless otherwise specified.

**RATING**

| Company | Agency | Long-term rating | Short-term rating |
|---|---|---|---|
| Länsförsäkringar Hypotek[1] | Standard & Poor's | AAA/stable | – |
| Länsförsäkringar Hypotek[1] | Moody's | Aaa | – |
| Länsförsäkringar Bank | Standard & Poor's | A/Stable | A–1(K–1) |
| Länsförsäkringar Bank | Moody's | A3/Stable | P–2 |

[1] Pertains to the company's covered bonds

# Five-year summary

| SEK M | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **INCOME STATEMENT** | | | | | |
| Interest income | 4,706.0 | 5,603.6 | 6,337.4 | 7,205.9 | 6,891.7 |
| Interest expense | –3,380.4 | –4,602.6 | –5,485.1 | –6,410.3 | –6,385.3 |
| **Net interest income** | **1,325.6** | **1,001.0** | **852.3** | **795.6** | **506.4** |
| Net commission | –800.1 | –564.4 | –346.1 | –385.2 | –248.6 |
| Net gains/losses from financial items | 68.3 | 48.6 | –105.4 | 2.4 | 4.5 |
| Other operating income | 0.1 | 0.4 | 0.4 | 0.1 | 0.4 |
| **Total operating income** | **593.9** | **485.6** | **401.2** | **412.9** | **262.7** |
| Staff costs | –14.4 | –14.6 | –14.8 | –12.9 | –13.6 |
| Other administration expenses | –80.3 | –76.5 | –74.6 | –78.2 | –64.4 |
| Depreciation/amortisation | –0.2 | –0.1 | –0.1 | –0.1 | 0 |
| **Total operating expenses** | **–94.9** | **–91.2** | **–89.5** | **–91.2** | **–78.0** |
| **Profit before loan losses** | **499.0** | **394.4** | **311.7** | **321.7** | **184.7** |
| Loan losses, net | 9.8 | 10.7 | –6.6 | –2.3 | 4.0 |
| **Operating profit** | **508.8** | **405.1** | **305.1** | **319.4** | **188.7** |
| Appropriations | –127.0 | –116.8 | –65.0 | – | – |
| Tax on net profit for the year | –73.5 | –77.1 | –80.6 | –62.1 | –39.2 |
| **Net profit for the year** | **308.3** | **211.2** | **159.5** | **257.3** | **149.5** |
| **BALANCE SHEET** | | | | | |
| **Assets** | | | | | |
| Treasury bills and other eligible bills | – | – | 1,491.9 | 1,544.9 | 8,341.5 |
| Loans to credit institutions | 4,395.3 | 2,488.8 | 4,710.0 | 1,696.2 | 1,912.1 |
| Loans to the public | 147,055.5 | 126,127.9 | 112,143.4 | 101,434.4 | 88,625.0 |
| Bonds and other interest-bearing securities | 9,344.8 | 12,391.9 | 15,375.9 | 18,218.7 | 14,504.5 |
| Derivatives | 4,164.9 | 4,827.5 | 1146.2 | 1,746.4 | 1,470.3 |
| Other assets and accrued income | 1,662.1 | 2,407.7 | 2,341.4 | 2,678.0 | 2,558.4 |
| **Total assets** | **166,622.6** | **148,243.8** | **137,208.8** | **127,318.6** | **117,411.8** |
| **Liabilities and equity** | | | | | |
| Due to credit institutions | 41,267.7 | 32,637.1 | 26,437.8 | 22,984.2 | 19,985.7 |
| Debt securities in issue | 110,399.8 | 100,888.0 | 98,989.5 | 90,962.4 | 85,396.2 |
| Derivatives | 1,710.3 | 1,747.1 | 2,538.0 | 2,824.3 | 2,237.8 |
| Other liabilities and accrued expenses | 5,226.3 | 6,368.2 | 3,445.5 | 5,155.2 | 4,949.5 |
| Provisions | 0.9 | 0.8 | 0.7 | 0.5 | – |
| Subordinated liabilities | 1,001.0 | 501.0 | 501.0 | 501.0 | 501.0 |
| Untaxed reserves | 308.8 | 181.8 | 65.0 | – | – |
| Equity | 6,707.8 | 5,919.8 | 5,231.3 | 4,891.0 | 4,341.6 |
| **Total liabilities and equity** | **166,622.6** | **148,243.8** | **137,208.8** | **127,318.6** | **117,411.8** |
| **KEY FIGURES** | | | | | |
| Return on equity, % | 6.0 | 5.5 | 4.8 | 5.2 | 3.6 |
| Return on total capital, % | 0.32 | 0.29 | 0.23 | 0.26 | 0.17 |
| Investment margin, % | 0.84 | 0.71 | 0.64 | 0.65 | 0.45 |
| Cost/income ratio before loan losses | 0.16 | 0.19 | 0.22 | 0.22 | 0.30 |
| Total capital ratio according to Basel III, % | 37.4 | 23.8 | 25.3[1)] | 24.2[1)] | 22.8[1)] |
| Tier 1 ratio and Common Equity Tier 1 capital ratio according to Basel III, % | 42.9 | 21.9 | 23.4[1)] | 22.3[1)] | 20.6[1)] |
| Percentage of impaired loans, net, % | 0.00 | 0.00 | 0.01 | 0.00 | 0.00 |
| Reserve ratio in relation to loans, % | 0.02 | 0.03 | 0.04 | 0.04 | 0.04 |
| Loan losses in relation to loans, % | –0.01 | –0.01 | 0.01 | 0.00 | 0.00 |

[1)] According to Basel II.

# Corporate Governance Report

## Introduction

Länsförsäkringar Hypotek AB (Länsförsäkringar Hypotek) is a wholly owned subsidiary of Länsförsäkringar Bank AB (publ), which in turn is a wholly owned subsidiary of Länsförsäkringar AB (publ). Länsförsäkringar AB, with its subsidiaries and owners, jointly comprise the Länsförsäkringar Alliance.

Länsförsäkringar Hypotek is a public limited liability company whose bonds are listed on Nasdaq Stockholm, Oslo Børs, Luxembourg Stock Exchange and SIX Swiss Exchange.

## Corporate governance

Länsförsäkringar Hypotek, with its Parent Company Länsförsäkringar Bank, and subsidiaries Länsförsäkringar Fondförvaltning AB (publ) and Wasa Kredit AB, comprise the operative Bank business unit of the Länsförsäkringar AB Group.

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

Based on the aforementioned starting points, the corporate governance system consists of the organisation, the internal regulations and internal-control system, while Länsförsäkringar Hypotek guarantees the governance and internal control within the company within the framework of the corporate governance system.

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

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

Internal control is part of the governance and management of Länsförsäkringar Hypotek. Internal control aims to ensure that the organisation is efficient and fit for its purpose, that operations are conducted in accordance with decided strategies in order to achieve established targets, that financial statements and reporting are reliable, that information systems are managed and operated efficiently and that there is a strong ability to identity, measure, monitor and manage risks and proper regulatory compliance. Risk and capital control and capital planning are a part of the internal control.

The internal-control process encompasses all parts of the organisation, including outsourced activities, and is an integral part of the organisational structure and decision-making processes. Internal control in the company is based on a system comprising three lines of defence, which comprise operations in the first line, functions for compliance and risk control in the second line and Internal Audit in the third line.

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

Governance and reporting are outlined in the diagram below on page 15.

## Shareholders and General Meeting

Shareholders exercise their voting rights at the Annual General Meeting, which is the highest decision-making body. A general meeting is normally held once per year, the Annual General Meeting. Länsförsäkringar Bank AB owns 100% of the share capital and voting rights, and votes at the Meeting using the full number of shares owned. Decisions are made at the Annual General Meeting regarding the Annual Report, the election of members of the Board and auditors, fees and other remuneration to Board members and auditors, and other important matters to be addressed in accordance with laws or the Articles of Association. The President of the Parent Company, Länsförsäkringar Bank AB, in consultation with the CEO of Länsförsäkringar AB, submits proposals regarding the Board of Directors and auditors of Länsförsäkringar Hypotek, and fees to these members and auditors. A suitability assessment of the proposed Board members is conducted, whereby the applicable guidelines for assessing the suitability of Board members of Länsförsäkringar AB's subsidiaries is applied, as well as specific process and procedure descriptions. When recruiting new Board members prior to the 2016 Annual General Meeting, the diversity policy established by Länsförsäkringar AB will also be applied, according to which as a minimum age, gender, geographic origin, educational and professional background are to be considered in order to promote independent views and a critical and questioning attitude in the Boardroom.

### Board of Directors

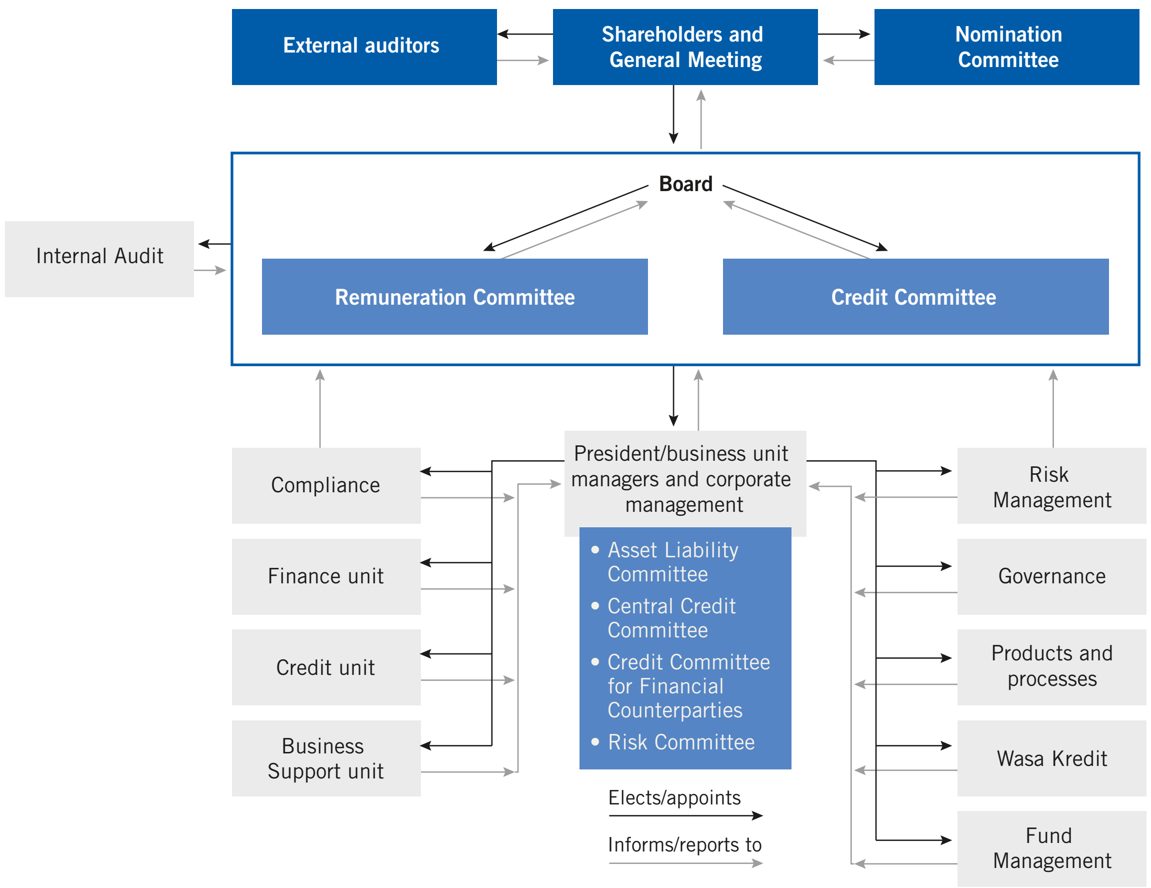
The Board of Directors of Länsförsäkringar Hypotek is elected by the Annual General Meeting and, in accordance with the Articles of Association, is to comprise between five and ten Board ordinary members elected by the Annual General Meeting, with no more than three deputies. Board members are elected for a mandate period of two years. The President is not a member of the Board. Länsförsäkringar Hypotek has no time limit for the length of time a member may sit on the Board and no upper age limit for Board members. The Chairman of the Board appointed by the Annual General Meeting. The President, Executive Vice President and Board Secretary participate in Board meetings except for matters in which there may be a conflict of interest or when it would otherwise be inappropriate for them to attend. Employees reporting on particular issues attend meetings when they make their presentations. The Board currently comprises a total of five members. The Chairman of the Board is the President of Länsförsäkringar Bank AB. A more detailed presentation of the members can be found on page 47.

### Board responsibilities

The Board is responsible for the organisation and administration of the company and for handling and making all decisions concerning issues of material significance and of an overall nature relating to the company's operations. The Board appoints, evaluates and dismisses the President, adopts an appropriate executive organisation and the goals and strategies of the operations, and ensures that efficient systems are in place for internal governance, governance and risk management. Every year, the Board adopts a formal work plan. The formal work plan includes regulations on the duties and responsibilities of the Board, its Chairman and its members, the delegation of duties within the Board, the lowest number of Board meetings, procedures for reporting on the operations and financial reports, as well as procedures for Board meetings in terms of notices of meetings and presentations of materials, as well as disqualification.

The Board is to continuously remain informed about the performance of the company to be able to continuously assess the company's financial situation and position. Through its formal work plan, the Board has established that financial reporting is to take place through regular Board meetings. The Board must also regularly manage and evaluate the company's risk development and risk management.

**Länsförsäkringar Hypotek's governance structure**



During the year, the Board regularly monitors the earnings, business volumes, financial position and risk trends in relation to the business plan and forecasts. The Board receives regular reports from Compliance, Risk Management and Internal Audit.

The Board continuously monitors current matters with authorities. The Board has established a Remuneration Committee to prepare matters regarding remuneration of the President and other members of corporate management and employees with overall responsibility for any of the company's control functions, and to prepare decisions on measures to monitor application of the remuneration policy. At the statutory Board meeting following the 2015 Annual General Meeting, Rikard Josefson was appointed Chairman, and Christer Malm was appointed member of the Remuneration Committee.

### President and corporate management

Anders Borgcrantz has been the President of Länsförsäkringar Hypotek since 2005. Anders Borgcrantz was born in 1961 and has worked in the banking and finance sector since 1985. Länsförsäkringar Hypotek is part of the finance department in the Bank business unit's operational organisation. The President and CFO of Länsförsäkringar Hypotek, as well as the people responsible for issuing covered bonds and the person responsible for registering in the covered-bond operations are employees of Länsförsäkringar Hypotek.

Other parts of Länsförsäkringar Hypotek's operations are outsourced to the Länsförsäkringar AB Group under a special outsourcing agreement.

### Control functions

#### Internal Audit

Internal Audit is an independent review function that comprises the Board's support in the evaluation of the corporate governance system, including the organisation's risk management, governance and controls. Based on its reviews, Internal Audit is to evaluate and assure that the operations' overall internal governance and control systems are conducted in an efficient manner and that the overall reporting to the Board provides a true and fair view of the operations, that the operations are conducted in accordance with applicable internal and external regulations, and in compliance with the Board's decisions and intentions. The Board has adopted a separate instruction for the Internal Audit function. Internal Audit reports to the Board of Directors of Länsförsäkringar Hypotek.

#### Compliance

Compliance is an independent control function responsible for monitoring and controlling that operations are conducted in full regulatory compliance. The task of the function is to monitor and control compliance with regulatory requirements, as well as to identify and report on risks that may arise as a result of shortcomings in regulatory compliance.  Compliance is to also provide support and advice to operations, to ensure that operations are informed about new and amended regulations and to take part in the implementation of training. Compliance risks and recommendations of actions are to be reported to personnel, the President and the Board of Länsförsäkringar Hypotek. Compliance is also to have a review role in the approval process, and could thereby contribute to the prevention of shortcomings in regulatory compliance.

#### Risk Management

The task of Risk Management is to provide support to the Board, the President and management, to fulfil its responsibility of ensuring that proper risk management and risk control have been carried out for all operations and to ensure that risks are managed in line with the risk framework established by the Board. Risk Management is to carry out its activities independently from the business activities, with organisational distribution into an independent support section and an independent control section.

The function is divided up into three groups, Credit Risk Management, Operational Risk Management and Risk Control as well as a staff function, Regulatory, all of which are responsible for identifying, measuring, controlling, analysing and reporting risks within the risk areas of credit risk, operational risk, market risk and liquidity risk. Risk Management is also responsible for the production of the internal capital adequacy assessment process in terms of capital and liquidity requirements, in order to guarantee capital and liquidity adequacy at Länsförsäkringar Bank in the consolidated situation, the ongoing internal and external capital adequacy reporting and the monitoring of transactions in the area of money laundering. Risks and actions taken are reported continuously to the President and the Board of Directors.

### Suitability assessment of Board and President

A suitability assessment is conducted in conjunction with the appointment of Board members and the President. An assessment is also conducted annually, and when necessary, to ensure that the individuals in the above-mentioned positions are, at any given time, suitable for their assignments. The suitability assessment is conducted in accordance with established guidelines for suitability assessments. The suitability assessment is conducted with regard to the person's qualifications, knowledge and experience as well as reputation and integrity. Board members are assessed on the basis of material received from the person to whom the suitability assessment pertains. Based on Länsförsäkringar Hypotek's operations, stage of development and other circumstances, the assessment also considers relevant training and experience, as well as professional experience in senior positions. In addition to the qualifications, knowledge and experience of individual Board members, the Board is assessed in its entirety to ensure that it possesses the competence required for leading and managing the company. A person considered unsuitable according to an assessment will not be appointed or employed. If an already appointed person is considered no longer suitable for his or her duties according to a suitability assessment, Länsförsäkringar Hypotek is to adopt measures to ensure that the person in question either meets the suitability requirements or is replaced. The assessment is that all Board members and the President fully satisfy the requirements for qualifications, knowledge and experience, as well as reputation and integrity.

## Internal control over financial reporting

Internal control over financial reporting (ICFR) is a process for evaluating the reliability of financial reporting. Work with this process began in 2013 and the operations work continuously to develop the methodology. The ICFR process is performed in an annual cycle as shown in the diagram below.

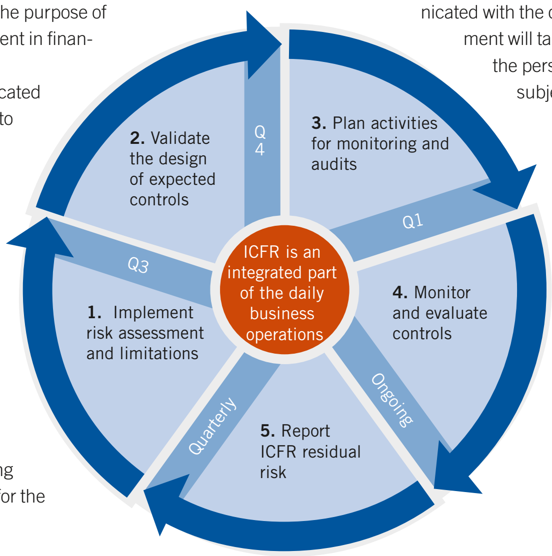
### 2 Validate the design of expected controls

Internal control over financial reporting includes Group-wide controls, as well as process and IT controls. The purpose of the controls is to reduce the risk of misstatement in financial reporting.

The control structure is regularly communicated to the relevant individuals in the organisation to clarify the division of responsibilities.

### 1 Perform risk assessments and define limitations/scope

Risk assessments are performed annually at Group and legal unit level to identify the risk of material misstatement in financial reporting. The risk assessment provides the basis for determining the units, processes and systems that are to be covered by the ICFR process. The conclusions from the risk assessment are compiled in an annual scoping report, in which the scope and goal scenario for the coming year are described.




### 3 Plan activities for monitoring and audits

A plan for the quarterly self-assessment is produced and communicated with the operations. The plan sets out when the assessment will take place, the controls that will be assessed and the person responsible for the assessment. ICFR is subject to review by an internal audit.

### 4 Monitor and evaluate controls

Monitoring includes, for example, quarterly self-assessment of the completed controls. The monitoring process can identify weaknesses in the ICFR process, implement compensating controls and introduce improvement measures. The process also includes evaluating the controls and their effectiveness. The objective is to reach a monitored level.

### 5 Report ICFR residual risk

The results of the self-assessment are compiled and analysed to determine the risk of misstatement in financial reporting. These are summarised in a report. The report describes the residual risk after the self-assessment, and the compensating controls adopted by the operations to reduce risk in financial reporting.

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

# Financial statements

# Income statement

| SEK M | Note | 2015 | 2014 |
|---|---|---|---|
| Interest income | 5 | 4,706.0 | 5,603.6 |
| Interest expense | 6 | –3,380.4 | –4,602.6 |
| **Net interest income** | | **1,325.6** | **1,001.0** |
| Commission income | 7 | 2.2 | 2.0 |
| Commission expense | 8 | –802.3 | –566.4 |
| Net gains from financial items | 9 | 68.3 | 48.6 |
| Other operating income | 10 | 0.1 | 0.4 |
| **Total operating income** | | **593.9** | **485.6** |
| Staff costs | 11 | –14.4 | –14.6 |
| Other administration expenses | 12, 13 | –80.3 | –76.5 |
| Depreciation and impairment of property and equipment | 14 | –0.2 | –0.1 |
| **Total operating expenses** | | **–94.9** | **–91.2** |
| **Profit before loan losses** | | **499.0** | **394.4** |
| Loan losses, net | 15 | 9.8 | 10.7 |
| **Operating profit** | | **508.8** | **405.1** |
| Appropriations | 30 | –127.0 | –116.8 |
| Tax | 16 | –73.5 | –77.1 |
| **Net profit for the year** | | **308.3** | **211.2** |

# Statement of comprehensive income

| SEK M | Note | 2015 | 2014 |
|---|---|---|---|
| **Profit for the period** | | **308.3** | **211.2** |
| **Other comprehensive income** | | | |
| **Items that may subsequently be reclassified to the income statement** | | | |
| Cash-flow hedges | | | |
| Change in value for the period | | 608.3 | 839.6 |
| Reclassification to profit and loss | | –570.3 | –775.7 |
| Change in fair value from available-for-sale financial assets | | | |
| Change in value for the period | | –58.0 | –14.3 |
| Reclassification realised securities | | –6.0 | 11.1 |
| Tax attributable to items that are rerouted or can be rerouted as income for the period | | 5.7 | –13.3 |
| **Total other comprehensive income for the period, net after tax** | | **–20.3** | **47.4** |
| **Total comprehensive income for the period** | | **288.0** | **258.6** |

# Balance sheet

| SEK M | Note | 31 Dec 2015 | 31 Dec 2014 |
|---|---|---|---|
| **ASSETS** | | | |
| Loans to credit institutions | 17 | 4,395.3 | 2,488.8 |
| Loans to the public | 18 | 147,055.5 | 126,127.9 |
| Bonds and other interest-bearing securities | 19 | 9,344.8 | 12,391.9 |
| Derivatives | 20 | 4,164.9 | 4,827.5 |
| Fair value changes of interest-rate risk hedged items in portfolio hedge | 21 | 694.9 | 980.7 |
| Property and equipment | 22 | 0.6 | 0.5 |
| Deferred tax assets | | 2.9 | – |
| Other assets | | 18.0 | 53.9 |
| Prepaid expenses and accrued income | 23 | 945.7 | 1,372.6 |
| **TOTAL ASSETS** | | **166,622.6** | **148,243.8** |
| **LIABILITIES, PROVISIONS AND EQUITY** | | | |
| Due to credit institutions | 24 | 41,267.7 | 32,637.1 |
| Debt securities in issue | 25 | 110,399.8 | 100,888.0 |
| Derivatives | 20 | 1,710.3 | 1,747.1 |
| Fair value changes of interest-rate risk hedged items in portfolio hedge | 21 | 2,752.5 | 3,634.3 |
| Other liabilities | 26 | 73.3 | 122.3 |
| Accrued expenses and deferred income | 27 | 2,400.5 | 2,611.6 |
| Provisions | 28 | 0.9 | 0.8 |
| Subordinated liabilities | 29 | 1,001.0 | 501.0 |
| **Total liabilities and provisions** | | **159,606.0** | **142,142.2** |
| **Untaxed reserves** | 30 | **308.8** | **181.8** |
| **Equity** | 31 | | |
| Share capital, 70,335 shares | | 70.3 | 70.3 |
| Statutory reserve | | 14.1 | 14.1 |
| Fair value reserve | | 89.6 | 109.9 |
| Retained earnings | | 6,225.5 | 5,514.3 |
| Net profit for the year | | 308.3 | 211.2 |
| **Total equity** | | **6,707.8** | **5,919.8** |
| **TOTAL LIABILITIES, PROVISIONS AND EQUITY** | | **166,622.6** | **148,243.8** |
| **Pledged assets, contingent liabilities and commitments** | 32 | | |
| For own liabilities, pledged assets/collateral | | 146,364.1 | 128,742.0 |
| Other pledged assets/collateral | | None | None |
| Contingent liabilities | | 3,860.6 | 3,360.6 |
| Other commitments | | 7,923.4 | 7,276.6 |
| **Other notes** | | | |
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# Cash-flow statement, indirect method

| SEK M | 2015 | 2014 |
|---|---|---|
| **Cash and cash equivalents, 1 January** | **11.8** | **7.2** |
| **Operating activities** | | |
| Operating profit before tax | 508.8 | 405.1 |
| Adjustment of non-cash items | 150.0 | 183.2 |
| *Change in assets of operating activities* | | |
| Change in treasury bills and other eligible bills | 0.0 | 1,468.2 |
| Change in loans to credit institutions | –1,901.3 | 1,026.8 |
| Change in loans to the public | –20,918.9 | –13,976.3 |
| Change in bonds and other interest-bearing securities | 3,026.8 | 3,149.1 |
| Change in derivatives | 662.6 | – |
| Change in other assets | 35.9 | –144.5 |
| *Change in liabilities of operating activities* | | |
| Change in due to credit institutions | 8,630.6 | 7,399.2 |
| Net changes in debt securities in issue | 8,972.9 | –28.9 |
| Change in other liabilities | –125.4 | 70.6 |
| Change in derivatives | –36.4 | 22.3 |
| **Cash flow from operating activities** | **–994.4** | **–425.2** |
| **Investing activities** | | |
| Purchase of property and equipment | –0.4 | –0.2 |
| **Cash flow from investing activities** | **–0.4** | **–0.2** |
| **Financing activities** | | |
| Shareholders' contribution received | 500.0 | 430.0 |
| Subordinated debt received | 500.0 | – |
| **Cash flow from financing activities** | **1,000.0** | **430.0** |
| **Net cash flow for the year** | **5.2** | **4.6** |
| **Cash and cash equivalents, 31 December** | **17.0** | **11.8** |
| *Non-cash items* | | |
| Other unrealised change in securities, net | –57.0 | –108.6 |
| Change in impairment of loan losses, excluding recoveries | –8.7 | –10.5 |
| Change in accrued expense/income | 215.8 | 299.8 |
| Provisions | –0.1 | 0.1 |
| Other | – | 2.4 |
| **Total non-cash items** | **150.0** | **183.2** |
| **Cash and cash equivalents comprise:** | | |
| Loans to credit institutions, payable on demand | 17.0 | 11.8 |
| **Total cash and cash equivalents** | **17.0** | **11.8** |
| Interest received amounts to | 5,649.5 | 6,069.5 |
| Interest paid amounts to | –5,073.9 | 5,125.1 |
| Grossinvestments | –0.4 | – |
| Income tax paid amounts to | –43.5 | 0.0 |

Cash and cash equivalents are defined as loans and due to credit institutions, payable on demand.

# Statement of changes in shareholders' equity

| | | | Reserves | | | | |
|---|---|---|---|---|---|---|---|
| SEK M | Share capital | Statu-tory reserve | Fair value reserve | Hedge reserve | Retained earnings | Net profit for the year | Total |
| **Opening balance, 1 January 2014** | **70.3** | **14.1** | **62.5** | **–** | **4,924.9** | **159.5** | **5,231.3** |
| Net profit for the year | | | | | | 211.2 | 211.2 |
| Other comprehensive income for the year | | | –2.5 | 49.9 | | | 47.4 |
| *Comprehensive income for the year* | | | *–2.5* | *49.9* | | *211.2* | *258.6* |
| Resolution by Annual General Meeting | | | | | 159.5 | –159.5 | – |
| Conditional shareholders contribution received | | | | | 430.0 | | 430.0 |
| **Closing balance, 31 December 2014** | **70.3** | **14.1** | **60.0** | **49.9** | **5,514.3** | **211.2** | **5,919.8** |
| **Opening balance, 1 January 2015** | **70.3** | **14.1** | **60.0** | **49.9** | **5,514.3** | **211.2** | **5,919.8** |
| Net profit for the year | | | | | | 308.3 | 308.3 |
| Other comprehensive income for the year | | | –49.9 | 29.6 | | | –20.3 |
| *Comprehensive income for the year* | | | *–49.9* | *29.6* | | *308.3* | *288.0* |
| Resolution by Annual General Meeting | | | | | 211.2 | –211.2 | – |
| Conditional shareholders contribution received | | | | | 500.0 | | 500.0 |
| **Closing balance, 31 December 2015** | **70.3** | **14.1** | **10.1** | **79.5** | **6,225.5** | **308.3** | **6,707.8** |

# Notes to the financial statements

(All figures in SEK M unless otherwise stated)

## 1 COMPANY INFORMATION

The Annual Report for Länsförsäkringar Hypotek AB (publ) (Corp. Reg. No. 556244-1781) was presented on 31 December 2015. Länsförsäkringar Hypotek AB (publ) is a mortgage institution registered in Sweden, with its registered office in Stockholm. The address of the head office is Tegeluddsvägen 11–13. The company is a wholly owned subsidiary of Länsförsäkringar Bank AB (publ) (Corp. Reg. No. 516401-9878), with its registered office in Stockholm, which prepares the consolidated financial statements for the smallest Group in which Länsförsäkringar Hypotek AB (publ) is a subsidiary. Länsförsäkringar Hypotek AB (publ) is part of the Group for which Länsförsäkringar AB (publ) (Corp. Reg. No. 556549-7020), with its registered office in Stockholm, prepares the consolidated financial statements for the largest Group in which the company is included as a sub-subsidiary.

The Annual Report for Länsförsäkringar Hypotek AB (publ) was approved by the Board and President for publication on 25 February 2016. Final approval of the Annual Report will be made by the company's Annual General Meeting on 20 May 2016.

## 2 ACCOUNTING POLICIES

### Compliance with standards and legislation

Länsförsäkringar Hypotek prepares its accounts in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), the Swedish Financial Supervisory Authority's regulations and general guidelines regarding annual accounts for credit institutions and securities companies (FFFS 2008:25) and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities.

The company applies legally restricted IFRS pertaining to standards adopted for application with the restrictions stipulated by RFR 2 and FFFS 2008:25. This means that all IFRS and interpretations adopted by the EU are applied, unless otherwise stated, as far as possible within the framework of the Swedish Annual Accounts Act and taking into consideration the connection between accounting and taxation.

### Conditions relating to the preparation of the financial statements

Länsförsäkringar Hypotek's functional currency is Swedish kronor (SEK), which is also the presentation currency. The functional currency is the currency in the primary financial environments in which the company conducts its operations, which means that the financial statements are presented in SEK. All amounts, unless otherwise stated, are rounded to the nearest million (SEK M).

The reporting is based on historical cost. Financial assets and liabilities are recognised at amortised cost, except for certain financial assets and liabilities that are measured at fair value, see the note on fair value valuation techniques, or when fair value hedge accounting is applied.

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

### Judgements and estimates

The preparation of accounts in accordance with legally restricted IFRS requires that management makes judgements and estimates, and makes assumptions that affect the application of the accounting policies and the recognised amounts of income, expenses, assets, liabilities and contingent liabilities presented in the accounts. These judgements and estimates are based on historical experiences and the best information available on the balance-sheet date. The actual outcome may deviate from these judgements and estimates.

The estimates and judgements are reviewed regularly. Changes in estimates are recognised in the period in which the change is made if the change only affects that period, or in the period in which the change is made and future periods if the change affects the period in question and future periods.

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

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

- The selection of categories and valuation techniques for financial instruments. These are described in the paragraph below.
- The company's remuneration to the regional insurance companies, which the company has opted to recognise as commission expense. The regional insurance companies are remunerated for their work with Länsförsäkringar Hypotek's customer-related matters in each of the regional insurance companies' geographic areas, see the note on Commission expense.

#### Significant sources of estimation uncertainty

Significant sources of uncertainty in estimates mainly comprise reserve requirements for loan losses. Loans identified on an individual basis as impaired, and accordingly for which reserves are to be made, are measured at the present value of future cash flows discounted by the original effective interest rate. Information and data collated under the framework of the Group's Internal Ratings-based Approach model are primarily used as support when making estimates of expected future cash flows.

This information has been adjusted for a number of factors to provide a neutral estimate of expected cash flows. Secondly, other models are used based on historical experience. Any reserve requirements on loans that are not deemed to require individual reserves are identified and valued collectively. Firstly, a method is used which is based on the information collated and processed under the framework of capital adequacy work, and secondly, estimates are based on historical values and experience-based adjustments of these values to the current situation.

Determining that a loss event has occurred for a group of receivables entails higher uncertainty since several different events may have an impact.

For a more detailed description, see the section on Loans under accounting policies.

### New and amended accounting policies

No amendments to or new IFRS applicable from 2015 had any significant effect on the company's accounts.

### New IFRS, interpretations and regulations that have not yet been applied

The new or amended standards and interpretations described below will not take effect until forthcoming fiscal years, and have not been applied in advance when preparing these financial statements.

IFRS 9 Financial Instruments will replace IAS 39 Financial Instruments: Recognition and Measurement. The ISAB has finalised IFRS 9, which contains new requirements for recognition and measurement of financial instruments, an expected loss impairment model and simplified requirements for hedge accounting. IFRS 9 will take effect on 1 January 2018 and early adoption is permitted provided that the EU adopts the standard. The EU is expected to approve the standard in 2016. The categories of financial assets under IAS 39 will be replaced by three categories: assets measured at amortised cost, fair value through other comprehensive income or fair value through profit and loss. The classification into these three categories is based on the company's business model for the various holdings and the cash flow characteristics that the assets give rise to. The fair value option may be applied to debt instruments if doing so eliminates or significantly reduces an "accounting mismatch." Equity instruments are to be measured at fair value through profit and loss, with the option of recognising changes in value for equity instruments not held for trading in other comprehensive income instead. The rules regarding financial liabilities are largely consistent with the IAS 39 rules, except for financial liabilities that are voluntarily measured at fair value according to the fair value option. The change in value for these liabilities is to be divided into changes attributable to own creditworthiness and changes in reference interest rate. The impairment model requires recognition of the 12-month expected credit losses on initial recognition and, in the event of a significant increase in the credit risk, the loss allowance is to correspond to the full lifetime expected credit losses. The rules on hedge accounting entail, for example, simplified assessments for the effectiveness of a hedging relationship, and expanded limits for what may be identified as a hedging instrument and a hedged item.

The company currently has an IFRS 9 project in progress but it is too early to assess the effect of the rules. Neither has the company decided whether to apply early adoption of the new principles since IFRS 9 has not yet been approved by the EU.

IFRS 15 Revenue from Contracts with Customers will take effect for fiscal years beginning on or after 1 January 2018 and will then replace all previously issued standards and interpretations on income (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC Transfers of Assets from Customers and SIC 31 Barter Transactions Involving Advertising Services). IFRS 15 contains a single, five-step model for recognising revenue from contracts with customers that is not encompassed by other standards (for example, IFRS 4 or IFRS 9). The basis of the standard is a contract on the sale of goods or services between two parties. A customer agreement is initially to be identified, which generates an asset for the seller (rights, a promise to receive consideration) and a liability (obligations, a promise to transfer the goods or services). Under the model, income is to be recognised when an obligation to deliver the promised goods or services to the customers is fulfilled. The EU is expected to approve the standard in the second quarter of 2016. The company has commenced an analysis of the effect of IFRS 15 which has not yet been completed. However, the initial assessment is that the standard will not have any significant effect on the consolidated financial statements or on capital adequacy, although disclosure requirements will be expanded.

IFRS 16 Leases was issued on 13 January 2016 and is to replace IAS 17 Leases. The new standard will take effect on 1 January 2019 and early adoption is permitted provided that IFRS 15 is also applied. The standard has not yet been approved by the EU. For lessees, the new standard means that essentially the same lease agreements are to be recognised in the balance sheet. Leases are not to be classified as operating or finance. The standard provides certain recognition exemptions for lessees for assets of low value and for leases with a lease term of 12 months or less. For lessors, the rules under IAS 17 are substantially unchanged, and lessors are to continue to classify leases as operating or finance in accordance with the current leasing standard. The standard contains more extensive disclosure requirements compared with the current standard. The Group has not yet completed its evaluation of the effects of IFRS 16.

The new Accounting Directive ((2013/34/EU) adopted by the EU in June 2013 has resulted in the Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL) and FFFS 2008:25 being updated to correspond with the Directive. These updated rules are valid from 1 January 2016. The largest change that will impact the company is that a new item for capitalised development expenditures, Development Expenditures Fund, will be introduced in restricted equity. Otherwise, only minor changes have been made to the presentation format.

Other than those described above, no other new or revised IFRS, interpretations and rules that have not yet come into effect are expected to have any significant effect on the financial statements.

### Description of significant accounting policies

*Shareholders' contributions*

Shareholders' contributions are recognised directly against the equity of the recipient and are capitalised in shares and participations from the donor to the extent that impairment is not required.

*Group contributions*

Group contributions that have been paid and received are recognised directly against retained earnings after deductions for their current tax effect.

*Related parties*

Related legal entities to Länsförsäkringar Hypotek AB include companies within the Länsförsäkringar Bank Group, the Länsförsäkringar AB Group, companies within the Länsförsäkringar Liv Group, the regional insurance companies, associated companies of the Länsförsäkringar AB Group and other related parties, comprising Länsförsäkringar Mäklarservice AB, Länsförsäkringar Fastighetsförmedling AB, Länsförsäkringar PE Holding AB (publ), Humlegården Holding I AB, Humlegården Holding II AB, Humlegården Holding III AB and Humlegården Fastigheter AB. Related key persons are Board members, senior executives and their close family members.

The assessment of whether a close relationship exists or not is based on the financial significance of the relationship and not only ownership. Accordingly, this includes the 23 regional insurance companies, with subsidiaries, and 16 local insurance companies, which together own 100% of Länsförsäkringar AB. The Group has been assigned by the regional insurance companies to conduct operations in areas in which economies of scale constitute a decisive competitive advantage and to provide such service to the regional insurance companies, which, for reasons of efficiency, is to be produced and provided jointly within the Länsförsäkringar AB Group.

Operating segments

The company conducts retail mortgage lending operations in Sweden. In follow-ups and reports submitted to the company's chief operating decision maker, the operations are reviewed as a whole. Consequently, the operations comprise a single operating segment. No one customer accounts for more than 10% or more of the company's income.

Transactions in foreign currency

Transactions in foreign currency are translated to the functional currency at the exchange rate on the date of the transaction. Monetary assets and liabilities in foreign currency are translated to the functional currency at the exchange rate that applies on the balance-sheet date. Non-monetary assets and liabilities are translated to the rate in effect on the date of the transaction.

Exchange-rate differences arising due to the translation of balance-sheet items in foreign currency are recognised in profit and loss as exchange-rate gains or losses.

### Income

Income is recognised when:

- the income can be calculated in a reliable manner,
- it is probable that the financial benefits related to the transaction will accrue to the company,
- the expenses that have arisen and the expenses that remain to complete the service assignment can be calculated in a reliable manner.

Income is measured at the fair value of the amount that has been received or will be received.

**Interest income and interest expense**

Interest income and interest expense for financial instruments calculated in accordance with the effective interest method are recognised under net interest income. The effective interest rate corresponds to the rate used to discount contractual future cash flows to the carrying amount of the financial asset or liability. Interest on derivatives that hedge interest-rate and foreign-currency risk is recognised under net interest income. Interest compensation for early redemption of fixed-income lending and deposits is recognised under Net gains from financial items.

### Commission income and commission expense

Commission income is attributable to various types of services provided to customers. The manner in which the commission income is recognised depends on the purpose for which the fee was charged. Fees are recognised in income either in line with the provision of the services or in conjunction with the performance of a significant activity. Fees charged continuously, such as advising fees, are recognised as income in the period in which the service was provided. Fees charged for significant activities are recognised in income when the activity has been completed.

Commission expense is dependent on the transaction and is recognised in the period in which the services are received.

Commission expense attributable to financial assets or liabilities not measured at fair value through profit and loss comprises commission to the regional insurance companies.

### Net gains from financial items

The item Net gains from financial items contains the realised and unrealised changes in value that occurred as a result of financial transactions. Capital gains/losses on the divestment of financial assets and liabilities, including interest compensation received when customers pay loans prematurely, are recognised in this item. This item also includes realised and unrealised changes in the value of derivative instruments that are financial hedging instruments, but for which hedge accounting is not applied, and unrealised changes in the fair value of derivatives to which fair value hedge accounting is applied, and unrealised changes in the fair value of hedged items with regard to hedged risk in the fair value hedge.

The ineffective portion of hedging instruments and exchange-rate changes is also recognised as Net gains from financial items. Net profit/losses on transactions measured at fair value through profit and loss does not include interest or dividends.

Realised profit and loss is calculated as the difference between the purchase consideration received and the value in the balance sheet at the time of the sale.

Any impairment losses on available-for-sale financial assets are also recognised in this item.

### Other operating income

Income from assignments is recognised when the financial outcome of performed assignments can be reliably calculated and the financial benefits accrue to the company. Income is measured at the fair value of the amount that has been received or will be received. Income is paid in the form of cash and cash equivalents.

Amounts received on behalf of another entity are not included in the company's income. The criteria for income recognition are applied individually to each transaction.

### Remuneration of employees

*Current remuneration*

Current remuneration of employees is calculated without discount and recognised as an expense when the related services are received.

### Remuneration after termination of employment

*Pension plans*

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

*Defined-contribution pension plans*

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

The pension agreement for the insurance industry, the FTP plan, through insurance with the Insurance Industry's Pension Fund (FPK) is a multi-employer defined-benefit pension plan. According to IAS 19, this pension plan entails that a company, as a rule, recognises its proportional share of the defined-benefit pension commitment and of the plan assets and expenses associated with the pension commitment. Disclosure is also to be presented in the accounts according to the requirements for defined-benefit pension plans.

The FPK is currently unable to provide necessary information which is why the pension plans above are recognised as a defined-contribution plan in accordance with item 34 of IAS 19. Also, no information is available on future surpluses and deficits in the plan or whether these surpluses and deficits would then affect the contributions for the plan in future years.

### Remuneration for termination of employment

An expense for remuneration in conjunction with the termination of employment is recognised only if the company is demonstrably obligated, without a realistic possibility of revocation, by a formal detailed plan to terminate employment before the normal time. When remuneration is provided as an offer to encourage voluntary redundancy, an expense is recognised if it is probable that the offer will be accepted and that the number of employees who may accept the offer can be reliably estimated.

### Impairment

The carrying amounts of the company's assets are assessed on every balance-sheet date to determine whether there are any indications of impairment. These include financial assets tested in accordance with IAS 39 Financial Instruments: Recognition and measurement, and deferred tax assets tested in accordance with IAS 12 Income Taxes. The carrying amounts of the exempted assets above are tested according to the respective standard. IAS 36 is applied to impairment testing for assets that are not tested according to any other standard, although no such assets currently exist in the company.

### Loan losses

The item Loan losses comprises confirmed loan losses, probable loan losses, recoveries of loan losses that were previously recognised as confirmed and reversals of probable loan losses no longer required. Confirmed loan losses pertain to the entire receivable when there is no realistic possibility of recovery. Probable loan losses pertain to impairment for the year for the loan losses based on a calculated recoverable amount when there is an indication that impairment is required. Recoveries comprise reversed amounts of loan losses that were previously recognised as confirmed. Probable loan losses are reversed when no impairment requirement is deemed to exist. Only the company's share of probable and confirmed loan losses is recognised. The regional insurance companies' share of probable and confirmed loan losses is settled against accrued commission. The settlement model, which was introduced on 1 January 2014, regarding the commitment that the regional insurance companies have regarding loan losses related to business they have originated entails that the regional insurance companies cover 80% of the provision requirement on the date when an impairment is identified, by means of an off-set against accrued commissions.

### Tax

Income tax comprises current tax and deferred tax. Income tax is recognised in profit and loss, except when the underlying transaction is recognised in other comprehensive income, whereby the related tax effect is recognised in other comprehensive income, or when the underlying transaction is recognised directly against equity with the related tax effect recognised in equity. Current tax is tax that is to be paid or received in the current year, with application of the tax rates that are established or decided in practice on the balance-sheet date. This also includes adjustments of current tax attributable to prior periods.

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

- Initial reporting of assets and liabilities that are not business combinations and, at the time of the transaction, do not affect recognised or taxable earnings.

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

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

## Financial assets and liabilities

Financial assets recognised in the balance sheet include loan receivables, interest-bearing securities, derivatives with positive market value and accounts receivable. Financial liabilities include debt securities in issue, derivatives with negative market value and accounts payable. The policies of the company concerning financial risk are described in the note on Risks and capital adequacy.

### Recognition and derecognition in the balance sheet

A financial asset or financial liability is recognised in the balance sheet when the company becomes party to this in accordance with the instrument's contractual conditions. A financial asset is derecognised from the balance sheet when the rights in the contract are realised, expire or the company loses control of them. A financial liability is derecognised from the balance sheet when the obligation in the contract is met or extinguished in another manner.

Business transactions in the monetary, bond and equities markets are recognised in the balance sheet on the transaction date, which is the time when the significant risks and rights are transferred between the parties. Lending transactions are recognised on the settlement date. Loan receivables are recognised in the balance sheet when the loan amount is paid to the borrower. Loan commitments are recognised as commitments, see the note on Pledged assets, contingent liabilities and commitments.

### Offsetting financial assets and liabilities

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

### Recognition of repurchase transactions (repurchase agreements)

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

### Measurement

All financial assets and liabilities are measured at fair value through profit and loss on the initial valuation date. Subsequent measurement and recognition of changes in value take place depending on the measurement category to which the financial instrument belongs. The company's financial instruments are divided into the following measurement categories:

- Financial assets measured at fair value through profit and loss
- Loans and receivables
- Held-to-maturity investments
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities at fair value through profit and loss
- Other financial liabilities

### Methods for determining fair value

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

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

### Financial instruments traded in an active market

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

### Financial instruments not traded in an active market

For financial instruments not traded in an active market, the fair value is calculated using various valuation techniques. When valuation techniques are applied, observable inputs are used as far as possible (Level 2). The valuation technique used most is discounted cash flows. Holdings in unquoted shares and participations are measured at equity per share based on the most recent company report (Level 3).

### Classification

Financial instruments are classified and measured in accordance with the description provided below.

**Financial assets measured at fair value through profit and loss**

*Assets held for trading*

This category comprises financial assets held for trading and that are measured at fair value with changes in value recognised in profit and loss under Net gains from financial transactions. This category includes shares, fund units and derivatives that are not included in hedge accounting.

*Derivatives used in hedge accounting*

This category contains derivative instruments used to financially eliminate interest-rate risk and currency risk, that are intended to be held until the final maturity date and that are included in hedge accounting. The principle for recognising unrealised and realised gains or losses depends on the type of hedging model applied. See the section on Hedge accounting.

*Held-to-maturity investments*

Investments held to maturity are financial assets where there is an intention and capacity to hold the assets to maturity. This category contains financial assets with fixed or determinable payment flows and determined terms. Held-to-maturity investments are measured at amortised cost using the effective interest method.

*Loans and receivables*

Loans and receivables are financial assets that have fixed or determinable payment flows and that are not quoted in an active market. Loans and receivables are measured at amortised cost calculated using the effective interest method, taking into account deductions for confirmed loan losses and reserves for probable loan losses. Other receivables that are not loan receivables and non-interest-bearing are measured at cost less estimated non-collectable amounts.

*Available-for-sale financial assets*

Available-for-sale financial assets are either financial assets that have not been classified in any other category, or financial assets that the company initially decided to classify in this category. This category includes the company's liquidity surplus. Available-for-sale financial assets are measured at fair value and gains and losses that arise due to changes in value are recognised in other comprehensive income and accumulated in equity. For sales or impairment of available-for-sale financial assets, the accumulated gain or loss, which was previously recognised in equity, is recognised in profit and loss. Interest on interest-bearing available-for-sale financial assets, and on dividends from shares, is recognised in profit and loss by applying the effective interest method. The category also includes unquoted holdings, the fair value of which cannot be determined reliably and that are measured at cost.

**Financial liabilities measured at fair value through profit and loss**

*Assets held for trading*

Financial liabilities classified as fair value through profit and loss are held for trading. These financial liabilities are measured at fair value with changes in value recognised in profit and loss under Net gains from financial transactions.

*Derivatives used in hedge accounting*

This category contains derivative instruments used to financially eliminate interest-rate risk and currency risk, that are intended to be held until the final maturity date and that are included in hedge accounting. The principle for recognising unrealised and realised gains or losses depends on the type of hedging model applied. See the section on Hedge accounting.

*Other financial liabilities*

Other financial liabilities include the company's deposits and funding, and due to credit institutions. Other financial liabilities are recognised at amortised cost in accordance with the effective interest method.

*Hedge accounting*

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

*Fair-value hedges*

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

The company applies the fair-value hedge method to specific portfolios of funding and loans that carry fixed interest rates. The company also applies the fair-value hedge method to assets in the liquidity portfolio that are classified in the category of Available-for-sale financial assets. The change in the value of the derivative is recognised in profit and loss together with the change in the value of the hedged item under Net gains from financial items. Unrealised changes in the value of hedging instruments are also recognised in the item Net gains from financial items. Interest coupons, both unrealised and realised, are recognised as interest income if the hedged item is an asset or portfolio of assets, or as interest expense if the hedged item is a liability or portfolio of liabilities.

*Cash-flow hedges*

The company applies cash-flow hedges for hedging currency risk in the company's debt securities in issue in foreign currency. Interest and currency interest-rate swaps that are hedging instruments in cash-flow hedging are measured at fair value. The change in value is recognised in other comprehensive income and in the cash-flow hedging reserve in equity to the extent that the change in the value of the swap is effective and corresponds to future cash flows attributable to the hedged item. Ineffectiveness is recognised in profit and loss in the item Net gains from financial items. Gains or losses recognised in the cash-flow hedging reserve under equity in other comprehensive income are reclassified and recognised in profit and loss in the same period as the hedged item affects profit and loss.

*Loans*

These assets are measured at amortised cost. Amortised cost is determined based on the effective interest rate calculated on the acquisition date. Accounts receivable and loan receivables are recognised in the amount at which they are expected to be received, after deductions for any impairment.

*Impaired loans*

A loan receivable is considered impaired if the counterparty has a payment that is more than 60 days past due, or if there is reason to expect that the counterparty cannot meet its undertaking. The loan receivable is considered impaired to the extent that its whole amount is not covered by collateral.

*Individual impairments*

For loans for which an individual impairment requirement has been identified, the recoverable amount is measured at the present value of expected future cash flows discounted by the effective interest rate of the receivable on the most recent interest-adjustment date.

An individual impairment loss is recognised according to either an individual assessment or the statistical model when the counterparty has a payment that is more than 60 days past due or if the counterparty, for other reasons such as bankruptcy, a decline in the value of the collateral or reduced repayment capacity, cannot fully meet its undertaking. Accordingly, the estimate of the impairment requirement for these individually identified loans is based on historical experience of cash flows from other borrowers with similar credit-risk characteristics.

*Collective impairment*

Impairment requirements are identified and valued collectively for loans that are not deemed to have any individual impairment requirements but for cases in which a measurable decline of expected future cash flows has occurred. Information collected from the framework of the company's statistical model and historical data on loan loss levels is used to support assessments of expected future cash flows and collective impairment requirements.

*Takeover of collateral*

The company has not taken over any collateral.

*Confirmed losses*

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

### Property and equipment

*Equipment*

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

| **Useful lives of equipment:** | |
|---|---|
| Vehicles | 5 years |

### Provisions

A provision is recognised in the balance sheet when the company has an existing legal or informal obligation as a result of an event that has occurred, and it is probable that an outflow of financial resources will be required to settle the obligation, and a reliable estimate of the amount can be made. A provision differs from other liabilities since there is uncertainty regarding the date of payment and the amount for settling the provision.

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

### Contingent liabilities

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

*Loan commitments*

A loan commitment can be:

- A one-sided commitment from the company to issue a loan with terms and conditions determined in advance in which the borrower can choose whether he/she wants to accept the loan or not.
- A loan agreement in which both the company and the borrower are subject to terms and conditions for a loan that begins at a certain point in the future.

Loan commitments are not recognised in the balance sheet. Issued irrevocable loan commitments are valid for three months and recognised as a commitment under memorandum items. The right to cancel a loan commitment is retained if the customer's credit rating has diminished on the date of payment, which is why no provisions have been made for probable loan losses.

## 3 RISKS AND CAPITAL ADEQUACY

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

| | |
|---|---|
| **Credit risk** | Credit risk pertains to the risk that a counterparty is unable to fulfil its commitments and that any collateral provided does not cover the receivable. Credit risk comprises lending risk, placement risk, counterparty risk and settlement risk. |
| **Market risk** | Market risk pertains to the risk of loss arising due to changes in the market value of financial assets and liabilities. Market risk comprises interest-rate risk and currency risk. |
| **Liquidity risk** | Liquidity risk is defined as the risk that the 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. Liquidity risk comprises financing risk. |
| **Business risk** | Business risk refers to the risk of lower earnings due to lower volumes, price pressure or other consequences of a changed competitive situation. Business risk comprises strategic risk, earnings risk and reputation risk. |
| **Operational risk** | Operational risk refers to the risk of losses arising due to inappropriate or faulty internal processes and systems as well as human error or external events, and includes legal and compliance risks. |

### Risk-management system

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

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

**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. Risk Management checks that there is adequate risk awareness and acceptance for managing risk on a daily basis. Risk Management also has a supportive function when the operations implement the processes, systems and tools necessary for maintaining ongoing risk management. The role of compliance is to provide support and control to ensure that the operations comply with regulatory requirements.

**The third line of defence** pertains to Internal Audit, which comprises the Board's support in quality assurance and evaluation of the organisation's risk management, governance and internal controls, and which carries out independent, regular examinations of management, systems and internal controls.

Combined, this structure ensures that the Board has an objective and clear understanding of the overall risk profile of the operations.

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

The President is responsible for ensuring that daily management takes place in accordance with the strategies, guidelines and governance documents established by the Board. The President also ensures that the methods, models, systems and processes that form the internal measurement and control of identified risks work in the manner intended and decided by the Board. The President is to continuously ensure relevant reporting from each unit, including Risk Management, to the Board. The President is the Chairman of the Asset Liability Committee (ALCO), whose main task is to follow up on capital and financial matters, as well as Chairman of the Risk Committee, whose main task is to follow up on all risks, limits and internally assessed capital requirements.

Risk Management is charged with the operational responsibility for the independent risk control and must thus objectively manage and report risks in the banking operations. The independent Risk Manager, or Chief Risk Officer (CRO) is directly subordinate to the President and reports directly to the President, the Risk and Capital Committee, and the Board. The CRO is also responsible for Risk Management, whose areas of responsibility are defined and documented in the guidelines adopted by the Board.

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

The risk-management system consists of strategies, processes, procedures, internal rules, limits controls and reporting procedures needed to ensure that the Group is able to continuously identify, measure, monitor, govern, manage, report and have control over the risks to which they are, or could become, exposed to. The Bank Group manages and evaluates its exposure to the risks to which its operations are exposed on the basis of:

- Clear and documented descriptions of processes and procedures.
- Clearly defined and documented responsibilities and authorities.
- Risk-measurement methods and system support that are customised to the requirements, complexity and size of the operations.
- Regular incident reporting of the operations according to a documented process.
- Sufficient resources and expertise for attaining the desired level of quality in both the business and control activities.
- Documented and communicated business contingency and continuity 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 the company's operations and organisation.

### Credit risk

Credit risk is defined as the risk of losses arising due to a counterparty not being able to fulfil its commitments to the company and the risk that the counterparty's pledged collateral will not cover the company's receivables, leading to a loss. Länsförsäkringar Hypotek calculates credit risk for loans to the public in accordance with the Internal Rating-based Approach (IRB).

The loan portfolio exclusively comprises loans in Sweden, with low average loan-to-value ratios and a well-diversified geographic distribution. For more information regarding credit risks and credit quality, see Loans and credit quality.

### Credit process

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

Länsförsäkringar Hypotek is responsible for ensuring that loan origination is carried out according to uniform procedures based on the Board's adopted guidelines, which forms a foundation for a shared view on loan origination. Länsförsäkringar Hypotek continuously monitors and reviews the quality of the loan portfolio and borrowers' repayment capacity. Combined with system support for risk classification, this leads to balanced and consistent loan origination. The shared credit regulations adopted by the Board form the foundation for all loan origination and apply for all regional insurance companies as well as Länsförsäkringar Bank and its subsidiaries. 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 at local level. 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 followed up by the regional insurance companies and by Länsförsäkringar Bank and its subsidiaries. The credit regulations and credit process, combined with local customer and market knowledge, create a loan portfolio that maintains high credit quality.

### IRB system

An Internal Rating-based Approach, or IRB Approach, is used in the area of credit risk 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. Specifically, the IRB system is used in conjunction with:

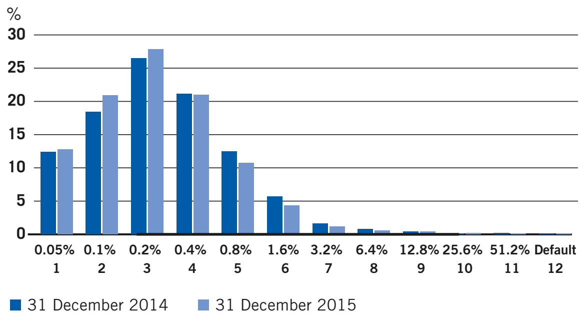
- Credit process for risk assessment and credit-granting decisions
- Calculation of portfolio reserves
- Calculation of risk-adjusted returns
- Monitoring and reporting to management and the Board
- Calculation of capital requirement
- Risk-adjusted pricing

Some of the core concepts in the IRB system are described below. The probability of default (PD) is the probability that a counterparty is unable to meet its undertaking to the bank. A PD with a 12-month horizon is initially calculated for each counterparty and is then adjusted to reflect the average proportion of default over a longer time period. The counterparties are ranked and grouped according to a PD scale comprising 11 risk classes (grades) for non-defaulted counterparties and one risk category for defaulted counterparties. Loss given default (LGD) is the portion of an exposure that is expected to be lost in the event of default.

Exposure at default (EAD) is the exposure amount that the counterparty is expected to have utilised upon default. For off balance-sheet commitments, EAD is calculated by multiplying the counterparty's total granted amount by a conversion factor (CF). These estimates are calculated on the basis of internal information regarding the payment percentage, degree of utilisation and products.

The average loan commitment for each borrower is low. The relationship between the loan portfolio and the underlying assets is expressed as the weighted average loan-to-value (LTV) ratio.

The company's credit exposure according to the risk-classification scale is presented below. The results show a distribution of exposure, with 83% (78) of exposure found in the best grades 1–4. Overall, on 31 December 2015, the distribution of exposure had shifted slightly toward the lower PD grades compared with the year-earlier period, which means a year-on-year improvement in credit quality.




### Credit quality

Lending increased to SEK 147 billion (126). Essentially all lending qualifies for inclusion in the covered-bond operations, which are regulated by the Swedish Covered Bonds (Issuance) Act (2003:1223). The term covered bonds refers to bonds with preferential rights in the sections of the issuing institution's assets that are approved by legislation (cover pool). The remaining lending pertains partly to multi-family housing that qualifies for inclusion in the cover pool but that Länsförsäkringar Hypotek has chosen to exclude.

| Maximum credit-risk exposure not taking into consideration collateral or any other credit enhancement received, SEK M | 31 Dec 2015 | 31 Dec 2014 |
|---|---|---|
| *Credit risk exposure for items recognised in the balance sheet* | | |
| Cash and balances with central banks | 0 | 0 |
| Loans to credit institutions | 4,395 | 2,489 |
| Loans to the public | 147,056 | 126,128 |
| Bonds and other interest-bearing securities | 9,345 | 12,392 |
| Derivative instruments | 4,165 | 4,827 |
| Other assets | 18 | 54 |
| Prepaid expenses and accrued income | | 1,373 |
| *Credit risk exposure for memorandum items* | | |
| Loan commitments and other credit commitments | 7,923 | 7,277 |
| **Total** | **172,902** | **154,540** |

The table below shows the credit quality of bonds and other interest-bearing securities

| Covered bonds, SEK M | 31 Dec 2015 | 31 Dec 2014 |
|---|---|---|
| AAA/Aaa | 9,345 | 12,392 |
| **Total** | **9,345** | **12,392** |

The table below shows loans to the public. Collateral is provided in the form of mortgage deeds for single-family homes and vacation homes, agricultural lending, multi-family housing and industrial properties.

**Loan portfolio by collateral**

| | 31 Dec 2015 | | 31 Dec 2014 | |
|---|---|---|---|---|
| **Collateral** | **SEK M** | **%** | **SEK M** | **%** |
| Single-family homes and vacation homes | 106,869 | 73 | 93,168 | 74 |
| Tenant-owned apartments | 31,573 | 21 | 25,221 | 20 |
| Multi-family housing | 7,849 | 6 | 7,145 | 6 |
| Industrial properties | 607 | 0 | 624 | 0 |
| Other | 188 | 0 | 9 | 0 |
| **Loans to the public, gross** | **147,086** | **100** | **126,167** | **100** |
| **Reserves** | **–30** | | **–39** | |
| **Total** | **147,056** | | **126,128** | |

## Cover pool

On 31 December 2015, the cover pool had a volume of SEK 146 billion (129). The geographic distribution in Sweden is well-diversified and collateral comprises only private homes: single-family homes, tenant-owned apartments and, to a small extent, vacation homes. Credit quality remained high. The weighted average loan-to-value ratio (LTV) was 60% (62) and the average commitment per property was SEK 1,031,590 (949,438). The market value of all single-family homes, tenant-owned apartments and vacation homes in the loan portfolio is updated annually.

| **Cover pool** | **31 Dec 2015** | **31 Dec 2014** |
|---|---|---|
| Cover pool, SEK billion | 146.3 | 128.8 |
| of which, Swedish mortgages, SEK billion | 137.5 | 117.3 |
| of which, substitute collateral, SEK billion | 8.8 | 11.5 |
| Collateral | Private homes | Private homes |
| Weighted average LTV, % | 60 | 62 |
| Seasoning, months | 59 | 60 |
| Number of loans | 295,057 | 270,806 |
| Number of properties | 133,274 | 123,512 |
| Average commitment, SEK 000s | 1,032 | 949 |
| Average loan, SEK 000s | 466 | 433 |
| Interest rate type, variable, % | 61 | 59 |
| Interest rate type, fixed, % | 39 | 41 |
| OC [1], nominal, current level, % | 38 | 30 |
| Impaired loans | None | None |

[1] OC is calculated using nominal values and excludes accrued interest rates.

**Cover pool, geographic allocation**[1]

| **Region** | **31 Dec 2015, %** | **31 Dec 2014, %** |
|---|---|---|
| Stockholm | 15 | 15 |
| Gothenburg | 8 | 7 |
| Malmö | 3 | 3 |
| Southern Sweden | 10 | 10 |
| Western Sweden | 24 | 24 |
| Eastern Sweden | 24 | 24 |
| Northern Sweden | 16 | 17 |
| **Total** | **100** | **100** |

[1] Distribution in accordance with Associated Covered Bond Issuers' reporting for National Templates.

**Cover pool by LTV**

| | 31 Dec 2015 | | 31 Dec 2014 | |
|---|---|---|---|---|
| **LTV interval, %** | **SEK M** | **%** | **SEK M** | **%** |
| 0–10 | 26,309 | 19 | 22,238 | 19 |
| 11–20 | 24,544 | 18 | 20,658 | 18 |
| 21–30 | 22,554 | 16 | 18,896 | 16 |
| 31–40 | 20,391 | 15 | 17,040 | 14 |
| 41–50 | 17,832 | 13 | 14,917 | 13 |
| 51–60 | 14,469 | 10 | 12,354 | 11 |
| 61–70 | 9,217 | 7 | 8,578 | 7 |
| 71–75 | 2,168 | 2 | 2,587 | 2 |
| **Total** | **137,484** | **100** | **117,267** | **100** |

**Distribution of commitments in cover pool**

| | 31 Dec 2015 | | 31 Dec 2014 | |
|---|---|---|---|---|
| **Commitment interval, SEK 000s** | **SEK M** | **%** | **SEK M** | **%** |
| < 500 | 10,838 | 8 | 10,890 | 9 |
| 500–1 000 | 27,706 | 20 | 26,895 | 23 |
| 1 000–1 500 | 31,832 | 23 | 28,746 | 25 |
| 1 500–2 500 | 43,115 | 32 | 34,805 | 30 |
| 2 500–5 000 | 22,136 | 16 | 15,079 | 12 |
| > 5 000 | 1,857 | 1 | 851 | 1 |
| **Total** | **137,484** | **100** | **117,267** | **100** |

Only 1% (5) of the loans in the cover pool amount to more than SEK 5 M. In total, 51% (57) of the loans in the cover pool do not exceed SEK 1.5 M.

**Cover pool by collateral**

| | 31 Dec 2015 | | 31 Dec 2014 | |
|---|---|---|---|---|
| **Collateral** | **SEK M** | **%** | **SEK M** | **%** |
| Single-family homes | 102,831 | 75 | 89,568 | 76 |
| Tenant-owned apartments | 31,410 | 23 | 25,102 | 22 |
| Vacation homes | 3,243 | 2 | 2,597 | 2 |
| **Total** | **137,484** | **100** | **117,267** | **100** |

### *Stress test of the cover pool*

During a stress test of the cover pool based on a 20% price drop in the market value in the loan portfolio, the weighted average LTV increased to 67% compared with a current weighted average LTV of 60% on 31 December 2015.

## Impaired and non-performing loan receivables

A loan receivable is considered impaired if a payment is more than 60 days past due or if there is reason to expect that the counterparty cannot meet its undertaking. The loan receivable is considered impaired to the extent that its whole amount is not covered by collateral. A non-performing loan receivable is a receivable that is more than nine days and up to 60 days past due.

Impaired loans amounted to SEK 0.0 M (0.3), corresponding to a percentage of impaired loans of 0.00% (0.00) of the loan portfolio. Loan losses amounted to SEK –9.8 M (–10.7), corresponding to loan losses of –0.01% (–0.01). Impaired loans and loan losses continued to account for a minor percentage of total loans.

| **Impaired loans by collateral, SEK M** | **31 Dec 2015** | **31 Dec 2014** |
|---|---|---|
| Single-family homes and vacation homes | 0.0 | 0.3 |
| Tenant-owned apartments | 0.0 | 0.0 |
| **Total** | **0.0** | **0.3** |

| **Non-performing loan receivables not included in impaired loans, SEK M** | **31 Dec 2015** | **31 Dec 2014** |
|---|---|---|
| Receivables 10–19 days past due | 0.6 | 0.0 |
| Receivables overdue by 20–39 days | 30.4 | 40.0 |
| Receivables overdue by 40–59 days | 0.1 | 0.0 |
| **Total** | **31.1** | **40.0** |

Individual impairments are made for loans in default and for loans where an individual assessment indicates a need for impairment. The main rule is that when a loss is confirmed for a loan/borrower, it shall fully be met by an individual reserve. The principle for individual impairments is based on an individual assessment decided by the Central Credit Committee and/or the Credit Manager. For each loan/borrower, individual assessments of any impairment requirements are updated at least once each year and also in the case of any significant change in the size of the commitment and/or the value of the collateral. Valuations based on statements of authorised appraisers form the basis of assessments of reserve requirements and pertain to both properties and other types of collateral.

The new settlement model, which was introduced on 1 January 2014, regarding the commitment that the regional insurance companies have for loan losses related to the business they have originated, entails that the regional insurance companies cover 80% of the provision requirement on the date when an impairment is identified, by off-setting this against a buffer of accrued commission. On 31 December 2015, the total credit reserve requirement amounted to SEK 43 M, of which Länsförsäkringar Hypotek AB's recognised credit reserve accounted for SEK 30 M and the remainder of SEK 13 M was offset against the regional insurance companies' held funds, according to the model described above. The transition to the settlement model means that the company's credit reserves attributable to the regional insurance companies' business on the date of introduction will be gradually reversed by SEK 21 M. SEK 8 M was reversed during the period.

## Counterparty risk

Counterparty risk is defined as the risk that Länsförsäkringar Hypotek could suffer losses pertaining to investments in other credit institutions, bank funds or derivative transactions due to counterparties not fulfilling their commitments. Repurchase agreements are included in counterparty risk.

Risk in derivative transactions is managed by the company having a number of swap counterparties, all with high ratings and established ISDA agreements. ISDA agreements allow net accounting of positive and negative derivatives, which reduces the risk to the net position per counterpart. For the covered-bond operations, ISDA agreements are in place, as well as accompanying unilateral CSA agreements. CSA agreements involve commitments concerning delivery and receipt of collateral in the event of changes to the included derivatives' market values. Each counterparty is also assigned a maximum exposure amount.

| | **Positive values** | |
|---|---|---|
| **Derivatives, fair value, SEK M** | **31 Dec 2015** | **31 Dec 2014** |
| AA–/Aa3 | 891.8 | 1,002.1 |
| A+/A1 | 0.0 | 101.0 |
| A/A2 | 2,439.5 | 56.7 |
| A-/A3 | 0.0 | 1,118.0 |
| **Total** | **3,331.2** | **2,277.8** |

The fair value for the preceding year was updated for the A–/A3 category with the addition of the exposure to Länsförsäkringar Bank.

## Market risk

The overall framework for the financial operations is adopted by the Board in the risk policy. The Board also adopts the risk appetite and limits for market risk. The company applies a number of supplementary risk measures to market risk, including Value-At-Risk, sensitivity measures and stress tests. The primary market risks are interest-rate risk and currency risk. All market risks are measured and monitored on a daily basis.

### Interest-rate risk

Interest-rate risk arises if assets, liabilities and derivatives do not have matching fixed-interest periods. Firstly, the fixed lending is matched with the corresponding funding and, secondly, interest-rate swaps are used. In principle, this means that no time differences should exist, although in practice this is not possible. However, the Board's limits are so conservative that the basic principle for matching still applies.

Interest-rate risk is measured as the effect of a 1-percentage-point, upward parallel shift in the yield curve. On 31 December 2015, an increase in market interest rates of 1 percentage point would have decreased the value of interest-bearing assets and liabilities, including derivatives, by SEK 22.9 M (increase: 2.2). The sensitivity analysis includes both market-valued and non-market-valued interest-bearing items and thus does not describe the expected effects on the balance sheet or income statement.

### Currency risk

Currency risk arises when assets and liabilities are not matched at the currency level. The risk pertains to a negative change in exchange rates.

The company is exposed to this risk in foreign-currency funding in EUR, CHF and NOK. Currency risk is managed in conjunction with funding by swapping all foreign funding to SEK. In cases where exposure is managed with hedging according to IFRS, hedging of fair value is used.

### Other market risks

In addition to interest-rate and currency risk, the bank has a currency-basis spread risk and a credit-spread risk. Both of these risks affect only other comprehensive income. The currency-basis spread risk arises in foreign funding when currency is swapped to SEK. Credit-spread risks arise in substitute collateral in the cover pool.

## Liquidity risk

Liquidity risk arises in all of the banking operations, primarily on the basis of term differences between assets and liabilities. The Bank Group's aim is to minimise and prevent liquidity risks as far as possible. The management of liquidity and financing is assured by effective long-term planning, explicit functional definitions and a high level of control.

The Group has highly diversified funding and a liquidity reserve comprising securities with high liquidity and creditworthiness, which means that the reserve can be rapidly converted into cash and cash equivalents. In addition, there is unutilised scope in Länsförsäkringar Hypotek's cover pool for issuing covered bonds, which combined provide opportunities for managing the risks arising on the basis of the difference between the contractual cash flows of assets and liabilities.

### Liquidity and financing strategy

The company's liquidity risk is governed based on the liquidity and financing strategy to comply with the Board's low risk tolerance. The strategy is determined annually and is updated whenever necessary. The liquidity strategy is specified in a financing plan decided by the Board and based on known contracted cash flows and the expected trend in business volumes. The financing plan contains key figures and targets for fulfilment of the objectives. Outcomes of the funding operations are monitored against the financing plan at every ALCO and Board meeting. The actual cost of the liquidity risk that arises in the mortgage institution's operations is reflected in the internal pricing in order to create transparency and correct business governance.

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.

#### Liquidity risk management

The objective of liquidity management is that the company, at any given time, is to have sufficient cash and cash equivalents with which to fulfil its commitments under both normal and stressed market conditions. Liquidity risk is managed by the Treasury unit and is quantified using daily liquidity forecasts based on all contracted cash flows and expected business volumes of deposits and lending.

Liquidity risk limits have been established that reflect the company's risk appetite. The central measure in the management of the company's liquidity risk comprises the "survival horizon," meaning the period of time during which the company is able to meet its commitments without requiring access to new financing.

To comprehensively analyse the liquidity risk, the liquidity limit is supplemented with a number of structural and quantitative risk measures adapted to the Group's risk profile, including a minimum requirement for unutilised scope (overcollateralisation) in the cover pool for the issuance of covered bonds for the purpose of managing price drops in the property market. The analysis is prospective and based on measurement methods accepted in the market, including analysis of future cash flows, scenario analyses and key figures stipulated by authorities. Liquidity risk is measured, controlled and reported on a daily basis.

#### Liquidity reserve

A satisfactory liquidity reserve ensures that sufficient liquidity is always available. The Treasury unit monitors and manages the liquidity reserve on a daily basis and is responsible for the amount of the reserve totalling the volume required to meet the limits set by the Board. The liquidity reserve is invested in securities with very high credit quality, most of which are eligible for transactions with the Riksbank and, where appropriate, with the ECB or the Federal Reserve. In total, this means that the reserve can be quickly converted to cash and cash equivalents without any appreciable losses.

#### Financing

The general objectives of the funding operations are to ensure that the company has a sufficiently strong liquidity position with which to manage turbulent periods in the capital markets, when access to funding is limited or non-existent. In addition, the funding operations are to contribute to overall profitability by ensuring a competitive funding cost in relation to relevant competitors.

Funding takes place in a manner that creates a healthy maturity profile and avoids maturity concentrations. The refinancing activities are based on diversification in terms of a variety of investors and markets. Funding takes place primarily with covered bonds since the majority of the company's assets comprise Swedish mortgages. Refinancing primarily takes place in the markets for SEK and EUR, but certain funding also takes place in CHF and NOK. The company endeavours to regularly launch issuances in these markets to achieve healthy diversification and maintain investors' interests and credit limits.

In its funding operations, Länsförsäkringar Hypotek is to act predictably and actively in the market and aim at achieving as high liquidity as possible in outstanding debt to build up long-term confidence among investors. Regular meetings are held with both Swedish and international investors to ensure that these investors have a clear overview of the company's operations, low risk profile and high-quality risk management. These proactive efforts ensure that investment limits are in place with investors, and promotes a long-term interest in and desire to invest in the company's securities over time.

### FIXED-INTEREST PERIODS FOR ASSETS AND LIABILITIES – INTEREST-RATE EXPOSURE

| 31 Dec 2015, SEK M | Not more than 1 month | More than 1 month but not more than 3 months | More than 3 months but not more than 6 months | More than 6 months but not more than 1 year | More than 1 year but not more than 3 years | More than 3 years but not more than 5 years | More than 5 years | Without interest | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| Treasury bills and other eligible bills | | | | | | | | | |
| Loans to credit institutions | 4,395.3 | | | | | | | | 4,395.3 |
| Loans to the public | 43,132.4 | 40,263.9 | 8,012.8 | 7,967.9 | 35,157.2 | 10,709.5 | 1,811.9 | | 147,055.5 |
| Bonds and other interest-bearing securities | | 0.8 | 1,225.9 | 1.4 | 5,085.1 | 3,031.6 | | | 9,344.8 |
| Other assets | | | | | | | | 5,826.9 | 5,826.9 |
| **Total assets** | **47,527.7** | **40,264.7** | **9,238.7** | **7,969.3** | **40,242.3** | **13,741.2** | **1,811.9** | **5,826.9** | **166,622.6** |
| **Liabilities** | | | | | | | | | |
| Due to credit institutions | 41,267.7 | | | | | | | | 41,267.7 |
| Debt securities in issue | | 8,155.0 | 676.2 | 783.2 | 39,258.0 | 40,573.2 | 20,954.2 | | 110,399.8 |
| Other liabilities | | | | | | | | 7,246.2 | 7,246.2 |
| Subordinated liabilities | | | | | 340.0 | 661.0 | | | 1,001.0 |
| Equity | | | | | | | | 6,707.8 | 6,707.8 |
| **Total liabilities and equity** | **41,267.7** | **8,155.0** | **676.2** | **783.2** | **39,598.0** | **41,234.2** | **20,954.2** | **13,954.1** | **166,622.6** |
| **Difference assets and liabilities** | **6,260.0** | **32,109.6** | **8,562.5** | **7,186.1** | **644.3** | **–27,493.1** | **–19,142.3** | **–8,127.2** | |
| Interest-rate derivatives, nominal values, net | –5,764.0 | –26,423.7 | –4,975.0 | –6,625.0 | –5,393.9 | 29,844.5 | 19,907.3 | | 570.2 |
| **Net exposure** | **496.0** | **5,685.9** | **3,587.5** | **561.1** | **–4,749.6** | **2,351.5** | **765.0** | **–8,127.2** | |

| 31 Dec 2014, SEK M | Not more than 1 month | More than 1 month but not more than 3 months | More than 3 months but not more than 6 months | More than 6 months but not more than 1 year | More than 1 year but not more than 3 years | More than 3 years but not more than 5 years | More than 5 years | Without interest | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| Treasury bills and other eligible bills | | | | | | | | | |
| Loans to credit institutions | 2,488.8 | | | | | | | | 2,488.8 |
| Loans to the public | 38,722.9 | 32,189.9 | 4,659.1 | 10,090.4 | 30,646.9 | 8,347.8 | 1,470.9 | | 126,127.9 |
| Bonds and other interest-bearing securities | | 809.5 | 255.3 | 991.7 | 5,700.1 | 4,635.3 | | | 12,391.9 |
| Other assets | | | | | | | | 7,235.4 | 7,235.4 |
| **Total assets** | **41,211.6** | **32,999.5** | **4,914.4** | **11,082.1** | **36,347.0** | **12,983.0** | **1,470.9** | **7,235.4** | **148,243.8** |
| **Liabilities** | | | | | | | | | |
| Due to credit institutions | 32,637.1 | | | | | | | | 32,637.1 |
| Debt securities in issue | 831.2 | 10,287.9 | 5,514.1 | 1,824.1 | 33,228.3 | 27,888.1 | 21,314.3 | | 100,888.0 |
| Other liabilities | | | | | | | | 8,297.9 | 8,297.9 |
| Subordinated liabilities | | | | | | 340.0 | 161.0 | | 501.0 |
| Equity | | | | | | | | 5,919.8 | 5,919.8 |
| **Total liabilities and equity** | **33,468.3** | **10,287.9** | **5,514.1** | **1,824.1** | **33,228.3** | **28,228.1** | **21,475.3** | **14,217.7** | **148,243.8** |
| **Difference assets and liabilities** | **7,743.3** | **22,711.6** | **–599.7** | **9,258.0** | **3,118.7** | **–15,245.1** | **–20,004.4** | **–6,982.4** | |
| Interest-rate derivatives, nominal values, net | –1,590.6 | –21,886.3 | –1,460.0 | –9,145.2 | –5,335.0 | 19,117.6 | 21,075.2 | | 775.7 |
| **Net exposure** | **6,152.7** | **825.3** | **–2,059.7** | **112.8** | **–2,216.3** | **3,872.6** | **1,070.8** | **–6,982.4** | |

### LIQUIDITY EXPOSURE, FINANCIAL INSTRUMENTS – REMAINING TERM OF CONTRACT (UNDISCOUNTED VALUES)

| 31 Dec 2015, SEK M | On demand | < 3 months | > 3 months < 1 year | > 1 year < 5 years | > 5 years | Without maturity | Total nominal cash flows | Carrying amount | Of which, expected recovery period of > 12 months |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| Treasury bills and other eligible bills | | | | | | | | | |
| Loans to credit institutions | | 4,395.3 | | | | | 4,395.3 | 4,395.3 | |
| Loans to the public | | | | | 147,055.5 | | 147,055.5 | 147,055.5 | 135,085.2 |
| Bonds and other interest-bearing securities | | | 1,200.0 | 7,575.0 | | | 8,775.0 | 9,344.8 | 7,575.0 |
| Other assets | | | | | | 5,826.9 | 5,826.9 | 5,826.9 | |
| **Total assets** | | | | **7,575.0** | **147,055.5** | **5,826.9** | **166,052.7** | **166,622.6** | **142,660.2** |
| **Liabilities** | | | | | | | | | |
| Due to credit institutions | 275.1 | 40,986.4 | | | | | 41,261.4 | 41,267.8 | |
| Debt securities in issue | | 8,145.0 | 250.0 | 77,789.6 | 21,409.3 | | 107,594.0 | 110,399.8 | 99,198.88 |
| Other liabilities | | | | | | 6,937.3 | 6,937.3 | 6,937.3 | |
| Subordinated liabilities | | | | | 1,001.0 | | 1,001.0 | 1,001.0 | 1,001.0 |
| **Total liabilities** | **275.1** | **49,131.8** | **250.0** | **77,789.6** | **22,410.3** | **6,937.3** | **156,794.1** | **159,606.0** | **100,199.9** |
| **Difference assets and liabilities** | **–275.1** | **–49,131.8** | **–250.0** | **–70,214.6** | **124,645.3** | **–6,937.3** | **9,258.7** | **7,016.6** | |
| Loans approved but not disbursed | | 0.0 | | | | | 0.0 | | |
| **Total difference, excluding derivatives** | **–275.1** | **–49,131.8** | **–250.0** | **–70,214.6** | **124,645.3** | **–6,937.3** | **9,258.7** | **7,016.6** | |

| 31 Dec 2014, SEK M | On demand | < 3 months | > 3 months < 1 year | > 1 year < 5 years | > 5 years | Without maturity | Total nominal cash flows | Carrying amount | Of which, expected recovery period of > 12 months |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| Treasury bills and other eligible bills | | | | | | | | | |
| Loans to credit institutions | 12.8 | 2,476.0 | | | | | 2,488.8 | 2,488.8 | 0.0, |
| Loans to the public | | | 0.1 | | 126,127.8 | | 126,127.9 | 126,127.9 | 126,127.9 |
| Bonds and other interest-bearing securities | | 800.0 | 1,200.0 | 9,475.0 | | | 11,475.0 | 12,392.0 | 9,475.0 |
| Other assets | | | | | | | 0.0 | 7,235.3 | |
| **Total assets** | **12.8** | **3,276.0** | **1,200.1** | **9,475.0** | **126,127.8** | **0.0** | **140,091.7** | **148,243.8** | **127,610.5** |
| **Liabilities** | | | | | | | | | |
| Due to credit institutions | 0.0 | 32,637.1 | 0.0 | | | | 32,637.1 | 32,637.1 | |
| Debt securities in issue | | 10,998.6 | 6,519.8 | 59,686.7 | 22,241.6 | | 99,446.7 | 100,888.0 | 81,928.4 |
| Other liabilities | | | | | | 8,297.9 | 8,297.9 | 8,297.9 | |
| Subordinated liabilities | | | | | 501.0 | | 501.0 | 501.0 | 501.0 |
| **Total liabilities** | **0.0** | **43,635.7** | **6,519.8** | **59,686.7** | **22,742.6** | **8,297.9** | **140,882.6** | **142,324.0** | **82,429.4** |
| **Difference assets and liabilities** | **12.8** | **–40,359.7** | **–5,319.7** | **–50,211.7** | **103,385.2** | **8,297.9** | **–790.9** | **5,919.8** | |
| Loans approved but not disbursed | | 7,276.6 | | | | | 7,276.6 | | |
| **Total difference, excluding derivatives** | **12.8** | **–33,083.1** | **–5,319.7** | **–50,211.7** | **103,385.2** | **8,297.9** | **6,485.6** | **5,919.8** | |

### LIQUIDITY REPORTING, DERIVATIVES

| 31 Dec 2015, SEK M | < 3 months | > 3 months < 1 year | > 1 year < 5 years | > 5 years | Total nominal cash flows |
|---|---|---|---|---|---|
| **Derivatives at fair value in profit and loss** | | | | | |
| – Currency | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| – Interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Derivatives in hedge accounting** | | | | | |
| – Currency | 103.0 | 117.0 | 1,172.1 | 634.5 | 2,026.6 |
| – Interest | 50.8 | 471.6 | 1,774.6 | 121.7 | 2,418.7 |
| **Total difference, excluding derivatives** | **153.8** | **588.6** | **2,946.7** | **756.2** | **4,445.3** |

| 31 Dec 2014, SEK M | < 3 months | > 3 months < 1 year | > 1 year < 5 years | > 5 years | Total nominal cash flows |
|---|---|---|---|---|---|
| **Derivatives at fair value in profit and loss** | | | | | |
| – Currency | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| – Interest | 0.1 | 0.0 | 0.0 | 0.0 | 0.1 |
| **Derivatives in hedge accounting** | | | | | |
| – Currency | 72.0 | 255.9 | 918.2 | 1,398.6 | 2,644.8 |
| – Interest | 131.8 | 182.0 | 1,986.9 | 260.1 | 2,560.8 |
| **Total difference, excluding derivatives** | **203.9** | **437.9** | **2,905.2** | **1,658.7** | **5,205.7** |

### Business risk

Business risk primarily comprises earnings risk. Earnings risk is defined as volatility in earnings that creates a risk of lower income due to an unexpected decrease in income as a result of such factors as competition or volume reductions. Earnings risk is associated with all products and portfolios. The company's business has a low level of volatility and thus a low earnings risk.

### Operational risk

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

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

### Types of risk

The Group categorises operational risk into the following risk types:

| | |
|---|---|
| **Process and product risk** | Encompasses the operational risk that may arise in the existing business and support processes. Also includes the risk attributable to the product offerings to customers. |
| **Personnel risks** | Encompasses risks attributable to personnel. This includes risks regarding staffing levels, skills and conflicts of interest. |
| **Legal risks** | Encompasses risks as a result of its legal commitments. This may include risks arising as a result of agreements or the regulatory compliance of the business (compliance risk). |
| **IT risks** | Encompasses the risks that may arise in the IT environment, such as the risk of IT failures and IT security risks. |
| **Security risks** | Encompasses the risk of the business and its customers being the victim of external crime. This includes fraud or threats. The risk of internal fraud is also included in this risk area. |

### Risk management process

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

- Self-assessment and monitoring of checks – Self-assessments are one of the tools used to identify operational risks and to plan risk-limiting measures.
- Risk indicators – The aim of use of risk indicators is to create conditions for better insight into the bank's risk profile and the risks that are increasing or reducing at that point in time and over time.

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

- Risk or scenario analyses – More in-depth analysis of particular operational risk areas based on, for example, rare and serious incidents or changes in the external environment.
- Review of the approval process – Review of the operational risks identified when producing new products, services, processes and IT systems or when implementing organisational changes.

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:

- Consequence – how will the operations be affected if the risk occurs?
- Probability – how likely is it that the risk will occur?

These factors are aggregated to determine a risk value for the operational risk. Process owners are responsible for performing the risk analyses, meaning identifying and assessing operational risk within their respective area of responsibility. All employees have a responsibility to report incidents. Process owners are responsible for taking action against intolerable risks in their areas of responsibility.

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. This may be implemented, for example, by comparing the results of self-assessments with incidents that have occurred or by relating incident information to recognised cost items.

### Incident reporting

The Group has an IT system for reporting operational risk events and incidents. This system enables all employees to report any incidents. The system automatically divides the incidents into the categories established by the Swedish Financial Supervisory Authority. Risk Management periodically prepares a summary of the incidents in its reports. Incident management is an important part of the Group's operational risk management. Incident statistics contribute to the assessment and forecast of operational risk, and enables the company to quickly identify critical problems and act upon these. Transactions are also actively monitored to detect money laundering and financing terrorist activities, for example. Other attempts at fraud, for example card fraud, are monitored.

### Continuity management

Serious incidents may lead to a crisis. A crisis may arise, for example, due to fire, IT failure or similar serious event. The Group works constructively to prevent this type of incident from arising. 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 periodically to ensure that the plans are suitable.

## Capital and capital requirements

**OWN FUNDS AND CAPITAL REQUIREMENTS**

| SEK M | 31 Dec 2015 | 31 Dec 2014 |
|---|---|---|
| Equity | 6,707.8 | 5,919.8 |
| of which, share capital | 70.3 | 70.3 |
| of which, share premium reserve | – | – |
| of which, retained earnings | 6,225.5 | 5,514.3 |
| of which, accumulated comprehensive income | 89.6 | 109.9 |
| of which, other reserves | 14.1 | 14.1 |
| Of which, net profit for the year | 308.3 | 211.2 |
| Non-verified profit | – | – |
| 78% of untaxed reserves | 240.9 | 141.8 |
| **Equity for capital adequacy** | **6,948.7** | **6,061.6** |
| Cash-flow hedges | –79.5 | –49.9 |
| Unrealised changes in value of financial assets | – | –60.0 |
| IRB Provisions deficit (-)/surplus (+) | –80.9 | –156.2 |
| Adjustments for prudent valuation | –15.2 | –18.8 |
| Deferred tax assets | – | – |
| **Tier 1 capital and Common Equity Tier 1 capital** | **6,773.1** | **5,776.7** |
| Tier 2 instruments | 1,001.0 | 501.0 |
| IRB Provisions deficit (-)/surplus (+) | 6.7 | 5.8 |
| **Tier 2 capital** | **1,007.7** | **506.8** |
| **Total own funds** | **7,780.8** | **6,283.5** |
| **Total Risk Exposure Amount** | **18,119.9** | **26,419.5** |
| **Total capital requirement** | **1,449.6** | **2,113.6** |
| Capital requirement for credit risk according to Standardised Approach | 236.3 | 248.2 |
| Capital requirement for credit risk according to IRB Approach | 1,052.7 | 1,680.5 |
| Capital requirement for operational risk | 52.0 | 43.1 |
| Capital requirement for credit valuation adjustment | 108.6 | 141.7 |
| **Common Equity Tier 1 capital ratio CRD IV** | **37.4%** | **21.9%** |
| **Tier 1 ratio CRD IV** | **37.4%** | **21.9%** |
| **Capital adequacy ratio CRD IV** | **42.9%** | **23.8%** |
| **Special disclosures** | | |
| **IRB Provisions surplus (+)/deficit (-)** | –74.2 | –150.4 |
| – IRB Total provisions (+) | 43.1 | 46.6 |
| – IRB Anticipated loss (–) | –117.3 | –197.0 |
| **Capital requirement according to Basel I floor** | **6,023.3** | **5,180.5** |
| Capital base adjusted according to Basel I floor | 7,855.0 | 6,433.9 |
| **Surplus capital according to Basel I floor** | **1,831.7** | **1,253.4** |

### Capital base

The capital base is the total of Tier 1 capital and Tier 2 capital, less items indicated in the capital adequacy rules. Tier 1 capital may be equated to the institution's approved capital (Common Equity Tier 1 capital) and, where appropriate, a limited share of perpetual subordinated debt (Tier 1 instruments). Common Equity Tier 1 capital comprises equity in accordance with applicable accounting regulations, the institution's paid share capital, certain eligible reserves such as retained earnings and other reserves according to currently applicable accounting standards, after statutory deductions directly from Tier 1 capital. Profit may be included if it has been verified and deductions have been made for the proposed dividends or other related expenses.

Common Equity Tier 1 capital is to be readily available to absorb losses and is the most subordinated receivable in the event of liquidation.

Tier 2 capital may comprise perpetual and dated subordinated loans. A limited portion of the reserve surplus regarding IRB items can also be included as Tier 2 capital. The basic principle for subordinated liabilities in the capital base is the order of priority in the event of default or bankruptcy. Tier 2 capital must be subordinate to the bank's deposits and also to liabilities to non-priority creditors and subordinated liabilities are to essentially be repaid after all other liabilities, but before liabilities to shareholders.

### Common Equity Tier 1 capital

Equity in Länsförsäkringar Hypotek AB comprises share capital, capital contributed and reserves. Net profit for the year is included in the amount of SEK 308.3 M without deductions for dividends in accordance with the Board's proposed appropriation of profits. During the year, equity increased due to a capital contribution received (SEK 500 M) and net profit for the year.

Adjustments for the IRB deficit when, according to the accounts, the reserves are less than the calculated expected loss of the capital adequacy, are to be made within Common Equity Tier 1 capital. If the reserves exceed the anticipated loss, a limited portion may be included in the Tier 2 capital (maximum 0.6% of IRB REA). On 31 December 2015, SEK 80.9 M was deducted from Common Equity Tier 1 capital and SEK 6.7 M was included in Tier 2 capital. Common Equity Tier 1 capital includes a deduction of SEK 15.2 M, which arose due to the regulatory requirements regarding prudent valuation of items in the category of fair value. This deduction complies with Article 105 of CRR.

There are no outstanding financial instruments that are included as Additional Tier 1 instruments, which means that the amounts for Common Equity Tier 1 capital and Tier 1 capital were the same on 31 December 2015.

| Minimum capital requirements and buffers | Minimum capital requirement | Capital conservation buffer | Countercyclical buffer | Systemic risk buffer | Total |
|---|---|---|---|---|---|
| **%** | | | | | |
| Common Equity Tier 1 capital | 4.5% | 2.5% | 1.0% | N/A | 8.0% |
| Tier 1 capital | 6.0% | 2.5% | 1.0% | N/A | 9.5% |
| Capital base | 8.0% | 2.5% | 1.0% | N/A | 11.5% |
| **SEK M** | | | | | |
| Common Equity Tier 1 capital | 815 | 453 | 181 | N/A | 1 450 |
| Tier 1 capital | 1,087 | 453 | 181 | N/A | 1,721 |
| Capital base | 1,450 | 453 | 181 | N/A | 2,084 |
| Common Equity Tier 1 capital available for use as a buffer | | | | | 31.4% |

| Borrower | Loan amount | Loan date | Repayment date | Premature redemption (break-off date) |
|---|---|---|---|---|
| **Tier 2** | | | | |
| Länsförsäkringar Hypotek | SEK 500,000,000 | 26 June 2015 | 26 June 2025 | 26 June 2020 |
| Länsförsäkringar Hypotek | SEK 150,000,000 | 30 Oct 2013 | 31 Oct 2023 | 31 Oct 2018 |
| Länsförsäkringar Hypotek | SEK 161,000,000 | 27 Jun 2014 | 27 Jun 2024 | 27 Jun 2019 |
| Länsförsäkringar Hypotek | SEK 40,000,000 | 18 Apr 2013 | 18 Apr 2023 | 18 Apr 2018 |
| Länsförsäkringar Hypotek | SEK 150,000,000 | 18 Apr 2013 | 18 Apr 2023 | 18 Apr 2018 |

### Tier 2 capital

Tier 2 capital must be subordinate to other receivables from the company, 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.

Except for a small amount from the surplus from IRB Provisions (see above), Tier 2 capital exclusively comprises fixed-term subordinated debt totalling SEK 1,001 M. These loans meet the CRR/CRD IV requirements for being included in the capital base as Tier 2 capital. All loans are held by Länsförsäkringar Bank AB

**CAPITAL REQUIREMENT**

| | 31 Dec 2015 | | 31 Dec 2014 | |
|---|---|---|---|---|
| **SEK M** | **Capital requirement** | **Risk Exposure Amount** | **Capital requirement** | **Risk Exposure Amount** |
| Credit risk according to Standardised Approach | | | | |
| Exposures to institutions | 159.3 | 1,991.4 | 146.2 | 1,827.0 |
| Exposures to corporates | 0.0 | 0.0 | – | |
| Covered bonds | 75.9 | 948.7 | 100.9 | 1,260.6 |
| Other items | 1.1 | 13.4 | 1.2 | 15.2 |
| **Total capital requirement and Risk Exposure Amount** | **236.3** | **2,953.4** | **248.2** | **3,102.9** |
| **Credit risk according to IRB Approach** | | | | |
| *Retail exposures* | | | | |
| Exposures secured by real estate collateral | 772.4 | 9,655.6 | 1,383.1 | 17,288.2 |
| Other retail exposures | 2.8 | 34.4 | 1.5 | 18.8 |
| **Total retail exposures** | **775.2** | **9,690.0** | **1,384.6** | **17,307.0** |
| Exposures to corporates | 277.5 | 3,469.1 | 296.0 | 3,699.6 |
| **Total capital requirement and Risk Exposure Amount** | **1,052.7** | **13,159.1** | **1,680.5** | **21,006.6** |
| **Operational risk** | | | | |
| Standardised Approach | 52.0 | 649.9 | 43.1 | 538.4 |
| **Total capital requirement and operational risk** | **52.0** | **649.9** | **43.1** | **538.4** |
| Credit valuation adjustment, Standardised Approach | 108.6 | 1,357.5 | 141.7 | 1,771.7 |

### Minimum requirements for capital adequacy

The Risk Exposure Amounts is calculated in accordance with the EU's capital requirements directive and regulation. Länsförsäkringar calculates all retail exposures in accordance with the advanced Internal Ratings-based Approach (IRB). This means that a considerable portion of its credit-risk exposure is calculated using a method that aims to identify and classify risk for each individual counterparty, which includes own estimates of LGDs, PDs and CFs. The Foundation Internal Ratings-Based Approach (F-IRB) is used for the portion of the loan portfolio pertaining to counterparty exposures to corporates and the agricultural sector in excess of SEK 5 M. The Standardised Approach is applied to all of the other exposure classes.

Counterparty risk is included in the above with a capital requirement corresponding to SEK 106.3 M and a Risk Exposure Amount corresponding to SEK 1,329.0 M. The Standardised Approach is used in Länsförsäkringar Hypotek AB for operational risk.

According to the Swedish Financial Supervisory Authority's regulations on prudential requirements and capital buffers decided on 26 June 2014, the capital conservation buffer is to amount to 2.5% of the company's total risk-weighted Risk Exposure Amount and be covered by Common Equity Tier 1 capital. This corresponds to SEK 453 M in Länsförsäkringar Hypotek AB. In Pillar II, the risk weight floor for mortgages was raised to 25% from September 2014. To attain this risk weight floor, the capital requirement was increased by SEK 3,071 M.

The Financial Supervisory Authority decided in 2015 that the countercyclical capital buffer for Sweden was to be activated and set it at 1% for the period between 13 September 2015 and 22 June 2016 after which the level will be subsequently raised to 1.5%. For Länsförsäkringar Hypotek AB, this entails a requirement of SEK 181 M on 31 December 2015.

Through the transition rules, a minimum level is also calculated that corresponds to a capital requirement based on 80% of the risk-weighted assets under the former Basel I rules.

### REA

On 31 December 2015, the total Risk Exposure Amount (REA) in Länsförsäkringar Hypotek was SEK 18,120 M (26,420). The decrease in REA was due to Länsförsäkringar Hypotek AB receiving permission from the Swedish Financial Supervisory Authority during the year to change its IRB model for calculating Loss Given Default (LGD) for loans secured on residential property for private individuals. This change will result in a lower Risk Exposure Amount (REA) and thus a higher Common Equity Tier 1 capital ratio. However, the changed model will entail a corresponding increase in the Pillar II capital requirements due to the risk weight floor for mortgages. Furthermore, Länsförsäkringar Hypotek AB received approval to change the limit between what is classified as retail exposures and exposures to corporates. The total effect of these changes expressed in REA was SEK 8.6 billion at the time of the change. Growth in lending, primarily to households, led to an increase in risk exposure under the IRB Approach, while REA growth was limited due to the higher credit quality of the portfolio. REA for CVA amounted to SEK 1,358 M.

### New and amended accounting policies impacting capital adequacy

No amendments to or new IFRS applicable from 2015 had any significant effect on the consolidated financial statements or capital adequacy. With regard to new standards and interpretations which have not yet begun to be applied, IFRS 9 Financial Instruments is of particular interest in terms of capital adequacy due to its direct connection to the capital base. IFRS 9 will take effect on 1 January 2018, and contains amended principles governing the creation of reserves for expected loan losses, known as an expected loss impairment model. Länsförsäkringar currently has an IFRS 9 project in progress but it is too early to assess the effect of the rules and their effect on capital adequacy.

IFRS 15 Revenue from Contracts with Customers will take effect for fiscal years beginning on or after 1 January 2018 and will then replace all previously issued standards and interpretations on income. Länsförsäkringar has commenced an analysis of the effect of IFRS 15. However, the initial assessment is that the standard will not have any significant effect on the consolidated financial statements or on capital adequacy.

### Capital adequacy rules

Impending changes to capital adequacy rules

The Basel Committee is currently working on an extensive review of current capital adequacy frameworks. In December 2015, a second revised proposal of the Standardised Approach for credit risk was published. At the beginning of 2016, proposals are also expected for new floor requirements linked to the proposed Standardised Approach, as well as a new method for calculating operational risk and a review of rules relating to the trading book. In addition, there is an ongoing review of internal model requirements and the introduction of leverage ratio requirements. Combined, this will entail extensive changes for many banks. The consolidated situation is following the 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.

## 4 SEGMENT REPORTING

The business of the company represents a single operating segment and reporting to the chief operating decision-maker thus corresponds to the income statement and balance sheet for the year.

## 5 INTEREST INCOME

| SEK M | 2015 | 2014 |
|---|---|---|
| Loans to credit institutions | 29.3[1)] | 58.3 |
| Loans to the public | 2,977.0 | 3,285.8 |
| Interest-bearing securities | 185.6 | 306.1 |
| Derivatives | 1,514.0 | 1,953.4 |
| Other interest income | 0.1 | – |
| **Total interest income** | **4,706.0** | **5,603.6** |
| of which, interest income on impaired loans | 0.9 | 0.7 |
| Average interest rate on loans to the public during the year, % | 2.2 | 2.8 |

[1)] Of which negative interest of SEK 0.5 M.

## 6 INTEREST EXPENSE

| SEK M | 2015 | 2014 |
|---|---|---|
| Due to credit institutions | –347.8[1)] | –445.0 |
| Interest-bearing securities | –2,135.3 | –2,558.5 |
| Subordinated liabilities | –15.6 | –18.2 |
| Derivatives | –838.5 | –1,542.1 |
| Other interest expense | –43.2 | –38.8 |
| **Total interest expense** | **–3,380.4** | **–4,602.6** |

[1)] Of which negative interest of SEK 0.9 M.

## 7 COMMISSION INCOME

| SEK M | 2015 | 2014 |
|---|---|---|
| Loans | 2.2 | 2.0 |
| **Total commission income** | **2.2** | **2.0** |

## 8 COMMISSION EXPENSE

| SEK M | 2015 | 2014 |
|---|---|---|
| Remuneration to regional insurance companies | –801.5 | –565.4 |
| Other commission | –0.8 | –1.0 |
| **Total commission expense** | **–802.3** | **–566.4** |

## 9 NET GAINS FROM FINANCIAL ITEMS

| SEK M | 2015 | 2014 |
|---|---|---|
| Interest-bearing assets and liabilities and releted derivatives | 15.5 | –12.0 |
| Other financial assets ande liabilities | 0.2 | –0.3 |
| Interest compensation | 52.6 | 60.9 |
| **Total net gains/losses from financial items** | **68.3** | **48.6** |
| **Profit/loss by measurement catagory** | | |
| Derivatives intended for risk management, non-hedge accounting | 0.1 | –0.2 |
| Loans and receivables | 52.6 | 60.9 |
| Available-for-sale financial assets, realised | 2.9 | –6.1 |
| Other financial liabilities | –52.3 | –67.9 |
| Hedge accounting at fair value | | |
| – Change in value of hedged item | 442.5 | –2,527.3 |
| – Change in value of hedging instrument | –376.0 | 2,580.7 |
| Exchange-rate-effect | –1.5 | 8.5 |
| **Total** | **68.3** | **48.6** |

## 10 OTHER OPERATING INCOME

| SEK M | 2015 | 2014 |
|---|---|---|
| Other income | 0.1 | 0.4 |
| **Total other operating income** | **0.1** | **0.4** |

## 11 EMPLOYEES, STAFF COSTS AND REMUNERATION OF SENIOR EXECUTIVES

| Average number of employees, Sweden | 2015 | 2014 |
|---|---|---|
| Men | 5 | 6 |
| Women | 1 | 1 |
| **Total number of employees** | **6** | **7** |

| Salaries and other remuneration, as well as social security expenses, other employees | 2015 | 2014 |
|---|---|---|
| Salaries and remuneration | –3.5 | –3.9 |
| of which, variable remuneration | – | – |
| Social security expenses | –2.3 | –2.5 |
| of which, pension costs | –1.0 | –1.0 |
| **Total** | **–5.8** | **–6.4** |

| Board of Directors and other senior executives, 4 (4) | 2015 | 2014 |
|---|---|---|
| Salaries and remuneration | –4.9 | –4,8 |
| of which, fixed salary to the President and Executive Vice President | –4.7 | –4,5 |
| of which, variable remuneration to the President and Executive Vice President | – | – |
| Social security expenses | –3.6 | –3,4 |
| of which, pension costs | –1.6 | –1,6 |
| **Total** | **–8.5** | **–8,2** |

| Total salaries, other remuneration and social security expenses | 2015 | 2014 |
|---|---|---|
| Salaries and remuneration | –8.5 | –8,7 |
| of which, variable remuneration | – | – |
| Social security expenses | –5.9 | –5,9 |
| of which, pension costs | –2.5 | –2,6 |
| **Total** | **–14.4** | **–14,6** |

**Remuneration of the Board**
Directors' fees are payable to the Chairman and members of the Board in accordance with a decision of the Annual General Meeting. No fee is payable to employee representatives.

**Remuneration of senior executives**
Remuneration of the President and other senior executives comprises basic salary and other benefits. Pension benefits and other benefits paid to the President and other senior executives are included as part of total remuneration. Senior executives are the individuals who, together with the President, comprise corporate management.

## 11 EMPLOYEES, STAFF COSTS AND REMUNERATION OF SENIOR EXECUTIVES, cont.

**Remuneration of and other benefits for senior executives**

| SEK M | Basic salary | Variable remuneration | Other benefits | Pension costs | Total | Pension costs as a percentage of pensionable salary, % Defined-contribution |
|---|---|---|---|---|---|---|
| **2015** | | | | | | |
| Anders Borgcrantz, President | 2.8 | – | – | 1.0 | 3.8 | 35 |
| Martin Rydin, Executive Vice President | 1.9 | – | – | 0.6 | 2.5 | 29 |
| Christer Malm, Board member | 0.1 | – | – | – | 0.1 | |
| Christian Bille, Board member | 0.1 | – | – | – | 0.1 | |
| **Total** | **4.9** | – | – | **1.6** | **6.5** | |
| **2014** | | | | | | |
| Anders Borgcrantz, President | 2.7 | – | – | 1.0 | 3.7 | 35 |
| Martin Rydin, Executive Vice President | 1.8 | – | – | 0.6 | 2.4 | 32 |
| Christer Malm, Board member | 0.1 | – | – | – | 0.1 | |
| Christian Bille, Board member | 0.1 | – | – | – | 0.1 | |
| **Total** | **4.7** | – | – | **1.6** | **6.3** | |

Pension costs pertain to the impact on net profit for the year.

**Pensions**
The retirement age for the President is 65. The pension is a defined-contribution plan and the pension premium is to amount to 35% of the monthly salary. The retirement age for the Executive Vice President and other senior executives is 65 years. The terms comply with pension agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (FTF) and the Swedish Confederation of Professional Associations (SACO). Furthermore, an additional pension premium corresponding to one price base amount per year is paid every year.

**Severance pay**
A mutual period of notice of six months applies to the President. If termination of employment is issued by the company, severance pay corresponding to 18 months' salary will be paid, in addition to the period of notice. The Executive Vice President has a period of notice of six months if employment is terminated at his request, and if termination of employment is issued by the company, the period of notice is twelve months

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

**Composition of Remuneration Committee**
The composition and duties of the Remuneration Committee are regulated in the Board's formal work plan. The Remuneration Committee comprises the Chairman and one Board member.

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

Fixed remuneration
Fixed remuneration is paid according to the general policy above.

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

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

| Number of women among senior executives, % | 31 Dec 2015 | 31 Dec 2014 |
|---|---|---|
| Board members | 0 | 0 |
| Other senior executives | 0 | 0 |

**Loans to senior executives**

| | Länsförsäkringar Hypotek | | Länsförsäkringar AB Group | |
|---|---|---|---|---|
| **SEK M** | **2015** | **2014** | **2015** | **2014** |
| **Board members** | **1.5** | **1.5** | **44.3** | **51.7** |
| of which, loans from Länsförsäkringar Bank | 1.0 | 1.0 | 9.1 | 15.3 |
| of which, loans from Länsförsäkringar Hypotek | 0.5 | 0.5 | 35.2 | 36.4 |
| of which, loans from Wasa Kredit | – | – | – | – |
| **President and Executive Vice Presidents** | – | – | **12.6** | **14.8** |
| of which, loans from Länsförsäkringar Bank | – | – | 2.5 | 3.0 |
| of which, loans from Länsförsäkringar Hypotek | – | – | 10.1 | 11.8 |
| of which, loans from Wasa Kredit | – | – | – | – |
| **Senior executives** | – | – | **61.5** | **51.9** |
| of which, loans from Länsförsäkringar Bank | – | – | 10.9 | 10.4 |
| of which, loans from Länsförsäkringar Hypotek | – | – | 50.3 | 41.5 |
| of which, loans from Wasa Kredit | – | – | 0.3 | – |

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

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

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

## 12 OTHER ADMINISTRATION EXPENSES

| SEK M | 2015 | 2014 |
|---|---|---|
| Costs for premises | 0.0 | 0.0 |
| IT costs | –0.8 | –0.2 |
| Management costs | –3.4 | –2.9 |
| Other administration expenses | –76.1 | –73.4 |
| **Total administration expenses** | **–80.3** | **–76.5** |

The item Other administration expenses largely comprises administration services purchased from the Parent Company.

## 13 REMUNERATION OF AUDITORS

| SEK M | 2015 | 2014 |
|---|---|---|
| **Audit fees** | | |
| KPMG | | |
| – Audit assignment | –0.4 | –0.9 |
| – Audit activities other than audit assignment | –1.0 | –0.6 |
| Deloitte | | |
| – Other assignments | –0.4 | –0.6 |

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

## 14 DEPRECIATION AND IMPAIRMENT OF PROPERTY AND EQUIPMENT

| SEK M | 2015 | 2014 |
|---|---|---|
| Depreciation of property and equipment | –0.2 | –0.1 |
| **Total depreciation** | **–0.2** | **–0.1** |

## 15 LOAN LOSSES AND IMPAIRED LOANS

| SEK M | 2015 | 2014 |
|---|---|---|
| **Specific reserve for individually assessed loan receivables** | | |
| Write-off of confirmed loan losses during the year | –1.4 | –3,0 |
| Reversed earlier provisions of loan losses recognised as confirmed losses | 1.2 | 2,1 |
| Provisions for loan losses during the year | –4.4 | –6,1 |
| Payment received for prior confirmed loan losses | 2.6 | 3,2 |
| Reversed provisions of loan losses no longer required | 9.0 | 10,5 |
| **Net expense for the year for individually assessed loan receivables** | **7.0** | **6,7** |
| **Collective reserves for individually assessed receivables** | | |
| Provision/reversal of impairment of loan losses | – | – |
| **Collectively assessed homogenous groups of loan receivables of limited value and similar credit risk** | | |
| Provision/reversal of impairment of loan losses | 2.8 | 4,0 |
| **Net expense for the year for collectively assessed homogenous loan receivables** | **2.8** | **4,0** |
| Net expense for the year for fulfilment of guarantees | | – |
| **Net income/expense of loan losses for the year** | **9.8** | **10,7** |

The settlement model, which was introduced on January 1, 2014, regarding the commitment that the regional insurance companies have regarding loan losses related to business they have originated entails that the regional insurance companies cover 80 % of the provision requirement on the date when an impairment is identified, by an off-set against accrued commissions. On December 31, 2015, the total credit reserve requirement amounted to SEK 43 M, of which Länsförsäkringar Hypotek AB:s credit reserve amounted to SEK 30 M and the remainder amounting to SEK 13 M was offset against the regional insurance companies held funds, according to the model described above. The transition to the model means that the Länsförsäkringar Hypotek AB:s credit reserves on the date of introduction will be gradually reduced by SEK 21 M, While SEK 8 M was reversed during the period.

## 15 LOAN LOSSES AND IMPAIRED LOANS, cont.

| | 31 Dec 2015 | | | | 31 Dec 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| **Impaired loans, SEK M** | **Gross** | **Individual reserve** | **Collective reserve** | **Net** | **Gross** | **Individual reserve** | **Collective reserve** | **Net** |
| Corporate sector | – | – | – | – | – | – | – | – |
| Retail sector | 0.0 | –4.7 | –25.4 | –30.1 | 0.3 | –10.5 | –28.2 | –38.4 |
| **Total** | **0.0** | **–4.7** | **–25.4** | **–30.1** | **0.3** | **–10.5** | **–28.2** | **–38.4** |

| **Reconciliation of impairment of loan losses** | 31 Dec 2015 | | | 31 Dec 2014 | | |
|---|---|---|---|---|---|---|
| **SEK M** | **Individual reserve** | **Collective reserve** | **Total** | **Individual reserve** | **Collective reserve** | **Total** |
| **Opening balance** | **–10.5** | **–28.2** | **–38.7** | **–17.0** | **–32.2** | **–49.2** |
| Reversed earlier provisions for loan losses recognised in the annual accounts as confirmed losses | 1.2 | 2.8 | 4.0 | 2.1 | – | 2.1 |
| Reversed provisions of loan losses no longer required | 9.0 | | 9.0 | 10.5 | 4.0 | 14.5 |
| Provisions for loan losses during the year | –4.4 | | –4.4 | –6.1 | – | –6.1 |
| **Closing balance** | **–4.7** | **–25.4** | **–30.1** | **–10.5** | **–28.2** | **–38.7** |

## 16 TAX

| SEK M | 2015 | 2014 |
|---|---|---|
| **Current tax** | | |
| Current tax expense | –86.9 | –77.1 |
| Adjustment of tax expense pertaining to prior years | 13.4 | – |
| **Total current tax** | **–73.5** | **–77.1** |
| | | |
| **Total recognised tax expense** | **-73,5** | **–77.1** |
| | | |
| **Reconciliation of effective tax rate** | | |
| Profit before tax | 381.7 | 288.3 |
| Tax at applicable tax rate | –84.0 | –63.4 |
| Tax on non-deductible income | – | 0.0 |
| Tax on non-deductible costs | –2.9 | –13.7 |
| Tax attributable to prior years | 13.4 | – |
| **Total tax on net profit for the year** | **–73.5** | **–77.1** |
| | | |
| Applicable tax rate | 22.0% | 22.0% |
| Effective tax rate | 19.2% | 26.8% |
| | | |
| **Tax items recognised in other comprehensive income** | | |
| Tax on cash-flow hedge | –8.4 | –14.0 |
| Tax on financial assets available for sale | 14.1 | 0.7 |

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| SEK M | Before tax | Tax | After tax | Before tax | Tax | After tax |
| **Tax attributable to other comprehensive income** | | | | | | |
| Cash-flow hedge | 38.0 | –8.4 | 29.6 | 63.9 | –14.0 | 49.9 |
| Available-for-sale financial assets | –64.0 | 14.1 | –49.9 | –3.2 | 0.7 | –2.5 |

## 17 LOANS TO CREDIT INSTITUTIONS

| SEK M | 31 Dec 2015 | 31 Dec 2014 |
|---|---|---|
| Loans to credit institutions | 4,395.3 | 2,488.8 |
| **Total loans to credit institutions** | **4,395.3** | **2,488.8** |
| | | |
| Payable on demand | 4,290.6 | 2,488.8 |
| | | |
| Remaining term of not more than 3 months | 104.7 | – |

Loans to credit institutions includes investments of SEK 4,273.6 M (2,476.0) in the Parent Company.

Genuine repurchase transaction amount to SEK 104.7 M ( 0.8 ).

## 18 LOANS TO THE PUBLIC

Loan receivables are geographically attributable in their entirety to Sweden.

| SEK M | 31 Dec 2015 | 31 Dec 2014 |
|---|---|---|
| **Loans to the public before reserves** | | |
| Corporate sector | 7,167.1 | 6,468.5 |
| Retail sector | 139,918.5 | 119,698.1 |
| **Total** | **147,085.6** | **126,166.6** |
| | | |
| **Reserves** | **–30.1** | **–38.7** |
| | | |
| **Loans to the public** | **147,055.5** | **126,127.9** |
| | | |
| Remaining term of not more than 3 months | 83,396.2 | 70,912.8 |
| Remaining term of more than 3 months but not more than 1 year | 15,980.7 | 14,749.5 |
| Remaining term of more than 1 year but not more than 5 years | 45,866.7 | 38,994.7 |
| Remaining term of more than 5 years | 1,811.9 | 1,470.9 |
| **Total** | **147,055.5** | **126,127.9** |

Remaining term is defined as the remaining fixed-interest period if the loan has periodically restricted conditions. For more information regarding reserves, see note Loan losses and impaired loans.

## 19 BONDS AND OTHER INTEREST-BEARING SECURITIES

Issued by organisations other than public bodies

| SEK M | 31 Dec 2015 | 31 Dec 2014 |
|---|---|---|
| **Carrying amount** | | |
| Swedish mortgage institutions | 9,344.8 | 12,391.9 |
| **Total bonds and other interest-bearing securities** | **9,344.8** | **12,391.9** |
| | | |
| Fair value | 9,344.8 | 12,391.9 |
| Amortised cost | 9,117.1 | 12,044.2 |
| Nominal value | 8,775.0 | 11,475.0 |
| | | |
| **Market status** | | |
| Securities listed | 9,344.8 | 12,391.9 |
| | | |
| Remaining term of not more than 1 year | 1,224.6 | 2,051.8 |
| Remaining term of more than 1 year | 8,120.2 | 10,340.1 |

## 20 DERIVATIVES

| | 31 Dec 2015 | | 31 Dec 2014 | |
|---|---|---|---|---|
| SEK M | Nominal value | Fair value | Nominal value | Fair value |
| **Derivatives with positive values** | | | | |
| *Derivatives in hedge accounting* | | | | |
| Interest | 65,771.0 | 2,203.2 | 65,485.0 | 2,818.0 |
| Currency | 13,606.6 | 1,961.7 | 14,442.0 | 2,009.5 |
| | | | | |
| *Other derivatives* | | | | |
| Interest | – | – | 7,000.0 | 0.0 |
| **Total derivatives with positive values** | **79,377.6** | **4,164.9** | **86,927.0** | **4,827.5** |
| | | | | |
| Remaining term of not more than 1 year | 8,246.0 | 53.8 | 11,084.8 | 181.6 |
| Remaining term of more than 1 year | 71,131.6 | 4,111.1 | 75,842.2 | 4,645.9 |
| | | | | |
| **Derivatives with negative values** | | | | |
| *Derivatives in hedge accounting* | | | | |
| Interest | 72,125.0 | 1,139.7 | 62,765.0 | 1,313.6 |
| Currency | 7,699.4 | 570.6 | 13,547.9 | 433.3 |
| | | | | |
| *Other derivatives* | | | | |
| Currency | – | – | 7,000.0 | 0.2 |
| **Total derivatives with negative values** | **79,824.4** | **1,710.3** | **83,312.9** | **1,747.1** |
| Remaining term of not more than 1 year | 16,280.0 | 189.4 | 36,922.2 | 435.3 |
| Remaining term of more than 1 year | 63,544.4 | 1,520.9 | 46,390.7 | 1,311.8 |

## 21 FAIR VALUE CHANGES OF INTEREST-RATE RISK HEDGED ITEMS IN PORTFOLIO HEDGE

| SEK M | 31 Dec 2015 | 31 Dec 2014 |
|---|---|---|
| **Assets** | | |
| Carrying amount at beginning of year | 980.7 | 486.0 |
| Changes during the year pertaining to lending | –285.8 | 494.7 |
| **Carrying amount at year-end** | **694.9** | **980.7** |
| **Liabilities** | | |
| Carrying amount at beginning of year | 3,634.3 | 599.7 |
| Changes during the year pertaining to funding | –881.8 | 3,034.6 |
| **Carrying amount at year-end** | **2,752.5** | **3,634.3** |

## 22 PROPERTY AND EQUIPMENT

| SEK M | 31 Dec 2015 | 31 Dec 2014 |
|---|---|---|
| **Equipment** | | |
| Opening cost | 0.7 | 0.7 |
| Purchases | 0.4 | – |
| Sales / disposals | –0.3 | |
| **Closing cost** | **0.8** | **0.7** |
| Opening depreciation | –0.2 | –0.2 |
| Sales / disposals | 0.2 | 0.1 |
| Depreciation for the year | –0.2 | –0.1 |
| **Closing accumulated depreciation** | **–0.2** | **–0.2** |
| **Total property and equipment** | **0.6** | **0.5** |

## 23 PREPAID EXPENSES AND ACCRUED INCOME

| SEK M | 31 Dec 2015 | 31 Dec 2014 |
|---|---|---|
| Accrued interest income | 944.9 | 1,368.7 |
| Prepaid expenses | 0.8 | 3.9 |
| **Total prepaid expenses and accrued income** | **945.7** | **1,372.6** |

## 24 DUE TO CREDIT INSTITUTIONS

| SEK M | 31 Dec 2015 | 31 Dec 2014 |
|---|---|---|
| Swedish credit institutions | 41,267.7 | 32,637.1 |
| **Total liabilities due to credit institutions** | **41,267.7** | **32,637.1** |
| Payable on demand | 190.0 | 1,480.0 |
| Remaining term of not more than 3 months | 104.7 | 260.7 |
| Remaining term of more than 3 months but not more than 1 year | 40,973.0 | 30,896.4 |
| Remaining term of more than 1 year but not more than 5 years | – | – |
| Remaining term of more than 5 years | – | – |
| Credit granted in Länsförsäkringar Bank amounts to | SEK 60.0 billion | SEK.50.0 billion |

Liabilities to credit institutions include funding of SEK 40,973.0 M (32,376.4) from the Parent Company. Genuine repurchase transactions amounted to SEK 104.7 M (0.0), of which SEK 0 M (0) with Group companies.

## 25 DEBT SECURITIES IN ISSUE

| SEK M | 31 Dec 2015 | 31 Dec 2014 |
|---|---|---|
| Bond loans | 110,399.8 | 100,888.0 |
| **Total debt securities in issue** | **110,399.8** | **100,888.0** |
| Remaining term of not more than 1 year | 8,403.3 | 17,481.5 |
| Remaining term of more than 1 year | 101,996.5 | 83,406.5 |

All securities are covered bonds.

## 26 OTHER LIABILITIES

| SEK M | 31 Dec 2015 | 31 Dec 2014 |
|---|---|---|
| Accounts payable | 6.8 | 6.7 |
| Tax liabilities | 42.0 | 91.2 |
| Other liabilities | 24.5 | 24.4 |
| **Total other liabilities** | **73.3** | **122.3** |

## 27 ACCRUED EXPENSES AND DEFERRED INCOME

| SEK M | 31 Dec 2015 | 31 Dec 2014 |
|---|---|---|
| Accrued holiday pay | 0.8 | 0.9 |
| Accrued social security expenses | 0.7 | 1.3 |
| Accrued interest expense | 1,695.6 | 2,101.3 |
| Other accrued expenses | 703.4 | 508.1 |
| **Total accrued expenses and deferred income** | **2,400.5** | **2,611.6** |

## 28 PROVISIONS

| SEK M | 31 Dec 2015 | 31 Dec 2014 |
|---|---|---|
| Other provisions | 0.9 | 0.8 |
| **Total** | **0.9** | **0.8** |

**Defined-contribution pension plans**

Defined-contribution pension plans are plans according to which the company pays fixed contributions to a separate legal entity and does not have a legal or informal obligation to pay additional contributions. The Group's payments to defined-contribution plans are recognised as expenses during the period in which the employee performed the services to which the contributions refer. Primarily, contributions to the Insurance Industry's Pension Fund (FPK) are recognised here. This plan encompasses all employees except for a few employees who have individual solutions. The pension agreement for the insurance industry, the FTP plan, through insurance with the Insurance Industry's Pension Fund (FPK), is a multi-employer defined-benefit pension plan. According to IAS 19 Employee Benefits, this pension plan entails that, as a rule, a company is to recognise its proportional share of the defined-benefit pension commitment and the plan assets and expenses associated with the pension commitment. Disclosure is also to be presented in the accounts according to the requirements for defined-benefit pension plans. FPK is unable to provide the necessary information on this, which is why the pension plans above are recognised as a defined-contribution plan in accordance with item 34 of IAS 19. Nor is any information available on future surpluses and deficits in the plan or whether these surpluses and deficits would then affect the contributions for the plan in future years. The Group's expected fees in 2016 for the FTP plan amount to SEK 1.3 M.

| | 2015 | 2014 |
|---|---|---|
| Expenses for defined-contribution plans | 1.5 | 1.6 |

## 29 SUBORDINATED LIABILITIES

| SEK M | 31 Dec 2015 | 31 Dec 2014 |
|---|---|---|
| Subordinated debt | 1,001.0 | 501.0 |
| **Total subordinated liabilities** | **1,001.0** | **501.0** |

| | 31 Dec 2015 | 31 Dec 2014 | |
|---|---|---|---|
| **Specification of subordinated debt from Länsförsäkringar Bank AB (publ)** | **Carrying amount** | **Carrying amount** | **Coupon rate of interest** |
| Subordinated debt 2013/2023 LF Bank | 190.0 | 190.0 | variable 3 months |
| Subordinated debt 2013/2023 LF Bank | 150.0 | 150.0 | variable 3 months |
| Subordinated debt 2014/2024 LF Bank | 161.0 | 161.0 | variable 3 months |
| Subordinated debt 2015/2025 LF Bank | 500.0 | – | variable 3 months |
| **Total** | **1,001.0** | **501.0** | |

Subordinated debt is subordinate to the mortgage company's other liabilities, which means that it carries entitlement to payment only after the other creditors have received payment.

## 30 UNTAXED RESERVES

| SEK M | 31 Dec 2015 | 31 Dec 2014 |
|---|---|---|
| Tax allocation reserve | 308.8 | 181.8 |
| **Total** | **308.8** | **181.8** |

See also appropriations in the income statement.

## 31 EQUITY

| SEK M | 31 Dec 2015 | 31 Dec 2014 |
|---|---|---|
| **Restricted equity** | | |
| Share capital (70,335 shares, quotient value SEK 100 per share) | 70.3 | 70.3 |
| Statutory reserve | 14.1 | 14.1 |
| **Total restricted equity** | **84.4** | **84.4** |
| **Non-restricted equity** | | |
| Fair value reserve | 10.1 | 60.0 |
| Hedge reserve | 79.5 | 49.9 |
| Retained earnings | 6,225.5 | 5,514.3 |
| Net profit for the year | 308.3 | 211.2 |
| **Total non-restricted equity** | **6,623.4** | **5,835.4** |
| **Total equity** | **6,707.8** | **5,919.8** |

**Conditional shareholders' contribution received totalled:**

| | |
|---|---|
| During 2008 | 125.0 |
| During 2009 | 537.6 |
| During 2010 | 745.0 |
| During 2011 | 710.0 |
| During 2012 | 538.0 |
| During 2013 | 200.0 |
| During 2014 | 430.0 |
| During 2015 | 500.0 |
| **Total** | **3,860.6** |

## 32 PLEDGED ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS

| SEK M | 31 Dec 2015 | 31 Dec 2014 |
|---|---|---|
| **For own liabilities, pledged assets** | | |
| Collateral paid due to repurchase agreement | 104.7 | – |
| Loan receivables, covered bonds | 137,484.4 | 117,267.0 |
| Loan receivables, substitute collateral | 8,775.0 | 11,475.0 |
| **Total for own liabilities, pledged assets** | **146,364.1** | **128,742.0** |
| **Other pledged assets** | **None** | **None** |
| **Contingent liabilities** | | |
| Unconditional shareholders' contributions | 3,860.6 | 3,360.6 |
| **Other commitments** | | |
| Loans approved but not disbursed | 7,923.4 | 7,276.6 |

Loans to the public were provided as collateral for issuance of covered bonds and mortgage bonds. In the event of the company's insolvency, bond holders have preferential rights to the assets that are registered as cover pool in accordance with the Swedish Covered Bonds (Issuance) Act (2003:1223). Other pledged securities will be transferred to the pledgee in the event of bankruptcy.

## 33 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

31 Dec 2015

| SEK M | Financial assets at fair value in profit and loss: Held for trading | Financial assets at fair value in profit and loss: Derivates used in hedge accounting | Loans and receivables | Available-for-sale financial assets | Total | Fair value |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Loans to credit institutions | | | 4,395.3 | | 4,395.3 | 4,395.3 |
| Loans to the public | | | 147,055.5 | | 147,055.5 | 147,711.2 |
| Bonds and other interest-bearing securities | | | | 9,344.8 | 9,344.8 | 9,344.8 |
| Derivatives | | 4,164.9 | | | 4,164.9 | 4,164.9 |
| **Total assets** | | **4,164.9** | **151,450.8** | **9,344.8** | **164,960.5** | **165,616.2** |

| SEK M | Financial liabilities at fair value in profit and loss: Held for trading | Financial liabilities at fair value in profit and loss: Derivatives used in hedge accounting | Other financial liabilities | Total | Fair value |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Due to credit institutions | | | 41,267.7 | 41,267.7 | 41,267.7 |
| Debt securities in issue | | | 110,399.8 | 110,399.8 | 114,581.1 |
| Derivatives | | 1,710.3 | | 1,710.3 | 1,710.3 |
| Accounts payable | | | 6.8 | 6.8 | 6.8 |
| Subordinated liabilities | | | 1,001.0 | 1,001.0 | 1001.6 |
| **Total liabilities** | | **1,710.3** | **152,675.3** | **154,385.6** | **158,567.5** |

## 33 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES, CONT.

| 31 Dec 2014<br>SEK M | Financial assets at fair value in profit and loss<br>Held for trading | <br>Derivates used in hedge accounting | Loans and receivables | Available-for-sale financial assets | Total | Fair value |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Loans to credit institutions | | | 2,488.8 | | 2,488.8 | 2,488.8 |
| Loans to the public | | | 126,127.9 | | 126,127.9 | 127,341.6 |
| Bonds and other interest-bearing securities | | | | 12,391.9 | 12,391.9 | 12,391.9 |
| Derivatives | | 4,827.5 | | | 4,827.5 | 4,827.5 |
| **Total assets** | | **4,827.5** | **128,616.7** | **12,391.9** | **145,836.1** | **147,049.8** |

| SEK M | Financial liabilities at fair value in profit and loss<br>Held for trading | <br>Derivatives used in hedge accounting | Other financial liabilities | Total | Fair value |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Due to credit institutions | | | 32,637.1 | 32,637.1 | 32,637.1 |
| Debt securities in issue | | | 100,888.0 | 100,888.0 | 106,719.8 |
| Derivatives | 0.2 | 1,746.9 | | 1,747.1 | 1,747.1 |
| Accounts payable | | | 6.7 | 6.7 | 6.7 |
| Subordinated liabilities | | | 501.0 | 501.0 | 523.3 |
| **Total liabilities** | **0.2** | **1,746.9** | **134,032.8** | **135,779.9** | **141,634.0** |

The fair value of loans to credit institutions, due to credit institutions and other liabilities comprises a reasonable approximation of the fair value based on the cost of the assets and liabilities. When calculating the fair value of loans to the public, anticipated future cash flows have been discounted using a discount rate set at the current lending rate applied (including discounts). The main principle for measuring the fair value of debt securities in issue is that the value is measured at prices from external parties a the closing date or the most recent trading date. If external prices are not available or are deemed to deviate from market levels, and for measuring the fair value of subordinated liabilities, a standard method or valuation technique based on the estimated or original issue spread has been utilised. Derivatives essentially refer to swaps for which fair value has been calculated by discounting expected future cash flows. For information on the determination of fair value, valuation techniques and inputs, see also note Accounting policies.

## 34 FAIR VALUE VALUATION TECHNIQUES

Determination of fair value through published price quotations or valuation techniques.

| 31 Dec 2015<br>SEK M | Instruments with published price quotations (Level 1) | Valuation techniques based on observable market data (Level 2) | Valuation techniques based on unobservable market data (Level 3) | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Treasury bills and other eligible bills | | | | |
| Bonds and other interest-bearing securities | 9,344.8 | | | **9,344.8** |
| Derivatives | | 4,164.9 | | **4,164.9** |
| **Liabilities** | | | | |
| Derivatives | | 1,710.3 | | **1,710.3** |

| 31 Dec 2014<br>SEK M | Instruments with published price quotations (Level 1) | Valuation techniques based on observable market data (Level 2) | Valuation techniques based on unobservable market data (Level 3) | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Treasury bills and other eligible bills | | | | |
| Bonds and other interest-bearing securities | 12,391.9 | | | **12,391.9** |
| Derivatives | | 4,827.5 | | **4,827.5** |
| **Liabilities** | | | | |
| Derivatives | | 1,747.1 | | **1,747.1** |

There were no significant transfers between Level 1 and Level 2 during 2015 or during 2014. There were no transfers from Level 3 during 2015 and 2014.

For further information about how the fair value was determined for financial instruments measured at fair value in the balance sheet, and about valuation techniques and inputs, see note 1 Accounting policies. For information about determining the fair value of financial assets and liabilities not measured at fair value in profit and loss, see note Classification of financial assets and liabilities.

## 35 INFORMATION ABOUT OFFSETTING

The table below contains financial assets and liabilities covered by a legally binding framework netting agreement or a similar agreement but that is not offset in the balance sheet. The Bank Group has ISDA and CSA agreements with all derivative counterparties and corresponding netting agreements for repurchase agreements, which means that all exposures are covered by both types of agreements. The framework netting agreement entails that parties are to settle their exposures net (meaning that receivables are offset against liabilities) in the event of a serious credit incident.

| | Financial assets and liabilities that are offset or subject to netting agreements | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not offset in the balance sheet | | |
| **SEK M 31 Dec 2015** | **Gross amount** | **Offset in balance sheet** | **Net amount in balance sheet** | **Netting framework agreement** | **"Collateral Received (–) / Pledged (+)"** | **Net amount** |
| **Assets** | | | | | | |
| Derivatives | 4,164.9 | – | 4,164.9 | –1,123.2 | –174.8 | 2,866.9 |
| Reversed repurchase agreements | 104.7 | – | 104.7 | – | –104.7 | – |
| **Liabilities** | | | | | | |
| Derivatives | –1,710.2 | – | –1,710.2 | 1,123.2 | – | –587.0 |
| Repurchase agreements | –104.7 | – | –104.7 | – | 104.7 | – |
| **Total** | **2,454.6** | **–** | **2,454.6** | **0.0** | **–174.7** | **2,279.9** |

| | Financial assets and liabilities that are offset or subject to netting agreements | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not offset in the balance sheet | | |
| **SEK M 31 Dec 2014** | **Gross amount** | **Offset in balance sheet** | **Net amount in balance sheet** | **Netting framework agreement** | **"Collateral Received (–) / Pledged (+)"** | **Net amount** |
| **Assets** | | | | | | |
| Derivatives | 4,827.5 | – | 4,827.5 | –1,338.3 | –1,740.7 | 1,748.3 |
| Reversed repurchase agreements | 0.8 | – | 0.8 | – | – | 0.8 |
| **Liabilities** | | | | | | |
| Derivatives | –1,747.1 | – | –1,747.1 | 1,338.3 | – | –408.9 |
| Repurchase agreements | – | – | – | – | – | – |
| **Total** | **3,081.2** | **–** | **3,081.2** | **0.0** | **–1,740.7** | **1,340.4** |

## 36 DISCLOSURES ON RELATED PARTIES, PRICING AND AGREEMENTS

**Related parties**
Related legal entities include the Länsförsäkringar AB Group's and the Länsförsäkringar Liv Group's companies, associated companies, the 23 regional insurance companies with subsidiaries and other related parties. Other related parties comprise: Länsförsäkringar Mäklarservice , Länsförsäkringar, Fastighetsförmedling AB, PE-Holding AB (publ), Humlegården Holding I AB, Humlegården Holding II AB, Humlegården Holding III AB and Humlegården Fastigheter AB.

Related key persons are Board members, senior executives and close family members to these individuals.

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

**Agreements**
Significant agreements for the company are primarily assignment agreements with the 23 regional insurance companies and assignment agreements with Länsförsäkringar AB regarding development, service, financial services and IT. The company has agreements with the other companies in the Bank Group for Group-wide services.

**Transactions**

| | Receivables | | Liabilities | | Income | | Expenses | |
|---|---|---|---|---|---|---|---|---|
| **SEK M** | **31 Dec 2015** | **31 Dec 2014** | **31 Dec 2015** | **31 Dec 2014** | **2015** | **2014** | **2015** | **2014** |
| Länsförsäkringar Bank AB (Parent Company) | 7,049.5 | 5,122.7 | 42,356.4 | 33,051.7 | 947.9 | 656.3 | 556.8 | 781.3 |
| Other companies in the Bank Group | 0.8 | 0.7 | | – | | – | 0.0 | 0.1 |
| Other companies in the Länsförsäkringar AB Group | – | 0.2 | 0.0 | – | – | – | 0.9 | 1.2 |
| Regional insurance companies | – | – | 628.0 | 447.1 | – | – | 801.5 | 565.4 |

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

## 37 EVENTS AFTER BALANCE-SHEET DATE

No significant events took place after the balance-sheet date.

# Statement from the Board

The Board of Directors and President affirm that this Annual Report was prepared in accordance with generally accepted accounting policies in Sweden and that the accounts were prepared in accordance with legally restricted IFRSs, meaning in accordance with the international accounting standards referred to in Regulation (EC) No 1606/2002 of the European Parliament and the Council issued on July 19, 2002 on the application of international accounting standards, with the limitations stipulated by the Swedish Annual Accounts Act and regulations. The Annual Report gives a true and fair view of the company's position and earnings. The Board of Directors' Report provides a true and fair overview of the company's operations, financial position and earnings, and describes the significant risks and uncertainties to which the company is exposed.

Stockholm, 25 February 2016

| | | |
|---|---|---|
| Rikard Josefson<br>*Chairman* | Gert Andersson<br>*Board member* | Christian Bille<br>*Board member* |
| Bengt Clemedtson<br>*Board member* | Christer Malm<br>*Board member* | Anders Borgcrantz<br>*President* |

My audit report was submitted on 25 February 2016

Dan Beitner
*Authorised Public Accountant*

# Audit Report

**To the annual meeting of the shareholders of Länsförsäkringar Hypotek AB (publ), corp. id 556244-1781.**

**Report on the annual accounts**

I have audited the annual accounts of Länsförsäkringar Hypotek AB (publ) for the year 2015. The annual accounts of the company are included in the printed version of this document on pages 10–45.

### Responsibilities of the Board of Directors and the Managing Director for the annual accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

My responsibility is to express an opinion on these annual accounts based on my audit. I conducted my audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### Opinions

IIn my opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies, and present fairly, in all material respects, the financial position of Länsförsäkringar Hypotek AB (publ) as of 31 December 2015 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts.

I therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet.

**Report on other legal and regulatory requirements**

In addition to my audit of the annual accounts, I have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Länsförsäkringar Hypotek AB (publ) for the year 2015.

### Responsibilities of the Board of Directors and the President

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

### Auditor's responsibility

My responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on my audit. I conducted the audit in accordance with generally accepted auditing standards in Sweden.

As basis for my opinion on the Board of Directors proposed appropriations of the company's profit or loss I examined whether the proposal is in accordance with the Companies Act.

As basis for my opinion concerning discharge from liability, in addition to my audit of the annual accounts, I examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. I also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinions.

### Opinions

I recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Stockholm, 25 February 2016

Dan Beitner
*Authorised Public Accountant*

# Board of Directors

## Rikard Josefson ❶

*Board Chairman.*
Born 1965. President Länsförsäkringar Bank. **Education:** Bachelor of Arts. **Other Board appointments:** Board Chairman of Wasa Kredit AB. Board member of Länsförsäkringar Fondförvaltning, Länsförsäkringar Fastighetsförmedling, SFM Stockholm AB and the Livslust Foundation. **Background:** 25 years at SEB in various senior positions.


## Christian Bille ❷

Born 1962. President Länsförsäkringar Halland. Elected 2010. **Education:** Bachelor of Science in Business and Economics. **Other Board appointments:** Board member of Länsförsäkringar Halland and Länsförsäkringar Bank. **Background:** President Sparbanken Syd, Operating Manager Swedbank.


## Bengt Clemedtson ❸

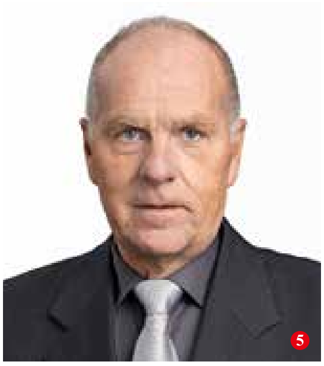
Born 1964. Head of Business Länsförsäkringar Bank. Elected 2009. **Education:** Master of Science in Business and Economics. **Other Board appointments:** Board Chairman of AB Superb Produkt. **Background:** President Skandiabanken Bolån AB.


## Gert Andersson ❹

Born 1959. Head of Product & Process Länsförsäkringar Bank. Elected 2014. **Education:** Upper secondary diploma in Economics. **Other Board appointments:** Board member of Finansiell IDTeknik BID AB and Eventosaurus Holding AB, founder and board member of Gert A consulting AB. **Background:** Head of Sales area Direct, Head of Sales and Marketing at Wasa Kredit and 25 years of experience in various senior positions at SEB.


## Christer Malm ❺

Born 1943. Elected 2005. **Education:** No academic education. **Other Board appointments:** Board Chaiman of Gaia Leadership. **Background:** Executive Vice President Posten, President Postgirot, President SBAB and CEO HSB Sverige.




**AUDITOR**

## Dan Beitner

Authorised Public Accountant,
KPMG AB.

# Management

## Anders Borgcrantz ❻

Born 1961. President. Employed since 2003. **Education:** Master of Science in Business and Economics. **Background:** Executive Vice President FöreningsSparbanken, President SPINTAB and Regional Manager FöreningsSparbanken.


## Martin Rydin ❼

Born 1968. Executive Vice President and CFO. Employed since 2012. **Education:** Master of Laws. **Background:** Head of Long Term Funding Swedbank.

# Definitions

**Capital base**
Comprises the sum of Tier 1 and Tier 2 capital and the difference between expected losses and reserves established for probable loan losses.

**Capital adequacy ratio**
Closing capital base in relation to the risk-weighted amount at year-end.

**Capital ratio**
Capital base in relation to capital requirements.

**Common Equity Tier 1 capital**
Total Tier 1 capital excluding Additional Tier 1 instruments.

**Common Equity Tier 1 capital ratio**
Common Equity tier 1 capital in relation to the risk-weighted amount.

**Cost/income ratio**
Total expenses in relation to total income. The cost/income ratio is calculated before and after loan losses.

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

**Impaired loans reserve ratio excluding collective impairments**
Individual reserves for loan receivables in relation to impaired loans gross.

**Investment margin**
Net interest in relation to average total assets.

**Impaired loan**
A loan receivable is considered impaired if a payment is more than 60 days past due or if the counterparty for other reasons cannot meet its undertaking. The loan recievable is considered impaired to the extent that its whole amount is not covered by collateral.

**Loan losses, net**
Confirmed loan losses and reserves for loan losses less recoveries of receivables and net expense for the year for loan losses for guarantees and other contingent liabilities.

**Loan losses in relation to lending**
Net loan losses in relation to the carrying amount of loans to the public and to credit institutions.

**Percentage of impaired loans**
Impaired loans in relation to the carrying amount of loans to the public and to credit institutions.

**Reserves in relation to loans**
Reserves for impaired loans in relation to the total of loans to the public and loans to credit institutions.

**Return on equity**
Operating profit after standard tax as a percentage of average equity, adjusted for changes in the value of financial assets that are recognised in equity.

**Return on total capital**
Operating profit in relation to average total assets.

**Risk Exposure Amount**
The Risk Exposure Amount is calculated by multiplying an institution's capital requirement for all assets in the balance sheet, off balance sheet items, operational risk and credit valuation adjustment risk by 12.5.

**Risk-weighted amount**
Total assets in the balance sheet and off-balance sheet commitments valued in accordance with the Capital Adequacy and Large Exposures Act. Volumes are weighted taking into account assessed risk so that they are included in the risk-weighted amount by 0%, 20%, 50% or 100%.

**Tier 1 capital**
Tier 1 capital is part of the capital base and comprises equity and Additional Tier 1 instruments. Deductions are made for such items as deferred tax assets, goodwill and other intangible assets, investments in financial companies and the difference between expected losses and reserves established for probable loan losses.

**Tier 1 ratio**
Tier 1 capital at year-end in relation to the closing risk-weighted amount.

**Tier 2 capital**
Primarily comprises fixed-term subordinated debt.

**Total impaired loans reserve ratio**
Total reserves for loan receivables in relation to impaired loans gross.

# Financial calendar 2016

| | |
|---|---|
| **First quarter:** | |
| Interim report January–March | 27 April 2016 |
| **Second quarter:** | |
| Interim report April–June | 20 July 2016 |
| **Third quarter:** | |
| Interim report July–September | 25 October 2016 |

# Addresses

**Länsförsäkringar Norrbotten**
Box 937
SE-971 28 Luleå
Visit: Köpmantorget
Phone: +46 920-24 25 00
E-mail: info@LFnorrbotten.se

**Länsförsäkringar Västerbotten**
Box 153
SE-901 04 Umeå
Visit: Nygatan 19
Phone: +46 90-10 90 00
E-mail: info@LFvasterbotten.se

**Länsförsäkringar Jämtland**
Box 367
SE-831 25 Östersund
Visit: Prästgatan 18
Phone: +46 63-19 33 00
E-mail: info@lfz.se

**Länsförsäkringar Västernorrland**
Box 164
SE-871 24 Härnösand
Visit: Köpmangatan 13
Phone: +46 611-36 53 00
E-mail: info@lfy.se

**Länsförsäkringar Gävleborg**
Box 206
SE-801 03 Gävle
Visit: Drottninggatan 35
Phone: +46 26-14 75 00
E-mail: info@lfgavleborg.se

**Dalarnas Försäkringsbolag**
Box 3
SE-791 21 Falun
Visit: Slaggatan 9
Phone: +46 23-930 00
E-mail: info@dalarnas.se

**Länsförsäkringar Värmland**
Box 367
SE-651 09 Karlstad
Visit: Köpmannagatan 2 A
Phone: +46 54-775 15 00
E-mail: info@LFvarmland.se

**Länsförsäkringar Uppsala**
Box 2147
SE-750 02 Uppsala
Visit: Fyrisborgsgatan 4
Phone: +46 18-68 55 00
E-mail: info.uppsala@lansforsakringar.se

**Länsförsäkringar Bergslagen**
Box 1046
SE-721 26 Västerås
Visit: Stora Gatan 41
Phone: +46 21-19 01 00
E-mail: info@lfbergslagen.se

**Länsförsäkringar Stockholm**
SE-115 97 Stockholm
Visit: Tegeluddsvägen 21
Phone: +46 8-562 830 00
E-mail: info.stockholm@lansforsakringar.se

**Länsförsäkringar Södermanland**
Box 147
SE-611 24 Nyköping
Visit: Västra Storgatan 4
Phone: +46 155-48 40 00
E-mail: info@lfs.se

**Länsförsäkringar Göteborg och Bohuslän**
SE-404 84 Gothenburg
Visit: Lilla Bommen 8
Phone: +46 31-63 80 00
E-mail: info@gbg.lansforsakringar.se

**Länsförsäkringar Skaraborg**
Box 600
SE-541 29 Skövde
Visit: Rådhusgatan 8
Phone: +46 500-77 70 00
E-mail: info@LFskaraborg.se

**Länsförsäkringar Östgöta**
Box 400
SE-581 04 Linköping
Visit: Platensgatan 11
Phone: +46 13-29 00 00
E-mail: info@lfostgota.se

**Länsförsäkringar Älvsborg**
Box 1107
SE-462 28 Vänersborg
Visit: Vallgatan 21
Phone: +46 521-27 30 00
E-mail: info@alvsborg.lansforsakringar.se

**Länsförsäkringar Gotland**
Box 1224
SE-621 23 Visby
Visit: Österväg 17
Phone: +46 498-28 18 50
E-mail: info@lfgotland.se

**Länsförsäkringar Jönköping**
Box 623
SE-551 18 Jönköping
Visit: Barnarpsgatan 22
Phone: +46 36-19 90 00
E-mail: info@lfj.se

**Länsförsäkringar Halland**
Box 518
SE-301 80 Halmstad
Visit: Strandgatan 10
Phone: +46 35-15 10 00
E-mail: info@halland.lansforsakringar.se

**Länsförsäkring Kronoberg**
Box 1503
SE-351 15 Växjö
Visit: Kronobergsgatan 10
Phone: +46 470-72 00 00
E-mail: info@LFkronoberg.se

**Länsförsäkringar Kalmar län**
Box 748
SE-391 27 Kalmar
Visit: Norra Långgatan 17
Phone: +46 20-66 11 00
E-mail: info@LFkalmar.se

**Länsförsäkringar Blekinge**
Box 24
SE-374 21 Karlshamn
Visit: Kyrkogatan 21
Phone: +46 454-30 23 00
E-mail: info@lfblekinge.se

**Länsförsäkringar Göinge-Kristianstad**
Box 133
SE-291 22 Kristianstad
Visit: Tivoligatan 6
Phone: +46 44-19 62 00
E-mail: info.goinge-kristianstad@lansforsakringar.se

**Länsförsäkringar Skåne**
Box 742
SE-251 07 Helsingborg
Visit: Södergatan 15
Phone: +46 42-633 80 00
E-mail: info.skane@lansforsakringar.se

**JOINT COMPANIES**

**Länsförsäkringar AB**
SE-106 50 Stockholm
Visit: Tegeluddsvägen 11–13
Phone: +46 8-588 400 00
E-mail: info@lansforsakringar.se

**Länsförsäkringar Liv**
SE-106 50 Stockholm
Visit: Tegeluddsvägen 11–13
Phone: +46 8-588 400 00
E-mail: info@lansforsakringar.se

**Länsförsäkringar Fondliv**
SE-106 50 Stockholm
Visit: Tegeluddsvägen 11–13
Phone: +46 8-588 400 00
E-mail: info@lansforsakringar.se

**Länsförsäkringar Sak**
SE-106 50 Stockholm
Visit: Tegeluddsvägen 11–13
Phone: +46 8-588 400 00
E-mail: info@lansforsakringar.se

**Länsförsäkringar Bank**
SE-106 50 Stockholm
Visit: Tegeluddsvägen 11–13
Phone: +46 8-588 400 00
E-mail: info@lansforsakringar.se

**Länsförsäkringar Hypotek**
SE-106 50 Stockholm
Visit: Tegeluddsvägen 11–13
Phone: +46 8-588 400 00
E-mail: info@lansforsakringar.se

**Länsförsäkringar Fondförvaltning**
SE-106 50 Stockholm
Visit: Tegeluddsvägen 11–13
Phone: +46 8-588 400 00
E-mail: info@lansforsakringar.se

**Wasa Kredit**
Box 6740
SE-113 85 Stockholm
Visit: Tegeluddsvägen 11–13
Phone: +46 8-635 38 00
E-mail: info@wasakredit.se

**Agria Djurförsäkring**
Box 70306
SE-107 23 Stockholm
Visit: Tegeluddsvägen 11–13
Phone: +46 8-588 421 00
E-mail: info@agria.se

**Länsförsäkringar Fastighetsförmedling**
Box 742
SE-251 07 Helsingborg
Visit: Södergatan 15
Phone: +46 42-633 98 10
E-mail: helsingborg@lansfast.se

**Länsförsäkringar Mäklarservice**
Box 27120
SE-102 52 Stockholm
Visit: Tegeluddsvägen 21
Phone: +46 8-588 490 00
E-mail:
info.maklarservice@lansforsakringar.se

**Humlegården Fastigheter**
Box 5182
SE-114 34 Stockholm
Visit: Engelbrektsplan 1
Phone: +46 8-678 92 00
E-mail: info@humlegarden.se

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