Länsförsäkringar Bank

Annual Report

2016

Länsförsäkringar

The 2016 fiscal year

Significant events

- Operating profit increased 25% to SEK 1,467 (1,175) and the return on equity strengthened to 10.1% (8.9).
- Net interest income increased 15% to SEK 3,455 M (2,994).
- Loan losses amounted to SEK 37.6 M (6.1)[1], net, corresponding to a loan loss level of 0.02% (0.00).
- Business volumes increased 13% to SEK 455.1 billion (404.3).
- Deposits increased 9% to SEK 91.2 billion (83.9).
- Lending increased 12% to SEK 226.7 billion (202.0).
- The Common Equity Tier 1 capital ratio for the consolidated situation amounted to 21.2% on 31 December 2016.
- The number of customers with Länsförsäkringar as their primary bank rose 11% to 419,000 (378,000), and the number of bank cards increased 11% to 517,000 (466,000).

[1] Includes the dissolution of reserves of SEK 23.3 M (60.0).

Business volumes in SEK billion

455 +13%

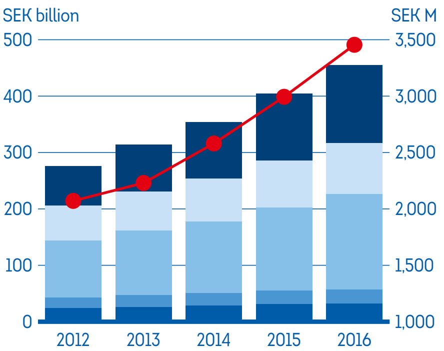
Primary bank customers who are also insurance customers

92%

Number of customers with the bank as their primary bank

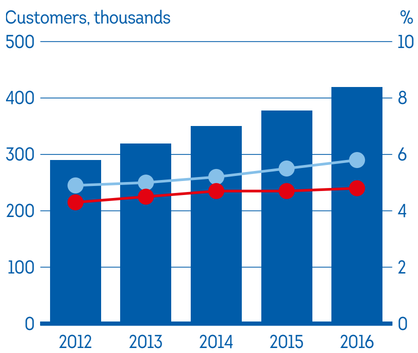
419,000

Business volumes and net interest income



Total business volumes have increased an average of 12% per year over the past five years. Net interest income has risen an average of 16%.

Primary customers and market shares



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

Key figures

SEK M	2016	2015	2014	2013	2012
Return on equity, %	**10.1**	8.9	8.3	6.7	6.3
Return on total capital, %	**0.54**	0.48	0.42	0.31	0.30
Investment margin, %	**1.28**	1.22	1.15	1.06	1.11
Cost/income ratio before loan losses	**0.51**	0.57	0.62	0.63	0.66
Common Equity Tier 1 capital ratio, Bank Group, %	**24.8**	23.7	16.2	–	–
Tier 1 ratio, Bank Group, %	**27.5**	26.6	16.2	–	–
Total capital ratio, Bank Group, %	**33.4**	32.0	20.6	–	–
Common Equity Tier 1 capital ratio, consolidated situation, %	**21.2**	21.4	13.9	–	–
Tier 1 ratio, consolidated situation, %	**23.2**	23.7	13.9	–	–
Total capital ratio, consolidated situation, %	**27.6**	28.2	17.5	–	–
Percentage of impaired loans, gross, %	**0.11**	0.12	0.17	0.23	0.19
Reserve ratio in relation to loans, %	**0.11**	0.14	0.19	0.25	0.21
Reserve ratio in relation to loans, incl. withheld remuneration to regional insurance companies, %	**0.17**	0.19	0.23	–	–
Loan losses in relation to loans, %	**0.02**[1]	0.00[1]	0.00[1]	0.08	0.06

[1] Includes the dissolution of reserves.

Länsförsäkringar Bank

Sweden's fifth largest retail bank

Länsförsäkringar Bank is the fifth largest retail bank in Sweden and its strategy is to offer attractive banking services to the Länsförsäkringar Alliance's customers. Close customer relationships are created at personal meetings at the 128 branches of the regional insurance companies throughout Sweden and via digital services and telephone. The aim is to have the most satisfied customers, maintain healthy growth in volumes and profitability at low risk, and to increase the share of customers who have both banking and insurance with Länsförsäkringar. According to the 2016 Swedish Quality Index, Länsförsäkringar Bank once again has Sweden's most satisfied retail customers.

Länsförsäkringar in brief

Local companies with customers who are owners and the only principal

Länsförsäkringar comprises 23 local, customer-owned regional insurance companies and the jointly owned Länsförsäkringar AB 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.

3.7 million customers

23 local regional insurance companies

Länsförsäkringar AB

Länsförsäkringar Bank AB
- **Länsförsäkringar Hypotek AB**
- **Wasa Kredit AB**
- **Länsförsäkringar Fondförvaltning AB**

Länsförsäkringar Sak Försäkrings AB

Länsförsäkringar Fondliv Försäkrings AB

Länsförsäkringar Liv Försäkrings AB*

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

Contents

Statement by the President Earnings for 2016 were our best ever and growth is continuing across our entire banking operations. We have the most satisfied retail customers in the Swedish bank market, and are continuing to deliver based on our strong local presence that combines personal customer meetings with market-leading digital services.

Continued strong growth in all business segments

2016 – yet another strong year
Länsförsäkringar Bank turned 20 in 2016 and we are very pleased to state that the bank continued its strong performance. We once again posted our best ever earnings and are continuing to deliver based on our strong local presence combined with marketing-leading digital solutions. Growth remains healthy and business volumes continue to develop well. Net interest income trended positively and credit quality remains high with very low loan losses. Our market shares are continuing to grow in all segments and we consolidated our position as the fifth largest retail bank in Sweden. Customer satisfaction is very high and Länsförsäkringar Bank once again has the most satisfied retail bank customers in the Swedish bank market according to the Swedish Quality Index.

Eventful year in the world
2016 was an eventful year dominated by an uncertain economic environment and political unrest. The Swedish economy remained strong, although its strength abated slightly as the year progressed. Inflation remains very low and the Riksbank lowered the already negative key interest rate further at the start of the year to -0.50%, while still pursing its expansive monetary policies based on its bond-buying stimulus programme. Historically low interest rates also contributed to housing price increases during the year, which led to a greater macroeconomic risk for Sweden. The intensified debate surrounding housing prices resulted in discussions on additional measures, such as the introduction of a debt ratio ceiling or abolishing interest deductions. However, it is vital that the core problems related to many years of low new housing construction and a poorly functioning housing market are first addressed to cover the imbalances in the supply of housing.

> Our aim is to always be the leader in the digital field of the bank market.

Digital solutions and local presence continue to generate success
With its 23 customer-owned regional insurance companies, Länsförsäkringar offers unique, local presence throughout Sweden that allows us to prioritise personal customer meetings and establish a closer relationship with our customers, while also enabling us to make more accurate risk assessments in our lending. The development of our digital offering is driven by customer demand for easy to use and highly functional solutions. Our aim is to be the leader in the digital field of the bank market and continuously remain at the forefront of developments of new services. Länsförsäkringar was named "Best Mobile Bank" at the Mobilgalan in January 2016 and we were also very proud to win "Sweden's Best App and Mobile Site" for the second consecutive year at the Web Service Award in January 2017. The two key reasons that we continue to have the most satisfied retail customers

> Our unique, local presence throughout Sweden allows us to prioritise personal customer meetings and establish a closer relationship with our customers.

in 2016 were our ability to meet the continued demand for personal meetings through our strong local presence and our leading digital services. Customer satisfaction is a high priority for us and a basic prerequisite for continuing on our journey of success.

Changing regulations

A number of bank-related regulations are currently under review. These include capital adequacy requirements, new accounting regulations under the framework of IFRS 9 and the new requirements of the Crisis Management Directive. There are also a number of operational regulations, such as the Payment Services Directive (PSD2). Regulatory changes are expected to continue to have a major impact on banks and uncertainty exists in several areas regarding the final implications of these requirements. Länsförsäkringar Bank is highly prepared and well capitalised for impending changes.

Positioned for continued growth

During the year, we strengthened our capitalisation, while we maintained a highly favourable liquidity situation. Our strong balance sheet means that we are very resilient, which supports our growth. We are convinced that the Länsförsäkringar Alliance's broad customer base and strong market position, combined with a nationwide distribution network and leading digital services, provide us with a solid platform for continuing to strengthen the bank's market position.

Stockholm, February 2017

Rikard Josefson
President of Länsförsäkringar Bank

A customer-owned bank with a strong local presence

Strategy and position Länsförsäkringar Bank is the fifth largest retail bank in Sweden. With an excellent local presence and close customer dialogue, both through local meetings as well as with market-leading digital services, Länsförsäkringar Bank is one of the leading players in the Swedish bank market.

Business volumes: SEK 455 billion

+13%

Primary bank customers who are also insurance customers

92%

Number of primary bank customers 419,000

+11%

Strategy and goals

Länsförsäkringar Bank was founded in 1996 and is the fifth largest retail bank in Sweden with a business volume of SEK 455 billion. The banking operations are conducted only in Sweden and business volumes are continuing to grow in all areas.

The strategy is to offer banking services to the Länsförsäkringar Alliance's customers and leverage Länsförsäkringar's strong brand and local presence. The banking operations have a large potential customer base with the Länsförsäkringar Alliance's 3.7 million customers. The main target groups are the 3.0 million retail customers, of whom 2.2 million are home-insurance customers. Other target groups are agricultural customers and small businesses. The aim is, based on low risk, to maintain healthy growth in volumes and profitability, have the most satisfied customers and more customers who have both banking and insurance with Länsförsäkringar.

According to the 2016 Swedish Quality Index, Länsförsäkringar Bank once again has Sweden's most satisfied retail customers, an accolade that Länsförsäkringar Bank has received in ten of the past 13 years and is confirmation of the clear customer focus and high quality of the banking operations. With a comprehensive banking and insurance offering from Länsförsäkringar, customers receive a secure, total solution for their private finances.

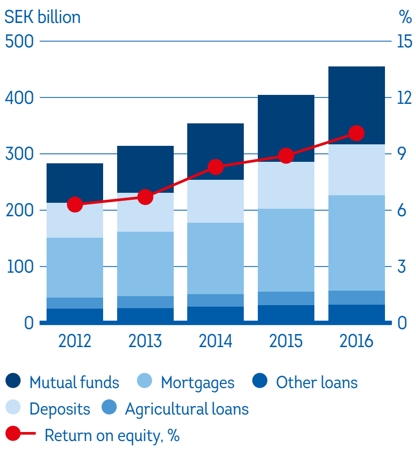
Customer ownership

The Länsförsäkringar Alliance consists of 23 local, customer-owned regional insurance companies and the jointly owned Länsförsäkringar AB, which is the bank's Parent Company. The insurance customers own the regional insurance companies, which means that the principles of customer ownership also apply to the banking operations. Long-term respect for customers' security is fundamental to Länsförsäkringar, since customers are both the principal and owner.

Customer meetings and local presence

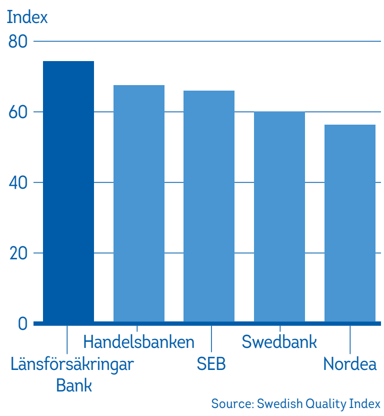
The regional insurance companies are responsible for the local business operations

Business volumes and return on equity



The bank reported healthy growth in both volumes and profitability.

Customer satisfaction, retail banking



Länsförsäkringar Bank has the most satisfied retail customers according to the Swedish Quality Index (SKI 2016).

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

Digital services leader
Digital services are an important supplement to local customer meetings. The digital services in the mobile app and Internet bank make it convenient and easy for customers to do their banking. The number of customer transactions using both the mobile app and the Internet bank continues to rise. Länsförsäkringar Bank's leading-edge position in this area was confirmed at the Mobilgala in January 2016 when our app won "Sweden's Best Mobile Bank." Länsförsäkringar also won "Sweden's Best App and Mobile Site" for the second consecutive year at the Web Service Award in January 2017. The bank has in the previous year also launched a banking service for the Apple Watch and Android Watch. The bank's goal is to be the leader in digital services.

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

A strong brand
The bank's successful growth and position in the market is based on Länsförsäkringar's strong brand, local presence and customer ownership.

Sweden remains strong

Economic environment and market 2016 was an eventful year in the world, dominated by several political events that shaped the economic environment. Sweden continued to experience an economic upturn and housing prices continued to rise during the year.

2016 was an eventful year of political uncertainty, but it also started with economic unease and a sharp decline in the oil price. Fears about the global economy, particularly regarding growth prospects for China, impacted the financial markets in the form of both stock-market downturns and falls in interest rates. Despite initial market concern, global growth for 2016 appears to be only slightly lower than initially expected at the start of the year. This slightly weaker trend was primarily the result of lower growth than anticipated in the US, although this was offset by, for example, China's more positive performance. This allowed the Federal Reserve to cautiously continue to normalise its monetary policy and raise its key interest rate at the end of the year, only the second increase since 2006. Europe continued to recover during the year, partly due to the ECB's highly expansive measures, such as commencing its corporate sector purchase programme. The political situation was also a key focal point of the year. The UK voted to leave the European Union and the Republican candidate Donald Trump won the US presidential election. It is more difficult to predict the long-term implications, even though market reactions following the EU referendum in the UK were short-lived and reactions after the US presidential election limited. Trump's victory at the polls impacted market expectations of growth and inflation in the US for the next few years. Greater fiscal stimulus packages are expected to strengthen growth in an economic climate that is already booming, which thus increases the risk of higher inflation and interest rates.

Global long-term interest rates rose in the autumn from historically low, and in certain cases negative, levels, an upswing that accelerated after the US presidential election. Interest rates for covered bonds fell during the year and investor demand was high. The majority of the world's equities markets reported positive returns for the year and the stock-market trend in the US and emerging markets was particularly favourable measured in SEK.

The Swedish economy continued to perform at a healthy rate and was largely in line with expectations. However, inflation presented a negative surprise, and means that we are now in the unusual situation of having a more expansive monetary policy despite Sweden experiencing an economic boom. Housing prices continued to rise but the rate gradually declined over the course of the year.

Regulatory development

Regulatory changes are expected to continue to have a major impact on banks and some uncertainty exists in several areas regarding the final requirements. The European Commission and Basel Committee continued their work on reviewing current capital adequacy frameworks. At the end of 2016, the European Commission published its proposed reviews of the existing capital-adequacy requirements – both the regulation and the directive. The Basel Committee published a number of consultations during the year, for example, the standardised measurement approach for operational risk, restrictions on the application of internal models for credit risk, a review of Pillar III requirements, the leverage ratio and management of accounting reserves in capital adequacy. The review of capital adequacy rules is expected to result in significant changes for banks.

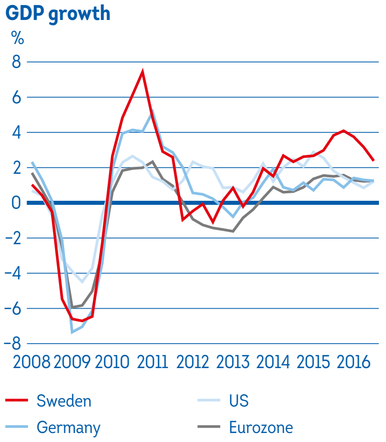
New EU rules on bank recovery and resolution were introduced in Sweden during the year. A central principle of the rules is that the banks' owners and lenders are to incur any losses in the event of a financial crisis, rather than the tax payer.

The new accounting standard IFRS 9 applies from 1 January 2018 and the bank's process of implementation is proceeding according to plan. The new rules include changes to the recognition of loan losses. A number of operations rules, such as PSD2, will also take effect.

Länsförsäkringar Bank AB is highly prepared and well capitalised for impending changes, even if it is slightly unclear at this stage what the effects will be.

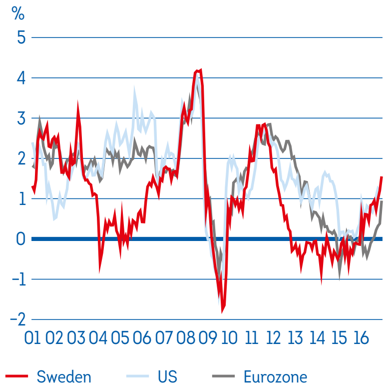
Market facts

GDP growth



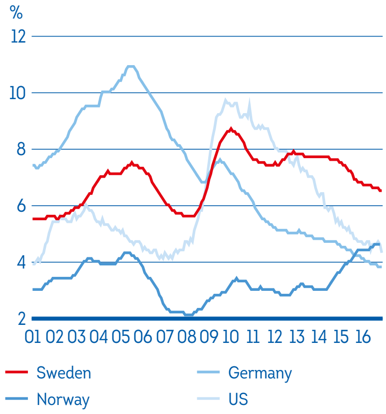
The Swedish economy performed well during the year.

Inflation



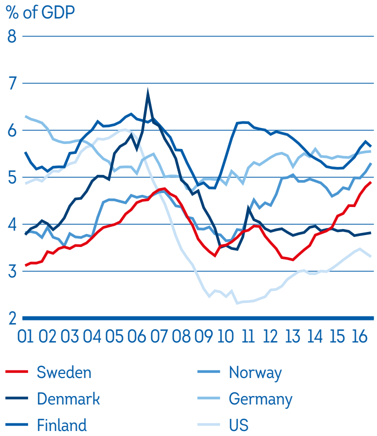
Inflation (CPI) in Sweden remained low and is far below the Riksbank's target of 2%.

Unemployment



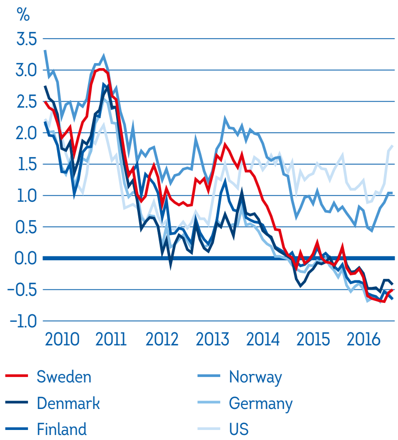
The labour market continued to perform strongly during the year.

Housing construction



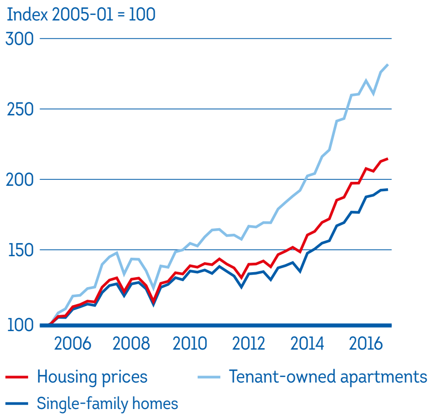
Sweden has a huge shortage of housing that will take many years to overcome, caused by low housing investments for nearly 20 years.

Government bond rates (five-year)



Low inflation contributed to falling Swedish government bond rates.

Housing-price trends



Swedish housing prices continued to rise in 2016, due to high demand combined with a limited supply of residential properties and low interest rates.

A complete offering

Offering Länsförsäkringar Bank's operations are based on customer needs and the offering is continuously broadened and adjusted to create financial security for customers' daily lives. Savings and mortgage repayments are key elements of customers maintaining well-balanced private finances.

Deposits from the public

+9%

Loans to the public

+12%

Mortgages

+15%

Fund volumes

+15%

Number of bank cards

+11%

Savings
Länsförsäkringar focuses on giving customers secure savings. For example, customers are offered savings in the form of fixed-interest and savings accounts, and also through such products as mutual fund savings, Investment Savings Accounts (ISK) and equities savings. Customer meetings strive to ensure that customers have well-balanced private finances in which savings and mortgage repayments are key elements. Customers' private finances are more secure over time by making mortgage repayments.

Deposits
Deposits from the public rose 9% to SEK 91 billion and growth has been stable in recent years. The market share for household deposits was 4.8% and the number of deposit accounts increased 8%. The ISK displayed healthy growth during the year.

Fund and securities
Sweden's fund market continued to grow in 2016. Länsförsäkringar Fondförvaltning commands a market share measured in fund assets of 3.5%. The fund offering includes 39 mutual funds under Länsförsäkringar's own brand with various investment orientations and fund markets with external funds. Four new funds were launched during the year and the management of two funds was transferred to Länsförsäkringar Fondförvaltning. The average return of the funds for the year was 10.2%.

The fund volume increased 15% to SEK 138 billion during the year. Our award-winning mobile app allows customers to manage fund savings, change, purchase and sell funds and shares, thus solidifying the bank's strong position in digital services.

Trading in equities and other securities is growing steadily among customers and the number of brokerage accounts rose during the year. Structured products are also offered, such as equity-linked bonds.

Lending
The bank's lending is continuing to grow stably while maintaining low risk. Lending increased 12% to SEK 227 billion. The market share for household lending amounted to 5.8%. The percentage of bank customers that have both banking and insurance with Länsförsäkringar was 92% at year-end. The largest product is retail mortgages, which comprises 74% of the loan portfolio. Retail mortgages are mostly granted by Länsförsäkringar Hypotek, which offers mortgages up to 75% of the market value, and any surplus mortgage portions are offered by Länsförsäkringar Bank. The bank also has loans to tenant-owners' associations and to multi-family housing.

In 2014, Länsförsäkringar Bank was the first Swedish bank to licence all of its mortgage advisors. Such licensing exams, which are based on the proficiency requirements of the EU Mortgage Credit Directive, create greater security for customers, and the bank is the only player in the market to do this.

Länsförsäkringar is the third largest provider of agricultural loans in Sweden. The bank's agricultural loans are primarily targeted to family-owned agricultural operations that are insurance customers with Länsförsäkringar. The average agricultural loan commitment is small and the percentage of first-lien mortgages is 93%. Agricultural lending grew at a lower rate than other loans during the year and its share of total loans is falling.

Wasa Kredit offers leasing, hire purchase and unsecured loans and the growth in lending for the year was favourable.

Payments and bank cards

Bank cards are continuously developed to offer customers security and a high level of service in their payment services. The number of bank cards increased 11% to 517,000 and the number of card-payment transactions rose 14% to 135 million. The Swish service, which allows private individuals to send payments directly to the recipient's account using a mobile telephone number, performed well during the year. Länsförsäkringar Bank, which is one of the parties behind the Swish partnership, owns 10% of the company that manages and develops the service.

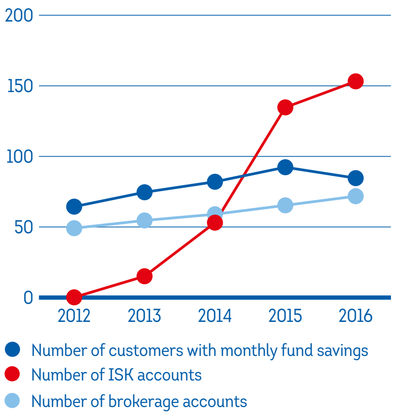
Business segment

Deposits in the business segment continued to grow. The largest increase was noted in deposits in trading and investment accounts. Deposits from small businesses totalled SEK 11 billion for the year and loans to small businesses to SEK 1.5 billion.

Offering to young people

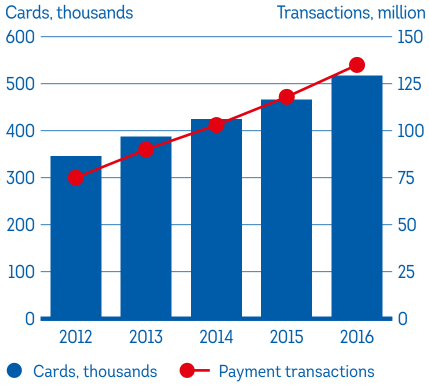
The bank's offering to young people, targeted at teenagers aged 12–17, is one of the best in the market. The young person's bank card makes everyday life easy, with purchases and cash withdrawals immediately debited from the young person's account. A card and payment service is offered to young people from the age of 16, comprising a young person's account and bank card, Internet and telephone banking and digital services. The account is connected to the Swish service, which means that money can be sent and received via mobile telephone.

Fund savings



The number of Investment Savings Accounts (ISK) performed well during the year.

Card-payment transactions

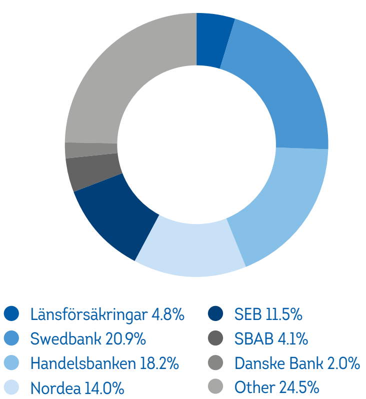


The number of bank cards and card-payment transactions has risen steadily over the past five years.

Market shares

Retail deposits

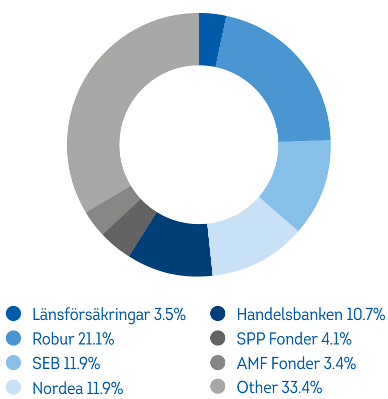
Source: Statistics Sweden



The market position in retail deposits strengthened to 4.8%.

Fund volumes

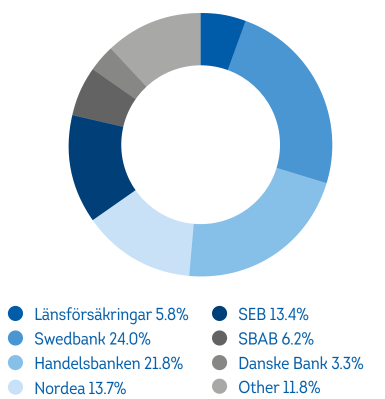
Source: Moneymate



Länsförsäkringar holds a 3.5% market share of Swedish fund volumes.

Household and retail mortgages

Source: Statistics Sweden



The market position in household and retail mortgages rose to 5.8%.

High credit quality

Loans and credit quality Länsförsäkringar Bank's lending primarily comprises mortgages to private individuals. All loans are granted in Sweden and in SEK, based on standardised centrally established credit regulations. The risk appetite is conservative and the loan portfolio maintains very high credit quality.

Credit process

All loans are granted in Sweden, in SEK and have a well-diversified geographic distribution. Loan origination is primarily directed towards retail mortgages for private individuals and small-scale family-owned agricultural operations with a low risk level and finance-company products in Wasa Kredit. Loans are based on standardised, centrally established credit regulations and most credit decisions are made locally. In the business model between Länsförsäkringar Bank and the regional insurance companies, there is a strong incentive to maintain excellent credit quality.

The high credit quality of the loan portfolio is the result of the low risk appetite, credit regulations combined with credit scoring and local customer and market knowledge. The credit regulations impose strict requirements on customers' repayment capacity and the quality of collateral. In connection with credit scoring, the repayment capacity of borrowers is tested using "left to live on" calculations. These calculations apply a significantly higher interest rate than the actual rate. Both the loan portfolio and value of the collateral are continuously monitored and quality assured.

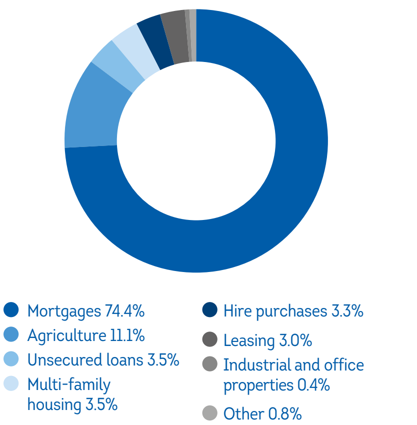
Mortgages for private individuals

Politicians, authorities and banks focused intently on rising housing prices and household indebtedness during the year. It is essential to maintain high credit quality. Mortgage repayments are a key tool in ensuring that households have stable and secure finances. The bank has further tightened the requirements of its "left to live on" calculations and the mortgage repayment requirement rules came into force on 1 June 2016.

Loans to the public amounted to SEK 227 billion. Retail mortgages for private individuals' housing comprises 74% of the loan portfolio. First-lien mortgages, meaning loans of up to 75% of the market value, account for 95% of retail mortgages. A total of 72% of the collateral for retail mortgages comprises single-family homes, 23% tenant-owned apartments and 5% multi-family housing. The average loan commitment is low at SEK 1.2 M per borrower. 62% of borrowers have a commitment of less than SEK 2 M. The geographic spread of lending is diverse, thus reducing Länsförsäkringar Bank's concentration risk in the event of price declines in the market.

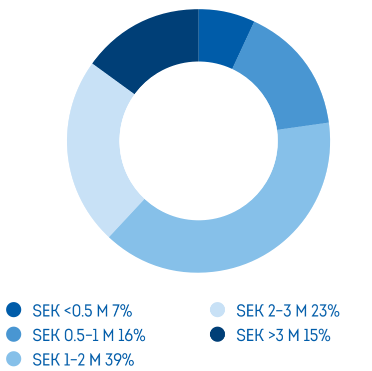
The weighted average loan-to-value ratio (LTV) for mortgage lending declined to 61%. Market-value analyses of the collateral in retail mortgages are performed continuously and a market-value update is performed at least once per year for all single-family homes and tenant-owned apartments.

Loans, product distribution



The loan portfolio primarily comprises retail mortgages.

Retail mortgages, distribution of commitments



The average mortgage commitment amounted to SEK 1.2 M and 62% of borrowers have a commitment of less than SEK 2 M.

First-lien mortgages for agricultural operations

A total of 93% of agricultural loans, representing 11% of the loan portfolio, comprises first-lien mortgages. The remaining lending comprises second-lien mortgages and operating credits. Family-owned agricultural operations account for 97% of agricultural loans. The average commitment is low at SEK 2.3 M per borrower. Agricultural lending grew at a lower rate than other loans during the year.

Leasing, hire purchase and unsecured loans

Leasing, hire purchase and unsecured loan products account for 10% of the Group's loan portfolio. Leasing and hire purchase are offered by Wasa Kredit and unsecured loans by both Wasa Kredit and the bank.

Loans to small businesses

Loans to small businesses totalled SEK 1.5 billion at year-end, of which SEK 0.9 billion comprised first-lien mortgages for industrial and office properties and SEK 0.6 billion operating credits to small businesses. The business is continuing to be developed while maintaining low risk.

Impairment and impaired loans

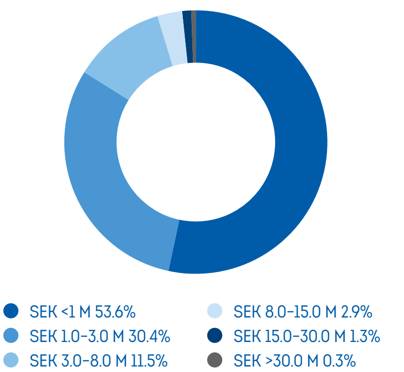
The high credit quality of the loan portfolio is a result of loan origination being based on a low risk tolerance. Länsförsäkringar has a conservative model for impairment and impairment remains at a low level.

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 the settlement model means that the Bank Group's credit reserves attributable to the regional insurance companies' business on the date of introduction will be gradually reversed by SEK 158 million. The remaining SEK 23 M was reversed during the year.

Loan losses amounted to SEK 38 M (6), corresponding to a loan loss level of 0.02% (0.00). Loan losses before the above reserve dissolution remain low and amounted to SEK 61 M (66), net, corresponding to a loan loss level of 0.03% (0.03). Reserves totalled SEK 250 M (281), corresponding to a reserve ratio in relation to loans of 0.11% (0.14). In addition, SEK 130 M (107) of the remuneration to the regional insurance companies is withheld, in accordance with the settlement model described above. The reserve ratio in relation to loans, including withheld remuneration to the regional insurance companies, was 0.17% (0.19).

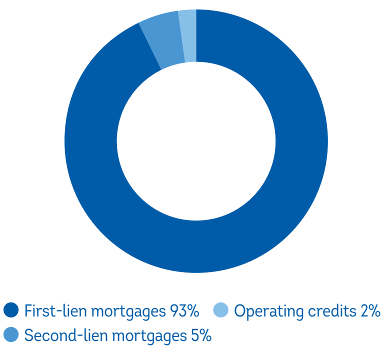
For more information concerning credit risks and credit quality, see note 3 Risks and capital adequacy on pages 40–55. For more information concerning loans, impaired loans and impairment of loan receivables, see note 2 Accounting policies on pages 33–39.

Agricultural loans, distribution of commitments



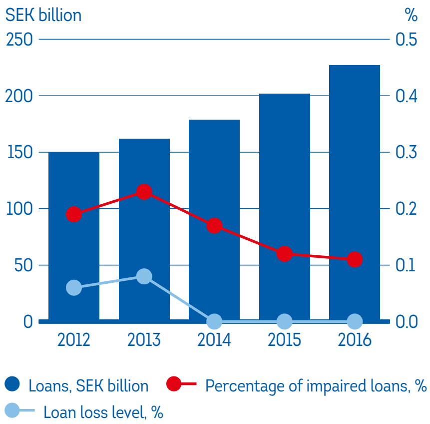
The average agricultural commitment is SEK 1.9 M per counterparty and 85% of agricultural lending has a commitment per counterparty of up to SEK 3 M.

Agricultural loans, product distribution



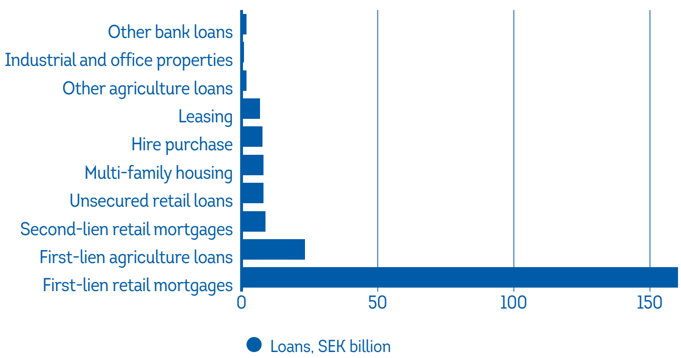
93% of agricultural loans are first-lien mortgages.

Loans, impaired loans and loan losses



The bank's loan portfolio has high credit quality. Impaired loans and loan losses remained low.

Loans, product distribution



Strong liquidity

Funding and liquidity The bank's main financing sources are deposits and funding through Länsförsäkringar Hypotek's covered bonds, which have the highest credit rating from both Moody's and Standard & Poor's.

Objectives

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

Financing sources

The composition of financing is a result of the bank being a retail bank with large mortgage lending operations. Accordingly, the main financing sources are deposits in Länsförsäkringar Bank and funding based on Länsförsäkringar Hypotek's covered bonds. These covered bonds have the highest credit ratings, Aaa from Moody's and AAA/Stable from Standard & Poor's. Long-term senior funding and short-term funding takes place in Länsförsäkringar Bank. The Group endeavours to maintain a sound balance of covered and senior funding and all capital market funding is conducted under a number of funding programmes. The single most important source of financing is the Swedish covered bond market, where Länsförsäkringar Hypotek has a number of outstanding liquid benchmark bonds. At year-end, Länsförsäkringar Hypotek had six outstanding benchmark loans with maturities until 2022. The Swedish covered bond market is one of Europe's largest and most liquid, which secures good access to long-term financing.

Diversification

Since all lending is in SEK, the Group has no structural need for financing in foreign currency. However, the bank has chosen to conduct a certain portion of its capital-market funding in international markets in an effort to diversify and broaden the investor base. Funding has continuously taken place through issuance of Euro Benchmark Covered Bonds, which has increased funding diversification and strengthened the brand in both the Swedish and European capital markets. In addition, diversification takes place through issuances of bonds, primarily in NOK, CHF and GBP. The international markets were primarily used for long maturities.

Refinancing and liquidity risk management

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

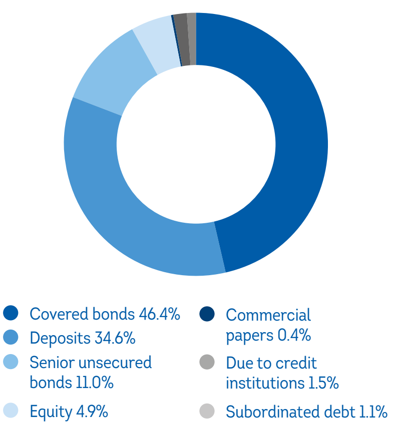
Deposits

The share of deposits in the Group's total financing amounted to 35% on 31 December 2016. Deposits were up 9% during the year, strengthened as a result of the bank's robust growth in volume and customers.

Funding operations

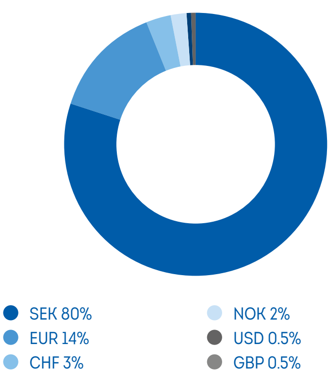
A relatively large portion of the funding took place during the first six months of 2016 when there was high demand in the market. In April, Länsförsäkringar Hypotek issued a seven-year Euro benchmark-covered bond for a nominal EUR 500 M. Länsförsäkringar Bank also issued a subordinated loan (LT2) in SEK for a nominal SEK 1.5 billion in April and this transaction was well received by the market and experienced

Financing sources



The largest source of financing in the Group is covered bonds, representing 46%.

Funding by currency



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

high demand. Den average remaining term for outstanding senior unsecured bonds and covered bonds was 2.2 years and 3.6 years, respectively.

Liquidity

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

According to the Swedish Bankers' Association's definition, the liquidity reserve amounted to SEK 42 billion at 31 December 2016. The liquidity reserve is invested in securities with very high credit quality and that are eligible for transactions with the Riksbank and, where applicable, with the ECB. A total of 61% of the liquidity reserve comprises Swedish covered bonds, 8% other Swedish bonds with an AAA/Aaa credit rating, 18% Swedish government bonds, 7% bonds issued or guaranteed by European governments and multinational development banks, 4% Nordic AAA/Aaa-rated covered bonds, and 2% deposits with the Swedish National Debt Office. By utilising the liquidity reserve, contractual undertakings for more than two years can be met without needing to secure new funding in the capital market.

The Group's Liquidity Coverage Ratio (LCR), according to the Swedish Financial Supervisory Authority's definition, amounted to 169% at 31 December 2016. The Net Stable Funding Ratio (NSFR) for the consolidated situation amounted to 113% on 31 December 2016 [1].

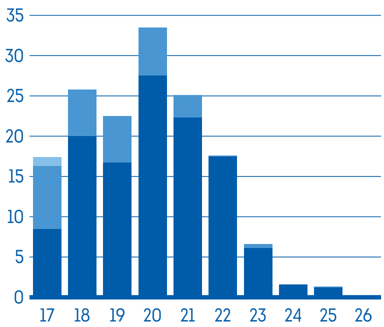
Rating

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

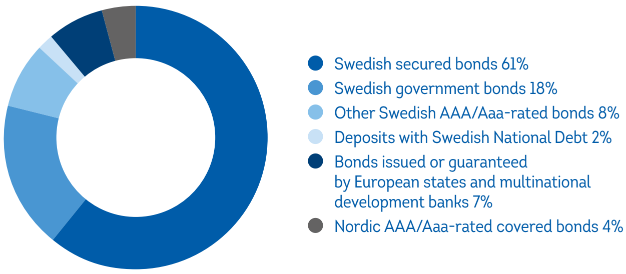
Länsförsäkringar Hypotek's covered bonds maintained the highest credit rating of Aaa from Moody's, and AAA/Stable from Standard & Poor's. Länsförsäkringar Hypotek is thus one of three issuers in the Swedish market for covered bonds with the highest rating from both Standard & Poor's and Moody's.

[1] The calculation is based on Länsförsäkringar Bank's interpretation of the Basel Committee's most recent Net Stable Funding Ratio proposal.

Maturity structure



Liquidity reserve



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

Funding programmes, Länsförsäkringar Bank Group

Programme SEK billion, Nominal	Limit, Nominal	Issued in 2016	Issued in 2015	Outstanding, 31 Dec 2016	Outstanding, 31 Dec 2015	Remaining average term, 31 Dec 2016, years
Benchmark (Hypotek)	Unlimited	26.3	26.4	91.8	81.5	3.3
MTCN (Hypotek)	SEK 30 billion	0.1	3.5	4.8	5.3	3.6
EMTCN (Hypotek)	EUR 5 billion	4.9	4.7	25.0	20.2	4.8
Total covered bonds		**31.3**	**34.6**	**121.6**	**107.0**	**3.6**
MTN (Bank)	SEK 30 billion	7.4	14.0	25.4	25.5	2.3
EMTN (Bank)	EUR 2 billion	0.8	1.9	3.5	3.7	2.1
Total senior unsecured bonds		**8.1**	**15.9**	**28.9**	**29.2**	**2.2**
DCP (Bank)	SEK 15 billion	0.9	2.6	–	0.5	–
ECP (Bank)	EUR 1.5 billion	3.2	1.6	1.1	0.8	0.1
Total commercial papers		4.1	4.2	1.1	1.3	0.1
Total Group		**43.4**	**54.7**	**151.6**	**137.5**	**3.3**

Employee focus

Employees The starting point is to create efficient, business-driven and value-based operations that generate high results with an employee focus. Länsförsäkringar Bank's strong commitment and attractive work atmosphere create opportunities for achieving established targets in the business plan, while allowing employees to continuously develop their skills.

Employees in 2016

In 2016, the Bank Group had an average of 420 employees, of whom women numbered 209 and men 211. The average age for both men and women was 44. The bank had 67 employees in managerial positions. In addition to the employees of the Bank Group, the 23 regional insurance companies have bank advisors.

Commitment and employeeship

Competent leadership, active change management, a positive work environment and dedicated employees are important prerequisites and focus areas for Länsförsäkringar. Employeeship means taking responsibility for one's own performance, competencies and health, which is stated in the personnel policy and the company's performance management work model. The basis for all employee performance and development, in both the short and long term, is the business plan and values.

Skills and performance

Future strategic skills and recruitment requirements for 2017-2019 were analysed during the year.

Performance is defined as achieving the targets of the business plans and embodying values. An activity-based workplace is an environment that nurtures development and performance and this type of workplace will be further developed next year. A number of e-courses were produced to strengthen a learning and innovative culture. These e-courses are a continuation of last year's employee profile and focus on own learning. The courses will be introduced into the operations in 2017.

Diversity

The equality and diversity plan, containing targets, action plans and monitoring activities, was revised during the year. The plan also addresses the Equal Opportunity Act and discrimination legislation and their application.

A partnership is under way with the Stockholm School of Economics within the Rapid Acceleration Management Program (RAMP). The aim of the program is to identify prople that have newly arrived to Sweden with advanced academic qualifications and rapidly introduce them into the Swedish labour market. A trainee was recruited via the program who will work on diversity issues. Other examples of partnership programmes include Korta vägen ("fast track") and Welcometalent. The company also actively participates in Diversity Charter Sweden and is collaborating with My Dream Now for the second consecutive year. Diversity was a natural element in the recruitment of university students for the Group's fifth summer graduate programme. 14 students were recruited, of whom half had a non-Swedish ethnic background.

Equality

The focus of the recruitment process has been to achieve a more even gender distribution among working groups and senior positions in corporate management, department heads and group and team leaders. The result of the annual employee survey showed that 80% of women and 92% of men believe that the Länsförsäkringar AB Group is en equal opportunity workplace. Salary levels for men and women in equal positions at the same level are quality assured based on a salary survey that will be completed in the first quarter of 2017.

Health and work environment

Work environment activities are based on systematic methods, and the organisational and social work environment is regularly followed up. Länsförsäkringar is thereby assuming its employer responsibility in counteracting stress and unhealthy work loads under the Swedish Work Environment Authority's new "Organisational and social work environment" regulation that was introduced on 31 March 2016. Sickness absence is continuously monitored. Managers and health and safety representatives have been trained in how they can improve a healthy workplace.

Health care insurance is offered that includes medical consultations, personal counselling and preventive health services. A clear rehabilitation process has been introduced to the operations. There is an agreement in place with Företagshälsovården, a provider of occupational health services for work-related illnesses, and preventive health care activities are subsidised.

A responsible standpoint

Environmental work and sustainability Länsförsäkringar Bank supports the sustainable development of society, respect for customers' security and value creation based on responsible loan origination and responsible investment.

Sustainability at Länsförsäkringar AB

Sustainability activities at Länsförsäkringar Bank follow the Parent Company Länsförsäkringar AB's Group-wide policies and guidelines, with a particular focus on responsible loan origination and responsible investments. Long-term respect for customers' security is fundamental to the Länsförsäkringar AB Group, which is owned by 23 local, customer-owned regional insurance companies. Extensive activities based on sustainability are carried out locally at the regional insurance companies. Länsförsäkringar AB conducts systematic work and sustainability is a key component in all parts of the operations. There are opportunities to use the banking offering to target products and services that strengthen the business while also helping to solve global and local challenges. The results are enhanced customer value, sustained customer confidence and promoting the sustainable development of society.

Loan origination that safeguards sustainability

By pursuing responsible loan origination, Länsförsäkringar Bank can increase customer value, financial stability and the sustainable development of society. Supporting and protecting the principles of the United Nations Global Compact are important to loan origination.

The business model has low sustainability and credit risks since all Länsförsäkringar Bank's loans are granted in Sweden with a well-diversified geographic spread and in SEK, and its loan origination is mainly directed to mortgages for private individuals and first-lien mortgages for small family-owned agricultural operations. The bank does not grant loans to the large-corporates sector in which sustainability risks are typically significantly greater. The credit policy is the foundation of loan origination, establishes the criteria for acceptable risk and identifies high-risk areas in sustainability that require special consideration. Credit scoring, combined with the local customer and market knowledge of the advisors, provides favourable conditions for a loan portfolio with high credit quality and low sustainability risks.

Environmental risks and environmental responsibility for agriculture and companies are now regulated by the extensive rules of a variety of supervisory authorities. Environment-related risks are addressed in credit scoring based on, for example, licensable and non-licensable operations and a comprehensive assessment of the company's operations. Assessments of industry, operations, forms of employment for employees and temporary employees and other relevant information gathering can form the basis of further checks in analyses of human-rights risks, labour risks, corruption or other criminal activities. Following an analysis of any environmental and social risks, the overall assessment may be to refuse the loan.

In 2016, Länsförsäkringar Bank participated in the Swedish Bankers' Association's working groups together with other Swedish banks to produce an industry initiative in the form of a recommendation – a sustainability overview – aimed at clarifying sustainable loan origination to companies for consumers. The first sustainability overview will be published by each bank in the spring of 2017.

Funding and sustainability

The bank's main financing sources are deposits and funding through covered bonds. Investors have intensified their focus on sustainability issues. Such issues are increasingly under discussion directly with investors and also through sustainability surveys carried out by rating agencies on behalf of investors. The capital market's demand for "green" bonds has risen and developments are continuously followed. The bank's aim is to continuously enhance the transparency of the low sustainability risks in the operations and describe its general work on sustainability.

Responsible investments in fund range

Länsförsäkringar has signed the United Nations-supported Principles for Responsible Investments (PRI). The fund portfolios are examined and if a company contravenes international conventions a dialogue is initiated with the company to change their actions. Länsförsäkringar Fondförvaltning works together with other investors to increase its ability to exert influence. If companies that are subject to such dialogue do not respond and/or do not develop as desired, the company is divested and placed on a black list. No investments are made in companies on the black list. Another option is to immediately divest the holding without engaging in any dialogue. This happens when Länsförsäkringar Fondförvaltning believes that such dialogue is utilising too many resources or the potential of bringing about a change in the foreseeable future is limited. The funds never make direct investments in companies that conduct activities involving nuclear weapons, cluster bombs or landmines.

Länsförsäkringar Fondförvaltning made a number of improvements regarding the environmental aspect of its investments in the past year. Fossil energy, particularly thermal coal, has a highly negative impact on climate change. Coal companies are no longer deemed to be a sustainable investment either financially or environmentally. Länsförsäkringar Fondförvaltning started to exclude fossil-fuel companies in 2016. The first step was to divest all investments in companies that generate at least 50% of their sales from coal production and energy companies that derive more than 50% of sales from thermal coal.

Länsförsäkringar Fondförvaltning launched a sustainability fund, Länsförsäkringar Global Hållbar, in 2016. For this fund, a sustainability analysis is equally as important as a financial analysis. The companies that the fund invests in are companies that are already, or are on their way to becoming, highly prominent in the field of sustainability and can document clear, positive changes.

The bank's own investments

Länsförsäkringar Bank only has shareholdings in subsidiaries and several minor operations-related holdings. The liquidity reserve is invested in Swedish government bonds and Swedish covered bonds with the highest credit rating. A small percentage of holdings is also invested in Nordic government bonds and bonds issued or guaranteed by the German government. This conservative investment orientation leads to low sustainability risks.

Sustainability requirements on suppliers

Financial, social and environmental aspects are integrated into the bank's purchasing policy to manage sustainability risks and safeguard the principles of the UN Global Compact. A Code of Conduct for suppliers, based on the UN Global Compact, is in place and defines requirements regarding human rights, labour conditions, environment and business ethics.

Partnership with ECPAT

Länsförsäkringar Bank is a member of the Swedish Financial Coalition against Commercial Sexual Exploitation of Children, which works together with ECPAT in Sweden (End Child Prostitution, Child Pornography, and Trafficking of Children for Sexual Purposes). The aims of the Financial Coalition are to prevent the Swedish payment system from being abused for the purchase of child pornography and trafficking of children for sexual purposes, and also to create opinion against such criminal activity. Members work actively to provide information to employees and customers, have implemented guidelines against child sex trafficking and are involved in raising knowledge of the issue to proactively contribute to preventive actions.

Own environmental work

Environmental efforts follows a structured and sustainable approach in the environmental management system that has held ISO 14001 certification for several years. The main strategies for reducing the climate impact of Länsförsäkringar's own operations are energy efficiency, a move to renewable sources, use of green electricity and climate compensation for any remaining areas. The largest sources of carbon emissions internally in the operations are business travel and heating, of which air travel generates the highest emissions.

Several activities and clarifications in guidelines on business travel have been implemented to reduce carbon emissions, for example, travelling by train rather than flying where possible and holding online meetings, video and telephone conferences instead of travelling. A decision was made at the start of 2016 in collaboration with Vi Agroforestry to introduce double climate compensation for the company's total carbon emissions.

Efforts are made to use renewable sources of energy, and district heating. Only Good Environmental Choice electricity and district heating that is largely produced from renewable fuels are used. The office properties have Green Building certification. One of the properties also holds the Silver rating under the Sweden Green Building Council's standard, due to the choice of energy, construction materials and indoor environment. Work methods are continuously reviewed to bring about more energy-efficient electricity consumption and heating, for example, by using the Green Fingerprint energy-savings app.

Board of Directors' Report

The Board of Directors and President of Länsförsäkringar Bank AB (publ) hereby submit the Annual Report for 2016.

GROUP

Ownership and Group structure

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

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

Focus of operations

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

Sales, advisory services and customer services are carried out through the 128 branches of the 23 regional insurance companies and via digital services and telephone. The regional insurance companies are reimbursed for sales, administration and customer care through a reimbursement system. Another part of the full-service offering is the 160 branches of Länsförsäkringar Fastighetsförmedling throughout Sweden.

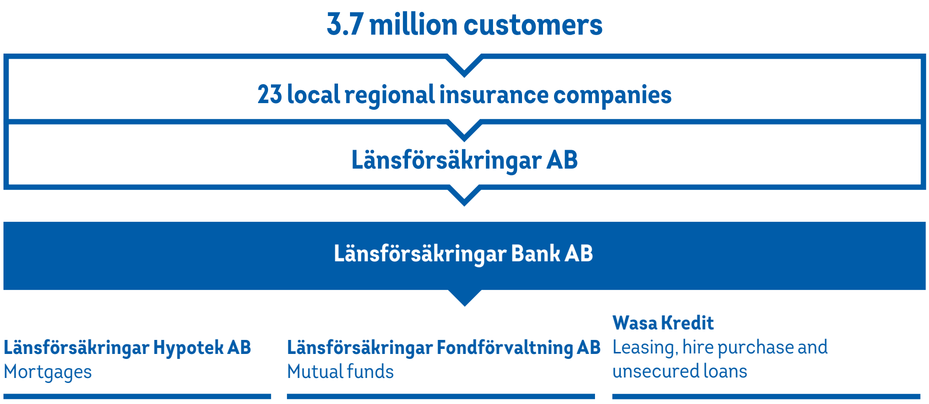
Market commentary

2016 was an eventful year of political uncertainty, but it also started with economic unease and a sharp decline in the oil price. Fears about the global economy, particularly regarding growth prospects for China, impacted the financial markets in the form of both stock-market downturns and falls in interest rates. Despite initial market concern, global growth for 2016 appears to be only slightly lower than initially expected at the start of the year. This slightly weaker trend was primarily the result of lower growth than anticipated in the US, although this was offset by, for example, China's more positive performance. This allowed the Federal Reserve to cautiously continue to normalise its monetary policy and raise its key interest rate at the end of the year, only the second increase since 2006. Europe continued to recover during the year, partly due to the ECB's highly expansive measures, such as commencing its corporate sector purchase programme. The political situation was also a key focal point of the year. The UK voted to leave the European Union and the Republican candidate Donald Trump won the US presidential election. It is more difficult to predict the long-term implications, even though market reactions following the EU referendum in the UK were short-lived and reactions after the US presidential election limited. Trump's victory at the polls impacted market expectations of growth and inflation in the US for the next few years. Greater fiscal stimulus packages are expected to strengthen growth in an economic climate that is already booming, which thus increases the risk of higher inflation and interest rates.

Global long-term interest rates rose in the autumn from historically low, and in certain cases negative, levels, an upswing that accelerated after the US presidential election. Interest rates for covered bonds fell during the year and investor demand was high. The majority of the world's equities markets reported positive returns for the year and the stock-market trend in the US and emerging markets was particularly favourable measured in SEK.

The Swedish economy continued to perform at a healthy rate and was largely in line with expectations. However, inflation presented a negative surprise, and means that we are now in the unusual situation of having a more expansive monetary policy despite Sweden experiencing an economic boom. Housing prices continued to rise but the rate gradually declined over the course of the year.

Länsförsäkringar Bank – part of the Länsförsäkringar Alliance



Increased business volumes

Business volumes rose 13%, or SEK 50.8 billion, to SEK 455.1 billion (404.3). Lending increased 12%, or SEK 24.7 billion, to SEK 226.7 billion (202.0), with continued high credit quality. Lending in Länsförsäkringar Hypotek rose 15%, or SEK 21.8 billion, to SEK 168.9 billion (147.1). Lending in Wasa Kredit increased 14% to SEK 18.3 billion (16.0). Deposits increased 9%, or SEK 7.3 billion, to SEK 91.2 billion (83.9). Fund volumes increased 15%, or SEK 18.4 billion, to SEK 138.2 billion (119.8).

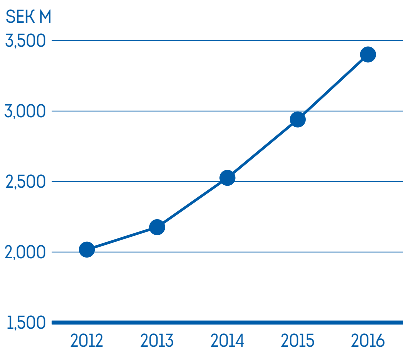
High inflow of customers

The number of customers with Länsförsäkringar as their primary bank increased 11% to 419,000 (378,000) and the average number of products per customer amounted to 5.0. Some 92% of those customers who have the bank as their primary bank are also existing Länsförsäkringar insurance customers. The number of bank cards rose 11% to 517,000 (466,000).

Earnings and profitability

Operating profit increased 25% to SEK 1,467 M (1,175), attributable to higher net interest income. The investment margin strengthened to 1.28% (1.22). Profit before loan losses rose 27% to SEK 1,505 M (1,181). Return on equity strengthened to 10.1% (8.9).

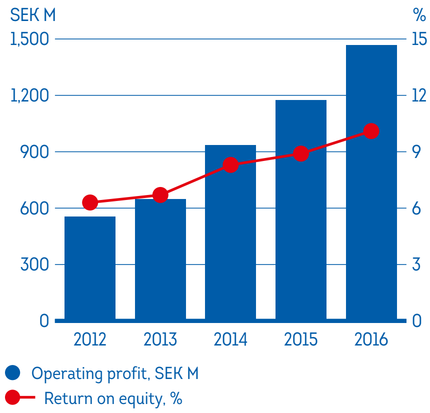
Net interest income



Income

Operating income increased 12% to SEK 3,073 M (2,747), primarily due to higher net interest income. Net interest income rose 15% to SEK 3,455 M (2,994), due to higher volumes and lower refinancing costs. Net gains from financial items amounted to SEK 68.4 M (96.6). Commission income amounted to SEK 1,523 M (1,522). Net commission amounted to SEK –567.5 M (–440.9), as a result of increased remuneration to the regional insurance companies due to the healthy volume trend and the strengthened profitability of the business.

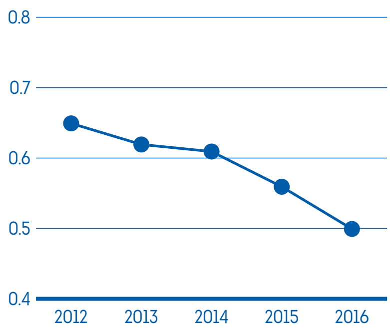
Operating profit and return on equity



Expenses

Operating expenses remained largely unchanged at SEK 1,568 M (1,566). The cost/income ratio was 0.51 (0.57) before loan losses and 0.52 (0.57) after loan losses.

Cost/income ratio before loan losses



Loan losses

Loan losses amounted to SEK 37.6 M (6.1), net, corresponding to a loan loss level of 0.02% (0.00). Reserves of SEK 23.3 M were dissolved during the period, according to the settlement model described below. In the year-earlier period, reserves of SEK 60.0 M were dissolved. Impaired loans, gross, amounted to SEK 240.2 M (241.1), corresponding to a percentage of impaired loans, gross, of 0.11% (0.12). 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. The transition to the settlement model means that the Bank Group's credit reserves attributable to the regional insurance companies' business on the date of introduction will be gradually reversed by SEK 158.3 M, of which SEK 0 M remained on 31 December 2016. Loan losses before dissolution of reserves amounted to SEK 60.6 M (66.1), net, corresponding to a loan loss level of 0.03% (0.03). Reserves totalled SEK 250.1 M (280.5), corresponding to a reserve ratio in relation to loans of 0.11% (0.14). In addition, SEK 129.6 M (107.0) attributable to the regional insurance companies' credit-risk commitments is withheld in accordance with the settlement model described above. The reserve ratio in relation to loans, including withheld remuneration to the regional insurance companies, was 0.17% (0.19).

For more information regarding loan losses, reserves and impaired loans, see note 14.

Deposits and savings

Deposits from the public increased 9%, or SEK 7.3 billion, to SEK 91.2 billion (83.9). Deposits from small businesses amounted to SEK 11.0 billion (10.7). The number of deposit accounts increased 8%. On 31 December 2016, the market share for household deposits amounted to 4.8% (4.7) according to Statistics Sweden. Fund volumes increased 15%, or SEK 18.4 billion, to SEK 138.2 billion (119.8).

Loans

All loans are granted in Sweden and in SEK and have a well-diversified geographic distribution. Loans to the public rose 12% to SEK 226.7 billion (202.0). The credit quality of lending remained high. The weighted average loan-to-value ratio of the mortgage portfolio, LTV, declined to 61% (64). On 31 December 2016, the market share of household lending strengthened to 5.8% (5.5) according to Statistics Sweden. Lending in Länsförsäkringar Hypotek rose 15%, or SEK 21.8 billion, to SEK 168.9 billion (147.1). The percentage of retail mortgages in relation to the total loan portfolio was at 74%. On 31 December 2016, the market share of retail mortgages strengthened to 5.8% (5.5) according to Statistics Sweden.

Agricultural lending increased 5% to SEK 25.3 billion (24.0). Agricultural lending primarily comprises first-lien mortgages to family-owned agricultural operations, and the average commitment was low at SEK 2.3 M on 31 December 2016. First-lien mortgages for agricultural properties, comprising 93% (92) of agricultural lending, accounted for the entire increase in agricultural loans and increased to SEK 23.5 billion (22.0). Agricultural lending is continuing to grow at a lower rate than other loans and its share of total loans is falling. Loans to small businesses totalled SEK 1.5 billion (1.4) on 31 December 2016.

Loan portfolio

Lending segment, %	31 Dec 2016	31 Dec 2015
Retail mortgages	74.4%	73.0%
Agriculture	11.1%	11.9%
Multi-family housing	3.5%	3.9%
Leasing and hire purchase	6.3%	6.2%
Unsecured loans	3.5%	3.7%
Other	1.2%	1.3%
Total	**100%**	**100%**

Funding

The Group has a low refinancing risk and the maturity profile is well diversified. Debt securities in issue increased 11%, or SEK 14.0 billion, to a nominal SEK 151.6 billion (137.6), of which covered bonds amounted to SEK 121.6 billion (107.0), senior long-term funding to SEK 28.9 billion (29.2) and short-term funding to SEK 1.1 billion (1.3). The average remaining term for the long-term funding was 3.3 years (3.3) on 31 December 2016. Covered bonds were issued during the period at a volume corresponding to a nominal SEK 31.3 billion (34.6), with repurchased covered bonds amounting to a nominal SEK 8.4 billion (10.0) and matured covered bonds to a nominal SEK 8.3 billion (16.3). Länsförsäkringar Bank issued senior unsecured bonds in the nominal amount of SEK 8.1 billion (15.9) during the period and senior unsecured bonds of a nominal SEK 6.7 billion (10.1) fell due for payment.

Liquidity

According to the Swedish Bankers' Association's definition, the liquidity reserve amounted to SEK 42 billion at 31 December 2016. The liquidity reserve is invested in securities with very high credit quality and that are eligible for transactions with the Riksbank and, where applicable, with the ECB. A total of 61% of the liquidity reserve comprises Swedish covered bonds, 8% other Swedish bonds with an AAA/Aaa credit rating, 18% Swedish government bonds, 7% bonds issued or guaranteed by European governments and multinational development banks, 4% Nordic AAA/Aaa-rated covered bonds, and 2% deposits with the Swedish National Debt Office. By utilising the liquidity reserve, contractual undertakings for more than two years can be met without needing to secure new funding in the capital market.

The Group's Liquidity Coverage Ratio (LCR), according to the Swedish Financial Supervisory Authority's definition, amounted to 169% (214) at 31 December 2016.

The Net Stable Funding Ratio (NSFR) for the consolidated situation amounted to 113%[1] (115) on 31 December 2016.

Rating

Länsförsäkringar Bank's credit rating is A/Stable from Standard & Poor's and A1/Stable from Moody's. Länsförsäkringar Hypotek's covered bonds have the highest credit rating of Aaa from Moody's and AAA/Stable from Standard & Poor's.

Capital adequacy, consolidated situation[2]

In accordance with the CRR (575/2013), the consolidated situation includes the parent mixed financial holding company Länsförsäkringar AB, in addition to the Bank Group. Since the bank is of the opinion that the actual risk and capital situation is best presented in the Bank Group's capital ratios, the actual risk and capital situation are published in parallel with the capital ratios according to the consolidated situation. Total REA in the consolidated situation on 31 December 2016 amounted to SEK 59,513 M (59,170). In the fourth quarter, loans to the public increased SEK 7.4 billion, but the volume growth was counterbalanced by improved credit quality, meaning that the increase in REA remained at SEK 375 M for IRB retail exposures. Common Equity Tier 1 capital in the fourth quarter was strengthened through profit generated in the Bank Group and the Common Equity Tier 1 capital ratio amounted to 21.20% (20.8). In Pillar II, the risk weight floor for mortgages of 25% entailed a capital requirement of SEK 4,134 M (3,987). The countercyclical capital buffer (1.5% of REA) totalled SEK 893 M. This capital conservation buffer that is to correspond to 2.5% of REA amounted to SEK 1,488 M on 31 December 2016. The leverage ratio on 31 December 2016 amounted to 4.7%[3] (4.6).

Employees

In 2016, the Bank Group had an average of 420 employees, of whom women numbered 209 and men 211. The average age for both men and women was 44. The bank had 67 employees in managerial positions. In addition to the employees of the Bank Group, the 23 regional insurance companies have bank advisors.

Competent leadership, active change management, a positive work environment and dedicated employees are important prerequisites and focus areas for Länsförsäkringar. Employeeship means taking responsibility for one's own performance, competencies and health, which is stated in the personnel policy and the company's performance management work model. The basis for all employee performance and development, in both the short and long term, is the business plan and values.

Future strategic skills and recruitment requirements for 2017-2019 were analysed during the year. Performance is defined as achieving the targets of the business plans and embodying values. An activity-based workplace is an environment that nurtures

1 The calculation is based on Länsförsäkringar Bank's interpretation of the Basel Committee's most recent Net Stable Funding Ratio proposal. The comparative figure pertains to 30 September 2016.
2 The comparative period pertains to 30 September 2016.
3 According to Commission Delegated Regulation (EU) 2015/62 of 10 October 2014 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio.

development and performance and this type of workplace will be further developed next year. A number of e-courses were produced to strengthen a learning and innovative culture.

The equality and diversity plan, containing targets, action plans and monitoring activities, was revised during the year. The plan also addresses the Equal Opportunity Act and discrimination legislation and their application. Diversity was the starting point for the recruitment of university students for the Group's fifth summer graduate programme. 14 students were recruited, half of whom had a non-Swedish ethnic background.

The focus of the recruitment process has been to achieve a more even gender distribution among working groups and senior positions in corporate management, department heads and group and team leaders. The result of the annual employee survey showed that 80% of women and 92% of men believe that the Länsförsäkringar AB Group is en equal opportunity workplace. Salary levels for men and women in equal positions at the same level are quality assured based on a salary survey that will be completed in the first quarter of 2017.

Work environment activities are based on a systematic methods, and the organisational and social work environment is regularly followed up. Länsförsäkringar is thereby assuming its employer responsibility in counteracting stress and unhealthy work loads under the Swedish Work Environment Authority's new "Organisational and social work environment" regulation that was introduced on 31 March 2016. Sickness absence is continuously monitored. Managers and health and safety representatives have been trained in how they can improve a healthy workplace. Health care insurance is offered that includes medical consultations, personal counselling and preventive health services. A clear rehabilitation process has been introduced to the operations. There is an agreement in place with Företagshälsovården, an occupational health services provider for work-related illnesses, and preventive health care activities are subsidised.

Environment and sustainable investment

Sustainability activities at Länsförsäkringar Bank follow the Parent Company Länsförsäkringar AB's Group-wide policies and guidelines, with a particular focus on responsible loan origination and responsible investments. Extensive activities based on sustainability are carried out locally at the regional insurance companies. By pursuing responsible loan origination, Länsförsäkringar Bank can increase customer value, financial stability and the sustainable development of society. Supporting and protecting the principles of the UN Global Compact are important to loan origination.

The business model has low sustainability and credit risks since all Länsförsäkringar Bank's loans are granted in Sweden with a well-diversified geographic spread and in SEK, and its loan origination is mainly directed to mortgages for private individuals and first-lien mortgages for small family-owned agricultural operations. The bank does not grant loans to the large-corporates sector in which sustainability risks are typically significantly greater. The credit policy is the foundation of loan origination, establishes the criteria for acceptable risk and identifies high-risk areas in sustainability that require special consideration. Credit scoring, combined with the local customer and market knowledge of the advisors, provides favourable conditions for a loan portfolio with high credit quality and low sustainability risks.

Länsförsäkringar has signed the United Nations-supported Principles for Responsible Investments (PRI). The fund portfolios are examined and if a company contravenes international conventions a dialogue is initiated with the company to change their actions. Länsförsäkringar Fondförvaltning works together with other investors to increase its ability to exert influence. If companies that are subject to such dialogue do not respond and/or does not move in a desirable direction, the company is divested and placed on a black list. No investments are made in companies on the black list. Another option is to immediately divest the holding without engaging in any dialogue. This happens when Länsförsäkringar Fondförvaltning believes that such dialogue is utilising too many resources or the potential of bringing about a change in the foreseeable future is limited. The funds never make direct investments in companies that conduct activities involving nuclear weapons, cluster bombs or landmines.

Risks and uncertainties

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

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

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

For further information about the risks in the operations, risk and capital management and the principles for risk governance, see note 3 Risks on pages 40–55.

Expectations regarding future development

The banking operations intend to follow the strategic direction of profitable growth with high credit quality, by further refining existing products and on the basis of maintaining a favourable level of capitalisation.

Growth in lending will take place by paying close attention to changes in the business environment, the financial situation and the prevailing circumstances in the capital market. Strong liquidity will be maintained. The continued market strategy is to conduct sales and customer marketing activities targeting the regional insurance companies' customers.

Events after year-end

Johan Agerman took office as the new Board Chairman of Länsförsäkringar Bank on 9 January 2017. He succeeds Sten Dunér who has retired.

PARENT COMPANY

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

Deposits from the public increased 9%, or SEK 7.3 billion, to SEK 91.5 billion (84.2). Debt securities in issue amounted to SEK 29.1 billion (29.4).

Earnings

Operating profit increased 57% to SEK 329.8 M (210.1) due to higher operating income and lower refinancing costs. Net interest income rose 14% to SEK 1,123.8 M (981.8). Operating income increased 20% to SEK 1,216.7 M (1,014.4), due to higher net interest income and increased commission income. Commission income increased 6% to SEK 378.1 M (357.8) as a result of higher income in the card and securities business. Net commission amounted to SEK -60.0 M (-104.5). Operating expenses amounted to SEK 865.3 M (845.3).

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. The transition to the model means that the Parent Company's reserves on the date of introduction will be gradually reversed by SEK 137.3 M, of which SEK 0 remained on 31 December 2016. Reserves of SEK 20.2 M were dissolved during the period. In the year-earlier period, reserves of SEK 52.0 M were dissolved. Loan losses amounted to SEK 21.6 M (-41.0), net, corresponding to a loan loss level of 0.05% (-0.10). Loan losses before dissolution of reserves remained low at SEK 41.8 M (11.0), net.

Proposed appropriation of the Parent Company's unappropriated earnings

SEK	
Other reserves	60,883,492
Retained earnings	7,635,792,693
Net profit for the year	184,684,535
Profit to be appropriated	**7,881,360,720**

The Board proposes that SEK 7,881,360,720 be carried forward.

SUBSIDIARIES

Länsförsäkringar Hypotek AB

Lending increased 15%, or SEK 21.8 billion, to SEK 168.9 billion (147.1). Retail mortgages up to 75% of the market value of the collateral on the granting date are granted by Länsförsäkringar Hypotek and the remainder by the Parent Company.

Operating profit increased 29% to SEK 658.4 M (508.8), due to higher net interest income. Net interest income rose 24% to SEK 1,646.9 M (1,325.6), attributable to higher volumes and lower refinancing costs. Operating expenses amounted to SEK 97.4 M (94.9).

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. The transition to the model means that Länsförsäkringar Hypotek's credit reserves on the date of introduction will be gradually reversed by SEK 21.0 M, of which SEK 0 M remained on 31 December 2016. Reserves of SEK 3.1 M were dissolved during the period. In the year-earlier period, reserves of SEK 8.0 M were dissolved. Loan losses amounted to SEK -4.8 M (-9.8), net, corresponding to a loan loss level of -0.00% (-0.01). Loan losses before reversal remained low at SEK -1.7 M (-1.8), net. The number of retail mortgage customers increased 7% to 231,000 (216,000).

Länsförsäkringar Hypotek AB, SEK M	31 Dec 2016	31 Dec 2015
Total assets	189,228	166,623
Lending volume	168,948	147,056
Net interest income	1,647	1,326
Operating profit	658	509

Wasa Kredit

Wasa Kredit's lending volumes increased 14% to SEK 18.3 billion (16.0). Operating profit rose 16% to SEK 402.0 M (346.2). The increase was primarily attributable to reduced operating expenses and lower loan losses. Net interest income remained largely unchanged at SEK 684.1 M (687.0). Operating expenses declined 3% to SEK 413.3 M (426.4) and loan losses, net, were SEK 20.8 M (56.9).

Wasa Kredit, SEK M	31 Dec 2016	31 Dec 2015
Total assets	18,869	16,402
Lending volume	18,274	15,981
Net interest income	684	687
Operating profit	402	346

Länsförsäkringar Fondförvaltning

Fund volumes increased 15%, or SEK 18.4 billion, to SEK 138.2 billion (119.8) attributable to increased inflows in the fund business and positive changes in value in 2016. The fund offering includes 39 mutual funds under Länsförsäkringar's own brand with various investment orientations and fund markets with external funds. Assets under management under Länsförsäkringar's own brand amounted to SEK 124.5 billion (109.2). Operating profit amounted to SEK 77.2 M (109.6). Since the end of the third quarter of 2016, two Swedish equities fund are internally managed by Länsförsäkringar Fondförvaltning.

Länsförsäkringar Fondförvaltning AB, SEK M	31 Dec 2016	31 Dec 2015
Total assets	520	442
Fund volumes	138,192	119,762
Net flow	6,062	3,393
Net commission	377	415
Operating profit	77	110

Five-year summary

SEK M	2016	2015	2014	2013	2012
INCOME STATEMENT					
Net interest income	3,454.8	2,994.3	2,580.4	2,230.4	2,071.1
Net commission	–567.5	–440.9	–319.4	–252.9	–384.9
Net gains/losses from financial items	68.4	96.6	97.8	–85.7	5.4
Other operating income	117.1	97.3	92.1	211.9	190.3
Total operating income	**3,072.9**	**2,747.3**	**2,450.9**	**2,103.7**	**1,881.9**
Staff costs	–469.8	–462.0	–441.1	–426.6	–396.6
Other administration expenses	–1,021.7	–980.2	–876.2	–789.7	–736.7
Depreciation/amortisation and impairment of property and equipment and intangible assets	–76.3	–124.1	–209.0	–114.2	–101.6
Total operating expenses	**–1,567.9**	**–1,566.3**	**–1,526.3**	**–1,330.6**	**–1,234.9**
Profit before loan losses	**1,505.0**	**1,181.0**	**924.6**	**773.2**	**646.6**
Loan losses, net	–37.6	–6.1	10.0	–126.4	–91.3
Operating profit	**1,467.3**	**1,174.9**	**934.6**	**646.8**	**555.3**
Tax	–330.8	–263.8	–222.8	–168.0	–122.6
Net profit for the year	**1,136.6**	**911.1**	**711.9**	**478.8**	**432.7**
BALANCE SHEET					
Cash and balances with central banks	21.6	21.5	25.8	108.5	109.4
Treasury bills and other eligible bills	7,794.4	8,824.0	5,409.3	4,881.4	5,222.3
Loans to credit institutions	280.2	502.7	1,789.6	5,957.9	2,852.9
Loans to the public	226,705.0	201,964.4	179,424.3	162,003.2	149,941.9
Bonds and other interest-bearing securities	32,421.5	31,991.3	36,104.1	35,200.6	32,684.7
Shares and participations	25.4	15.5	11.7	88.9	11.0
Derivatives	5,554.3	4,414.4	5,257.6	1,337.7	1,874.8
Fair value changes of interest-rate-risk hedged items in portfolio hedge	635.9	815.3	1,146.5	550.8	878.1
Intangible assets	488.3	306.2	309.6	397.1	445.8
Other assets	515.6	528.1	456.7	591.9	580.1
Prepaid expenses and accrued income	1,508.9	1,696.1	2,245.0	2,601.5	2,558.2
Total assets	**275,951.1**	**251,079.5**	**232,180.2**	**213,719.5**	**197,159.2**
Due to credit institutions	3,872.8	2,954.2	3,390.1	1,860.6	1,062.9
Deposits and funding from the public	91,207.1	83,924.8	76,789.7	69,220.0	62,396.3
Debt securities in issue	155,999.5	139,882.1	128,656.4	123,634.9	114,263.3
Derivatives	1,643.6	2,394.2	2,591.7	2,780.3	3,104.0
Fair value changes of interest-rate-risk hedged items in portfolio hedge	3,191.4	2,899.4	3,824.4	645.9	2,176.6
Deferred tax liabilities	421.6	296.0	214.2	143.7	82.9
Other liabilities	607.5	705.8	783.4	755.8	1,300.4
Accrued expenses and deferred income	3,229.8	3,666.4	4,033.6	4,090.2	4,112.2
Subordinated liabilities	2,595.4	2,299.7	2,299.7	2,299.7	1,489.7
Equity	13,182.3	12,056.9	9,597.0	8,288.4	7,170.9
Total liabilities and equity	**275,951.1**	**251,079.5**	**232,180.2**	**213,719.5**	**197,159.2**
KEY FIGURES					
Return on equity, %	10.09	8.94	8.3	6.7	6.3
Return on total capital, %	0.54	0.48	0.42	0.31	0.30
Investment margin, %	1.28	1.22	1.15	1.06	1.11
Cost/income ratio before loan losses	0.51	0.57	0.62	0.63	0.66
Common Equity Tier 1 capital ratio, Bank Group, %	24.8	23.7	16.2	–	–
Tier 1 ratio, Bank Group, %	27.5	26.6	16.2	–	–
Total capital ratio, Bank Group, %	33.4	32.0	20.6	–	–
Common Equity Tier 1 capital ratio, consolidated situation, %	21.2	21.4	13.9	–	–
Tier 1 ratio, consolidated situation, %	23.2	23.7	13.9	–	–
Total capital ratio, consolidated situation, %	27.6	28.2	17.5	–	–
Percentage of impaired loans, gross, %	0.11	0.12	0.17	0.23	0.19
Reserve ratio in relation to loans, %	0.11	0.14	0.19	0.25	0.21
Reserve ratio in relation to loans, incl. withheld remuneration to regional insurance companies, %	0.17	0.19	0.23	–	–
Loan losses in relation to loans, %	0.02[1]	0.00[1]	0.00[1]	0.08	0.06

[1] Includes the dissolution of reserves.

Corporate Governance Report

Introduction
Länsförsäkringar Bank AB (Länsförsäkringar Bank) is a wholly owned subsidiary of Länsförsäkringar AB, which in turn is owned by 23 customer-owned regional insurance companies and 16 local insurance companies. Länsförsäkringar AB, with its subsidiaries and owners, jointly comprise the Länsförsäkringar Alliance.

Länsförsäkringar Bank is a public limited liability company, and the company's bonds are listed on Nasdaq Stockholm, the Luxembourg Stock Exchange and the Irish Stock Exchange. Länsförsäkringar Bank complies with the applicable parts of the Swedish Corporate Governance Code (the Code). Deviations are primarily due to Länsförsäkringar Bank not being a stock-market company. Deviations from the provisions of the Code and explanations for such deviations are presented below in the Deviations from the Code section on page 26.

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

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

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

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

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

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

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

An outline of the governance and reporting structure is provided in the diagram on page 23.

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

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

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

The Nomination Committee follows an instruction adopted by the Annual General Meeting of Länsförsäkringar AB and new Board members are recruited in accordance with the instructions and established procedures and processes. The Board is to have a sufficient number of Board members based on the size and degree of complexity of the company, and the nature and scope of the operations. With this as the starting point, the Nomination Committee assesses as to whether the Board has a suitable composition, with respect to the operations, stage of development and other conditions of the company, that ensures that the overall competencies necessary for the company are in place, characterised by diversity in terms of, for example, age, gender and ethnic origin, in accordance with the Länsförsäkringar AB Group's diversity policy applicable at any time. See also the section on Suitability assessment of the Board of Directors and the President below.

Nomination Committee prior to 2017 Annual General Meeting

The Nomination Committee has comprised Otto Ramel as Chairman (Länsförsäkringar Skåne), Ulf W Eriksson (Länsförsäkringar Värmland), Per-Åke Holgersson (Länsförsäkring Kronoberg), Conny Sandström (Länsförsäkringar Västerbotten) and Örian Söderberg (Länsförsäkringar Jönköping) since the 2016 Annual General Meeting of Länsförsäkringar AB.

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

- studied the Board's evaluation of its work,
- studied the Board Chairman's view of the operations, the Board's work and requirements for expertise and experience, and
- reviewed and discussed requirements for expertise and experience with respect to the needs of the operations and regulatory requirements.

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

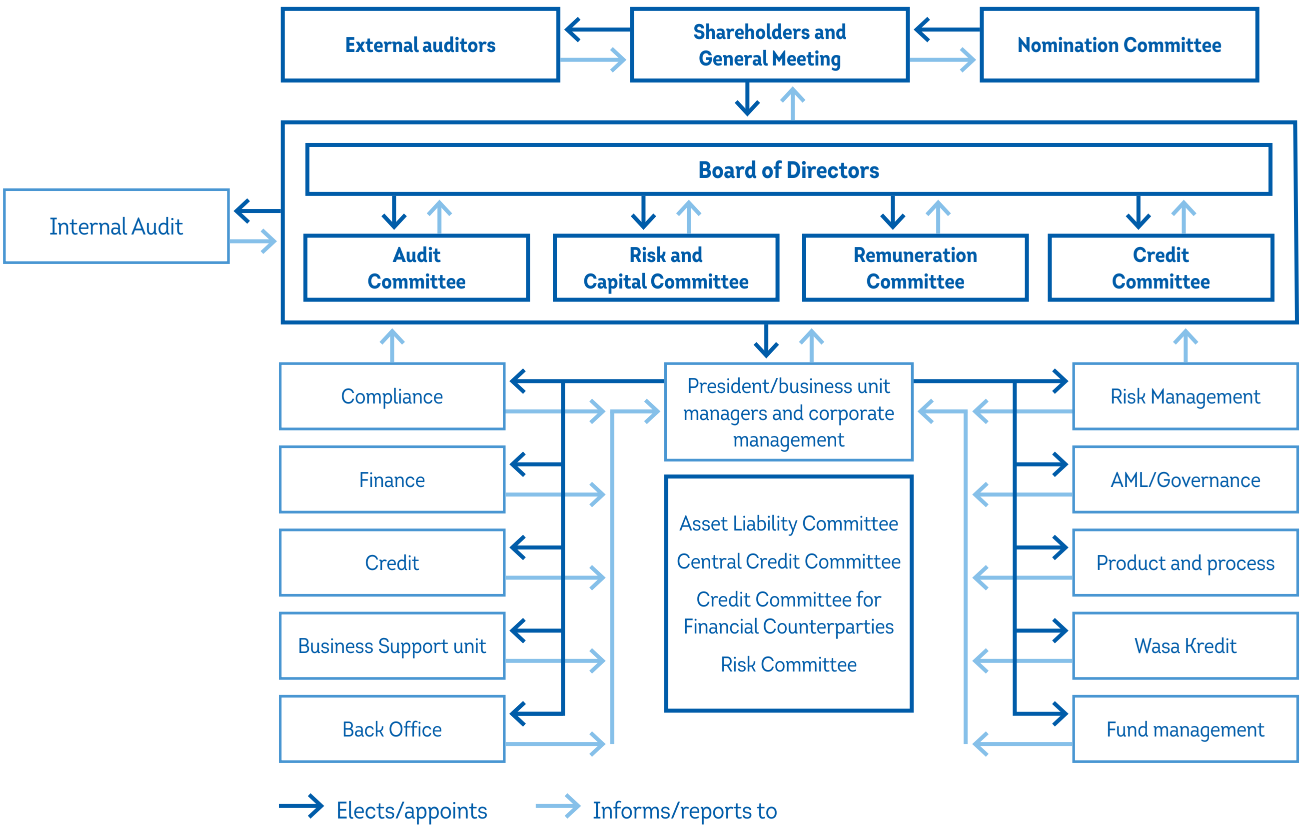
- evaluate the independence of candidates,
- nominate Board members, the Board Chairman and auditors,
- carry out suitability assessments of Board members, and
- propose fees and other remuneration of Board members and auditors.

External auditors

The Annual General Meeting appoints the external auditors. Nominations are made to the Nomination Committee. In accordance with the Articles of Association, Länsförsäkringar Bank is to have between one and three auditors and between zero and three deputy auditors. Auditors are appointed for a period in office of a maximum of four years. At the Extraordinary General Meeting on 16 June 2016, Dan Beitner, KPMG AB, was appointed auditor and Anders Tagde, KPMG AB, deputy auditor, for the period until the 2018 Annual General Meeting.

The auditor examines Länsförsäkringar Bank's Annual Report and Corporate Governance Report, as well as the administration of the Board and the President. Länsförsäkringar Bank's first, second and third-quarter interim reports are reviewed by the auditors. The auditor presented her audit results and observations to the Board once during 2016. The auditor also participates in the meetings of the Board's Audit Committee.

Länsförsäkringar Bank's governance structure



Board of Directors

Composition of Board

The Board of Directors of Länsförsäkringar Bank is elected by the Annual General Meeting and, in accordance with the Articles of Association, is to comprise between six and nine Board members elected by the Annual General Meeting, with no more than six deputies. Board members are elected for a mandate period of two years. In addition, members appointed by trade-union organisations are also members of the Board. The President is not a member of the Board. Länsförsäkringar Bank has no time limit for the length of time a member may sit on the Board and no upper age limit for Board members. The Chairman of the Board 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 eleven members and one deputy. Nine of the members were elected by the Annual General Meeting. Two regular members and one deputy were appointed by the trade-union organisations. A presentation of the Board members can be found on page 96.

Board responsibilities and allocation of duties

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

Every year, the Board adopts a formal work plan. The formal work plan includes regulations on the duties and responsibilities of the Board, its Chairman and its members, the delegation of duties within the Board, the lowest number of Board meetings, procedures for reporting on the operations and financial reports, as well as procedures for Board meetings in terms of notices of meetings and presentations of materials, as well as disqualification and conflicts of interest.

The Board is to continuously remain informed about the performance of the company to be able to continuously assess the company's financial situation and position. Through its formal work plan and a reporting manual, the Board has established that financial reporting is to take place regularly at Board meetings. The Board also regularly manages and evaluates the company's and the Group's risk development and risk management. During the year, the Board regularly monitors the earnings, business volumes, financial position and risk trends in relation to, for example, the business plan and forecasts. The Board receives regular reports from Compliance, Risk Management and Internal Audit and continuously monitors current matters with authorities.

Chairman

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

Work of the Board

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

In addition to the Board's formal work plan and the company directive, at least once a year the Board establishes its directive for the President as well as a large number of governance documents for the operations.

The Board has established an Audit Committee, a Remuneration Committee, a Risk and Capital Committee and a Credit Committee. The duties of the Committees are determined by the Board in its separate formal work plan or directives. None of the

Board meetings and attendance

The table below shows the number of meetings held in each body since the 2016 Annual General Meeting until December 2016, and the attendance of each Board member:

	Board of Directors	Audit Committee	Remuneration Committee[1]	Risk and Capital Committee	Credit Committee
Total number of meetings	**8**	**6**		**3**	**3**
Sten Dunér	8	5		3	3
Per-Ove Bäckström	8				3
Anders Grånäs	7			3	
Ingrid Ericson	7				
Ingrid Jansson	7	6			
Beatrice Kämpe Nikolausson	8				
Bengt-Erik Lindgren	7	6			3
Peter Lindgren[2]	7	5			
Anna-Greta Lundh	7				1
Sören Schelander	7			2	1
Mirek Swartz	7				
Linda Pettersson, deputy	8				

[1] One meeting of the Remuneration Committee was held during the 2016 fiscal year, at which both members, Sten Dunér and Christian Bille, were present.

[2] Peter Lindgren became a member of the Audit Committee on 3 June 2016.

Committees has any general decision-making mandate, except for the Credit Committee. Each Committee must regularly report on its activities to the Board.

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

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

In 2016, the Board followed its established plan and received training in and gained greater knowledge of areas including risk management, capital adequacy, sustainability and regulations. The Board devoted particular attention to such matters as capital and liquidity issues, risks in the operations, the capital situation and major ongoing projects at the bank.

The number of Board meetings and members' attendance are presented in the table on page 24.

Evaluation of the Board's work

Every year, the Board Chairman initiates an evaluation of the Board's work. The 2016 evaluation was based on an electronic survey completed by the Board members. The results were compiled, reported to and discussed by the Board. The results were submitted to the Nomination Committee

Audit Committee

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

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

At the statutory Board meeting following the 2016 Annual General Meeting, Ingrid Jansson was appointed Chairman and Sten Dunér, Bengt-Erik Lindgren and Susanne Petersson were appointed members of the Audit Committee.

The number of Audit Committee meetings and members' attendance are presented in the table on page 24.

Remuneration Committee

The Remuneration Committee is to prepare issues on remuneration of the President and other members of corporate management and employees with overall responsibility for any of the company's control functions, as well as prepare decisions for measures to monitor application of the remuneration policy.

At the statutory Board meeting following the 2016 Annual General Meeting, Sten Dunér was appointed Chairman, and Bengt-Erik Lindgren and Beatrice Kämpe Nikolausson were appointed members of the Remuneration Committee.

The number of Remuneration Committee meetings and members' attendance are presented in the table on page 24.

Risk and Capital Committee

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

At the statutory Board meeting following the 2016 Annual General Meeting, Sten Dunér was appointed Chairman, and Anders Grånäs and Sören Schelander were appointed members of the Risk and Capital Committee.

The number of Risk and Capital Committee meetings and members' attendance are presented in the table on page 24.

Credit Committee

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

At the statutory Board meeting following the 2016 Annual General Meeting, Sten Dunér was elected Chairman, and Bengt-Erik Lindgren, Per-Ove Bäckström, Anna-Greta Lundh, Sören Schelander and Rikard Josefson were appointed members of the Credit Committee.

The number of Credit Committee meetings and Board members' attendance are presented in the table on page 24.

President and corporate management

Rikard Josefson has served as the President of Länsförsäkringar Bank AB since June 2011. Rikard Josefson was born in 1965 and has worked in the banking sector since 1986.

The organisational structure of the Bank Group is divided into departments. In addition, there are the three control functions of Risk Management, Compliance and Internal Audit, and also a Governance function. To ensure that the operations of each subsidiary comply with the overall objectives for the Länsförsäkringar Bank Group, the President is the head of the Bank business unit of the Länsförsäkringar AB Group and also, as a general rule, the Chairman of the Board of Länsförsäkringar Bank's subsidiaries.

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

In addition, four committees have been established to prepare and make decisions on certain issues. The Asset Liability Committee addresses capital and finance issues, the central Credit Committee addresses credit matters, the Credit Committee for Financial Counterparties addresses credit exposure limits to financial counterparties and the Risk Committee addresses risk exposure and limits. The committees are governed by separate instructions.

Control functions

Internal Audit

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

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

Compliance

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

Risk Management

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

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 following established guidelines and takes into consideration the person's expertise 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 the company's operations, stage of development and other circumstances, the assessment also considers relevant training and experience, as well as professional experience in senior positions. In addition to the expertise 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, the company is to adopt measures to ensure that the person in question either meets the suitability requirements or is replaced.

The assessment is that all Board members and the President fully satisfy the suitability requirements.

Deviations from the Code

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

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

Deviation from the provisions of the Code occurs with respect to the fact that Länsförsäkringar Bank is not a stock-market company and has only one shareholder. For more information, see the sections entitled "Shareholders and General Meeting" and "Nomination Committee" on page 22.

Composition of Board

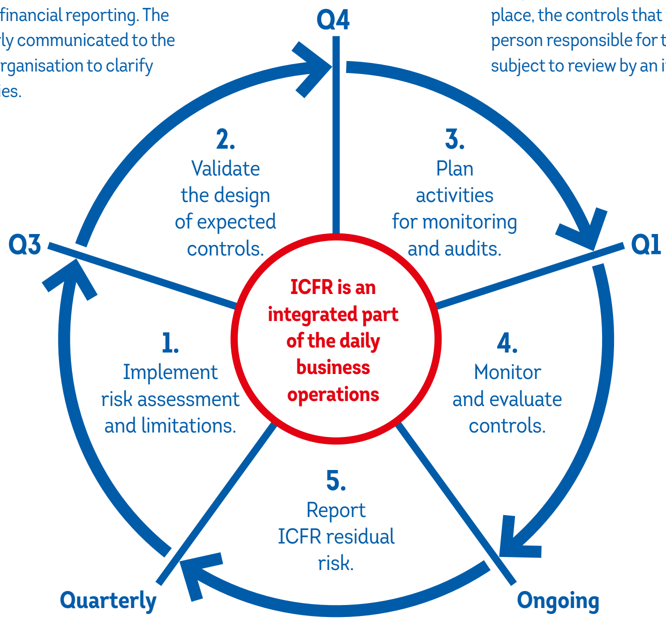
Deviation from the provisions of the Code occurs regarding independence of Board members and Committee members. According to the instruction for the Nomination Committee, the Board of Directors is to be appropriately composed with respect to Länsförsäkringar Bank's operations, stage of development and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

Period of office for Board members

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

Board's report on internal control over financial reporting

Internal control over financial reporting (ICFR) is a process for evaluating the reliability of financial reporting. ICFR is defined as a process carried out by the Board, management and operations. The process is performed in an annual cycle as shown in the diagram below.



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 and processes 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 and presented to the Audit Committee.

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.

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 controls carried out in the operations. 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 for the Group 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 to the Group's CFO and to the Audit Committee. The report describes the residual risk after the self-assessment, and the compensating controls adopted by the operations to manage 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 Audit Committee.

Consolidated financial statements

Consolidated income statement

SEK M	Note	2016	2015
Interest income	5	4,026,8	4,130.0
Interest expense	5	–572,0	1,135.7
Net interest income		**3,454.8**	**2,994.3**
Dividends received		0,2	0.1
Commission income	6	1,522.5	1,522.2
Commission expense	7	–2,090.0	–1,963.1
Net gains / losses from financial items	8	68.4	96.6
Other operating income	9	116.9	97.2
Total operating income		**3,072.9**	**2,747.3**
Staff costs	10	–469.8	–462.0
Other administration expenses	11, 12,13	–1,021,7	–980.2
Total administration expenses		**–1,491.6**	**–1,442.2**
Depreciation/amortisation and impairment of property and equipment/intangible assets	15	–76.3	–124.1
Total operating expenses		**–1,567,9**	**–1,566.3**
Profit before loan losses		**1,505.0**	**1,181.0**
Loan losses, net	14	–37,6	–6.1
Operating profit		**1,467,3**	**1,174.9**
Tax	16	–330,8	–263.8
Net profit for the year		**1,136,6**	**911.1**

Consolidated statement of comprehensive income

SEK M	2016	2015
Profit for the period	**1,136.6**	**911.1**
Other comprehensive income		
Items that may subsequently be transferred to profit and loss		
Cash-flow hedges		
Change in value for the period	1,895.2	594.4
Reclassification to profit and loss	–1,993.8	–559.7
Change in fair value of available-for-sale financial assets		
Change in value for the period	148.9	–153.1
Reclassification of realised securities	–18.7	–41.2
Tax attributable to items that may subsequently be transferred to profit and loss	–6.9	35.1
Total	**24.7**	**–124.5**
Items that cannot be transferred to profit and loss		
Revaluation of defined-benefit pension plans	–	0.1
Tax attributable to items that cannot be reversed to profit and loss	–	–
Other comprehensive income for the period, net after tax	**24.7**	**–124.4**
Total comprehensive income for the period	**1,161.3**	**786.7**

Consolidated balance sheet

SEK M	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Cash and balances with central banks		21,6	21.5
Treasury bills and other eligible bills	17	7,794.4	8,824.0
Loans to credit institutions	18	280.2	502.7
Loans to the public	19, 20	226,705.0	201,964.4
Bonds and other interest-bearing securities	21	32,421.5	31,991.3
Shares and participations		25.4	15.5
Derivatives	22	5,554.3	4,414.4
Fair value changes of interest-rate-risk hedged items in portfolio hedge	23	635.9	815.3
Intangible assets	24	488.3	306.2
Property and equipment	25	7.8	9.6
Deferred tax assets	26	2.7	6.0
Other assets	27	505.1	512.5
Prepaid expenses and accrued income	28	1,508.9	1,696.1
TOTAL ASSETS		**275,951.1**	**251,079.5**
LIABILITIES AND EQUITY			
Due to credit institutions	29	3,872.8	2,954.2
Deposits and funding from the public	30	91,207.1	83,924.8
Debt securities in issue	31	155,999.5	139,882.1
Derivatives	22	1,643.6	2,394.2
Fair value changes of interest-rate-risk hedged items in portfolio hedge	23	3,191.4	2,899.4
Deferred tax liabilities	26	421.6	296.0
Other liabilities	32	595.2	695.4
Accrued expenses and deferred income	33	3,229.8	3,666.4
Provisions	34	12.3	10.6
Subordinated liabilities	35	2,595.4	2,299.7
Total liabilities		**262,768.8**	**239,022.6**
Equity	36		
Share capital		954.9	954.9
Other capital contributed		7,442.5	7,442.5
Reserves		83.9	59.2
Additional Tier 1 instruments		1,200.0	1,200.0
Retained earnings		2,364.5	1,489.2
Net profit for the year		1,136.6	911.1
Total equity		**13,182,3**	**12,056.9**
TOTAL LIABILITIES AND EQUITY		**275,951.1**	**251,079.5**
Other notes			
Company information	1		
Accounting policies	2		
Risks and capital adequacy	3		
Segmenst reporting	4		
Pledged assets, contingent liabilities and commitments	37		
Classification of financial assets and liabilities	38		
Fair value valuation techniques	39		
Informaton offsetting	40		
Disclosures on related parties, pricing and agreements	41		
Events after balance-sheet date	42		

Consolidated cash-flow statement (indirect method)

SEK M	2016	2015
Cash and cash equivalents, 1 January	141.4	1,243.6
Operating activities		
Operating profit	1,467.3	1,174.9
Adjustment of non-cash items	-116.8	197.6
Change in assets of operating activities		
Change in treasury bills and other eligible bills	1,000.5	-3,414.7
Change in loans to credit institutions	203.1	221.0
Change in loans to the public	-24,749.1	-22,486.0
Change in bonds and other interest-bearing securities	-534.7	4,112.8
Change in other assets	-203.1	768.3
Change in liabilities of operating activities		
Change in due to credit institutions	918.7	-26.5
Change in deposits and funding from the public	7,246.6	7,108.3
Change in debt securities in issue	15,030.0	10,684.9
Change in issued Tier 1 instruments	–	1,200.0
Change in other liabilities	-310.8	-576.0
Cash flow from operating activities	**-48.4**	**-1,477.0**
Investing activities		
Acquisition/Divestment of property and equipment	-2.1	-4.4
Acquisition/Divestment of intangible assets	-254.6	-117.0
Acquisition/Divestment of other financial assets	-9.9	-3.8
Cash flow from investing activities	**-266.6**	**-125.2**
Financing activities		
Shareholders' contribution received	–	500.0
Amortisation of subordinated debt	-1,202.2	–
Subordinated debt issued	1,497.9	–
Cash flow from financing activities	**295.7**	**500.0**
NET CASH FLOW FOR THE YEAR	**-19.3**	**-1,102.2**
Cash and cash equivalents, 31 December	**122.1**	**141.4**
Non-cash items		
Depreciation of property and equipment/amortisation of intangible assets	76.3	70.3
Impairment of property and equipment and intangible assets	–	53.8
Unrealised portion of net gains from financial items	46.1	-53.0
Loan losses, excluding recoveries	8.5	-54.1
Change in accrued expense/income	-249.4	181.7
Other	1.7	-1.1
Total non-cash items	**-116.8**	**197.6**
Cash and cash equivalents comprise:		
Cash and balances with central banks	21.6	21.5
Loans to credit institutions	100.5	119.9
Total cash and cash equivalents	**122.1**	**141.4**
Interest received	4,258.4	4,673.9
Interest paid	-1,039.6	-1,658.1
Gross investments	-257.7	-121.3
Income tax paid	-199.7	-60.7

Cash and cash equivalents is defined as cash and balance at central banks, lending and due to credit institutions payable on demand, as well as overnight loans and investments with the Riksbank that mature on the following banking day. Derivative interest rates were reclassified in the second quarter. For more information, see the note on net interest income.

Consolidated statement of changes in shareholders' equity

SEK M	Share capital	Other capital contributed	Additional Tier 1 instruments	Reserves: Fair value reserve	Reserves: Hedge reserve	Reserves: Defined-benefit pension plans	Retained earnings	Net profit for the year	Total
Opening balance, 1 January 2015	**954.9**	**6,942.5**	**-**	**138.1**	**46.9**	**-1.4**	**804.1**	**711.9**	**9,597.0**
Net profit for the year								**911.1**	**911.1**
Other comprehensive income for the year				-151.6	27.1	0.1			-124.4
Comprehensive income for the year				*151.6*	*27.1*	*0.1*		*911.1*	*786.7*
Resolution by Annual General Meeting							711.9	-711.9	-
Conditional shareholders' contribution received		500.0[1]							500.0
Issued Additional Tier 1 instruments			1,200.0[2]				-26.8[3]		1,173.2
Closing balance, 31 December 2015	**954.9**	**7,442.5**	**1,200.0**	**-13.5**	**74.0**	**-1.3**	**1,489.2**	**911.1**	**12,056.9**
Opening balance, 1 January 2016	**954.9**	**7,442.5**	**1,200.0**	**-13.5**	**74.0**	**-1.3**	**1,489,2**	**911.1**	**12,056.9**
Net profit for the year								**1,136,6**	**1,136.6**
Other comprehensive income for the year				101.7	-77.0				24.7
Comprehensive income for the year				*101.7*	*-77.0*			*1,136.6*	*1,161.3*
Resolution by Annual General Meeting							911.1	-911.1	-
Conditional shareholders' contribution received									-
Issued Additional Tier 1 instruments							-35.7[3]		-35.7
Closing balance, 31 December 2016	**954.9**	**7,442.5**	**1,200.0**	**88.2**	**-3.0**	**-1.3**	**2,364.5**	**1,136.6**	**13,182.3**

[1] The shareholders' contributions that have been paid are conditional and the Parent Company Länsförsäkringar AB (publ) is entitled to receive repayment of the contributions from the unappropriated earnings of Länsförsäkringar Bank AB (publ), provided that approval is obtained from the general meeting. On 31 December 2016, the amount of the conditional shareholders' contribution received was SEK 5,290.0 M (5,290.0).

[2] The issued Tier 1 instrument is deemed to fulfil the conditions of an equity instrument since:
- The instrument, according to the conditions, does not have a set maturity date, meaning that the issuer has an unconditional right to refrain from making repayments.
- The issuer of the instrument has full discretion regarding interest payments, that is to say no obligation to pay interest.

[3] Of which issue expenses of SEK -10.6 M (-8.7).

Notes to the consolidated financial statements

All figures in SEK M unless otherwise stated.

Note 1 Company information

The consolidated financial statements for Länsförsäkringar Bank AB (publ) (Corp. Reg. No. 516401-9878) were presented on 31 December 2016. Länsförsäkringar Bank AB is a bank registered in Sweden, with its registered office in Stockholm. The address of the head office is Tegeluddsvägen 11–13, Stockholm, Sweden. The company is a wholly owned subsidiary of Länsförsäkringar AB (publ) (Corp. Reg. No. 556549-7020) with its registered office in Stockholm. The Parent Company in the largest and smallest Group in which Länsförsäkringar Bank AB (publ) is the subsidiary and in which the consolidated financial statements are prepared is Länsförsäkringar AB (publ), Stockholm. The consolidated financial statements for Länsförsäkringar Bank AB (publ) were approved by the Board and President for publication on 22 February 2017. Final approval of the consolidated financial statements will take place at the Parent Company's Annual General Meeting on 8 May 2017.

Note 2 Accounting policies

COMPLIANCE WITH STANDARDS AND LEGISLATION

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

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

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

JUDGEMENTS AND ESTIMATES

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

Significant judgements applied to the Group's accounting policies

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

- The selection of categories and valuation techniques for financial instruments.

These are described in the paragraph below on financial instruments.

- The Group's remuneration to the regional insurance companies, which the Group has opted to recognise as commission expense. The regional insurance companies are remunerated for their work with Länsförsäkringar Bank'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 impairment requirements for loan losses. Loans identified on an individual basis as impaired, and accordingly on which impairment losses are to be recognised, 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 assessments 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 impairment requirements on loans that are not deemed to require individual impairment loss recognition 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 more information, see the note on Risks and capital adequacy.

NEW AND AMENDED ACCOUNTING POLICIES

The European Securities and Markets Authority's (ESMA) Guidelines on Alternative Performance Measures came into effect on 3 July 2016. According to these guidelines, the use of non-IFRS financial measures are to be explained in order to allow readers of a financial report to understand the relevance of the measures. The key figures and financial measures used in this Annual Report are explained in the "Definitions" section.

No other new or revised IFRS, interpretations or other regulatory changes applicable from 2016 have affected the consolidated financial statements.

NEW IFRS AND INTERPRETATIONS THAT HAVE NOT YET BEEN APPLIED

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

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments will replace IAS 39 Financial Instruments: Recognition and Measurement. The ISAB has finalised IFRS 9, which contains new requirements for the classification and measurement of financial instruments, a forward-looking impairment model and simplified conditions for hedge accounting. The EU has adopted the standard, and it will be applicable from January 2018. 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 division 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 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 ongoing IFRS 9 project has been divided into three phases: Classification and Measurement, Hedge Accounting and Expected Credit Losses.

Classification and measurement

Financial assets

Classification and measurement of the Group's financial assets under IFRS 9 have been carried out as part of the project. Division into the three measurement categories is based on the company's business model for the various holdings and cash flow characteristics that the assets give rise to. Loans and receivables mainly held to collect contractual cash flows are measured at amortised cost. Loans and receivables whose cash flows are realised by selling the assets are measured at fair value through profit and loss. Loans and receivables whose cash flows are realised both by collecting contractual cash flows and by selling the assets are measured at fair value through other comprehensive income.

Based on the analysis performed as part of the project, the classification of financial assets under IFRS 9 is determined as follows in the table below.

Financial asset	Fair value through profit and loss	Amortised cost	Fair value through other comprehensive income
Cash and balances with central banks		X	
Treasury bills and other eligible bills			X
Loans to credit institutions		X	
Loans to the public		X	
Bonds and other interest-bearing securities			X
Shares and participations			X
Derivatives	X		
Other financial assets		X	

Financial liabilities

For financial liabilities, most of the requirements that applied under IAS 39 will also apply under IFRS 9. The most significant change relates to financial liabilities, which are voluntarily measured at fair value. Since the Group has chosen to not apply this option, IFRS 9 is not expected to have any impact on financial liabilities, with the exception of enhanced disclosure requirements.

With the exception of enhanced disclosure requirements, the effect of the classification of financial assets under IFRS 9 is expected to have a minor impact on the consolidated financial statements.

Hedge accounting

According to the analysis performed, the Group intends to apply the exemption entailing that the requirements under IAS 39 will continue to apply for portfolio hedging. For other hedging relationships, which mainly include funding in foreign currency and investments in interest-bearing securities, the requirements under IFRS 9 will be applied.

With the exception of enhanced disclosure requirements, the introduction of principles for hedge accounting in IFRS 9 is not expected to have any significant effects on the consolidated financial statements.

Expected Credit Losses (ECL)

Under IFRS 9, provisions for credit losses must be recognised for loans and receivables measured at amortised cost, or at fair value through other comprehensive income. The provision must be based on expected credit losses and probability-weighted amounts.

The model entails that 12-month expected credit losses are recognised when the instrument is initially recognised (Stage 1). Should a significant increase in the instrument's credit risk subsequently occur, the instrument is moved to Stage 2 where the provision is to correspond to the credit losses expected to be incurred during the remaining lifetime of the instrument.

The definition of a significant increase in credit risk is based on changes in the IRB Approach and the changed probability of default. Expected credit losses are based on internal statistical models that take into account both historic outcome and assumptions regarding future macroeconomic levels. For other loans and receivables measured at amortised cost or at fair value through other comprehensive income, an analysis is conducted to develop the most appropriate model for calculating expected credit losses.

The introduction of the new rules is expected to impact the reserves for loan losses.

IFRS 15 Revenue from Contracts with Customers

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. 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 has adopted the standard. The Group has performed an analysis of the effects of IFRS 15, and implementation is ongoing. The assessment is that the standard will not have any significant effect on the consolidated financial statements, although disclosure requirements will be enhanced. Since the effects of the standard are expected to be limited, comparative information will not be restated in the standard's first year of application.

IFRS 16 Leases

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 EU is expected to approve the standard during 2017. For lessees, the new standard means that virtually all leases 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 term of 12 months or less. For lessors, the rules under IAS 17 remain basically unchanged, and the classification of either operating or finance leases is to continue according to the current leasing standard. The standard contains more extensive disclosure requirements compared with the current standard. The company is currently carrying out a project to analyse the effects on IFRS 16, although the effect of the rules has not yet been determined.

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

DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES

Consolidated financial statements

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

Shareholders' contributions are recognised in the consolidated balance sheet as Other capital contributed.

Group contributions

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

Untaxed reserves

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

Equity instruments

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

Related parties

Legal entities closely related to the Länsförsäkringar Bank Group include companies within the Länsförsäkringar AB Group, companies within the Länsförsäkringar Liv Group, the regional insurance companies, associated companies of the Länsförsäkringar AB Group and other related companies, comprising Länsförsäkringar Mäklarservice AB, Länsförsäkringar Fastighetsförmedling AB and Humlegården Fastigheter AB. These companies are wholly owned within the Länsförsäkringar Alliance. Related key persons are Board members, senior executives and close family members of these individuals. The assessment of whether or not a close relationship exists is based on the financial significance of the relationship, in addition to 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.

Accounting of associated companies

Associated companies are companies in which the Group has a significant influence, but not a controlling influence, and are recognised in accordance with the equity method. The equity method entails that the participations are recognised at cost with additions for changes in the company's net assets.

Operating segments

The Group's division of operating segments corresponds to the structure of the internal reports that the Group's chief operating decision maker uses to monitor the operations and allocate resources between operating segments. The Group's chief operating decision maker is executive management. Accordingly, for the Länsförsäkringar Bank Group, the reports on the earnings of the various segments of the operations that are received by executive management form the basis of segment reporting. The legal Group structure reflects the internal reporting to Group management, meaning that every legal entity constitutes one segment.

The Bank Group comprises the Parent Company Länsförsäkringar Bank AB, and the wholly owned subsidiaries Länsförsäkringar Hypotek AB, Wasa Kredit AB and Länsförsäkringar Fondförvaltning AB.

The Banking Operations segment is Länsförsäkringar Bank AB's business activities, comprising deposits, some funding, payment mediation and lending that is not first-lien mortgages on residential properties. The Mortgage Institution segment is the Länsförsäkringar Hypotek AB's business activities, comprising retail mortgage lending of up to 75% of the market value at the granting date and funding by issuing covered bonds.

The Finance Company segment is Wasa Kredit AB, which conducts the Bank Group's leasing operations. The Group also offers hire purchase financing and unsecured loans. The Mutual Funds segment is Länsförsäkringar Fondförvaltning AB, which manages mutual funds with different investment orientations.

Pricing between the Group's segments is based on market conditions. Segment reporting is only provided for the Group.

The Group has no single customer that solely accounts for 10% or more of the Group's income.

Transactions in foreign currency

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

Income

Income is recognised when:

- the income can be measured reliably,
- it is probable that the economic benefits associated with the transaction will flow to the Group,
- the expenses incurred and the expenses remaining to complete the service assignment can be measured reliably.

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

Interest income, interest expense and dividends

Interest income and interest expense for financial instruments calculated in accordance with the effective interest method are recognised under net interest income. The effective interest rate 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-rate lending and deposits is recognised under Net gains/losses from financial items. Dividends from shares and participations are recognised in the item Dividends received once the right to receive payment has been established.

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 and financial guarantees, are recognised as income in the period in which the service was provided. Fees charged for significant activities, for example securities commission and card commission, 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 financial 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 cost of the asset.

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 measured reliably and the economic benefits flow to the Group. Income is measured at the fair value of the amount that has been, or will be, received. Amounts received on behalf of another entity are not included in the Group'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 Group utilises defined-contribution and defined-benefit pension plans. These plans are usually financed through payments from the respective Group company. The Group is generally covered by the FTP plan, which does not depend on any payments from employees.

Defined-benefit pension plans

There is only one defined-benefit pension plan in the Group. This is a pension agreement from 2006 for the insurance industry, by which persons born in 1955 or earlier can voluntarily retire from age 62. The terms and conditions of this plan are designed such that the pension comprises about 65% of the pensionable salary at age 62. The Group's net commitments for defined-benefit pension plans are calculated separately for each plan by making an estimate of the future remuneration that the employees will have earned over their employment in both current and previous periods. This remuneration is discounted at a present value. The discount rate is the interest rate on the balance-sheet date of a high-quality corporate bond with a term corresponding to that of the Group's pension commitments. When there is no well-functioning market for such corporate bonds, the market interest rate on mortgage bonds with a corresponding term will be used instead. The calculation is performed by a qualified actuary by applying the Projected Unit Credit Method. Actuarial gains and losses may arise in conjunction with the determination of the present value of the commitments. These gains and losses arise either because the actual outcome deviates from the earlier assumption or because the assumptions have changed. Revaluation effects comprise actuarial gains and losses. Revaluation effects are recognised in other comprehensive income. The carrying amount of pensions and similar commitments recognised in the balance sheet corresponds to the present value of the commitments at year-end. When the remuneration in a plan improves, the share of the increased remuneration attributable to the employee's service in previous periods is recognised directly as an expense in profit and loss. When there is a difference between how the pension cost is determined in the legal entity and in the Group, a provision or receivable pertaining to a special employer's contribution based on this difference is recognised. The present value of the provision and the receivable is not calculated.

All expenses for defined-benefit pension plans are recognised as staff costs in operating profit.

Yield tax recognised is continuously recognised in the period to which the tax pertains and is thus not included in the liability calculation. For funded plans, tax is charged on returns on plan assets and is recognised in other comprehensive income. For unfunded or partly unfunded plans, tax is charged on net profit for the year.

Defined-contribution pension plans

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

The pension agreement for the insurance industry, the FTP plan, is a multi-employer pension plan. The plan is a defined-benefit plan for employees born in 1971 or earlier and a defined-contribution plan for employees born in 1972 or after. The defined-benefit portion is insured through the Insurance Industry's Pension Fund (FPK). This pension plan entails that a company, as a rule, recognises its proportional share of the defined-benefit pension commitment and of the plan assets and expenses associated with the pension commitment. The accounts should also include information in accordance with the requirements for defined-benefit pension plans.

The FPK is currently unable to provide necessary information, which is why the pension plan above is recognised as a defined-contribution plan.

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

Remuneration for termination of employment

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

Impairment

The carrying amounts of the Group's assets are tested on every balance-sheet date to determine whether there are any indications of impairment. IAS 36 is applied to impairment testing for assets that are not tested according to any other standard. These include financial assets tested in accordance with 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. The Group continuously assesses assets that are not tested for impairment according to other standards if there are any indications that the assets have declined in value. If there is an indication of an impairment requirement, the recoverable amount of the asset is calculated in accordance with IAS 36. An impairment loss is recognised when an estimated recoverable amount falls below the carrying amount of the asset.

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 Bank Group's share of probable and confirmed loan losses are 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:

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

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

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

Financial assets and liabilities

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

Recognition and derecognition in the balance sheet

A financial asset or financial liability is recognised in the balance sheet when the company becomes party to the contract in accordance with the instrument's contractual conditions. A financial asset is derecognised from the balance sheet when the rights in the contract are realised, expire or 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. Deposits and lending transactions are recognised on the settlement date. Loan receivables are recognised in the balance sheet when the loan amount is paid to the borrower. Loan commitments are 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 Group's financial instruments are divided into the following measurement categories:

- Financial assets measured at fair value through profit and loss
- Held-to-maturity investments
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities measured at fair value through profit and loss, and
- 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). For more information, see the note on Fair value valuation techniques.

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.

Assets measured according to fair value option

Compound financial instruments with embedded derivatives are recognised in the category of "Financial assets measured according to fair value option." Changes in the fair value of these assets are recognised in profit and loss under "Net gains/losses from financial items." The item refers to convertible debentures, which are recognised as "other assets" in the balance sheet.

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 Group's liquidity portfolio. 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/losses 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 Group'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 Group's derivatives, which comprise interest-rate and cross-currency swaps and purchased interest caps, have been acquired in their entirety to hedge the risks of interest and exchange-rate exposure arising during the course of operations. All derivatives are measured at fair value in the statement of financial position. Changes in value are recognised depending on whether the derivative is designated as a hedging instrument and, 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 is expected to be highly effective. In the event that the conditions for hedge accounting are no longer met, the derivative instrument is measured at fair value with the change in value through 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 Group from undesirable earnings effects caused by exposure to changes in the interest-rate risk associated with recognised assets or liabilities. When applying fair-value hedges, the hedged item is measured at fair value regarding its hedged risk. The changes in value that arise are recognised in profit and loss and offset by the changes in value arising on the derivative (the hedging instrument).

The Group applies the fair-value hedge method to specific portfolios of funding, deposits and loans that carry fixed interest rates. The Group 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 Group applies cash-flow hedges for hedging currency risk in the Group'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/losses from financial items. Gains or losses recognised in the cash-flow hedging reserve under equity through 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 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 valued at the present value of expected future cash flows discounted by the effective interest of the receivable according to the latest interest-adjustment date.

An individual impairment loss is recognised according to either an individual assessment or a 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 assessment of the impairment requirement for these individually identified loans is based on historical experience about cash flows from other borrowers with similar credit-risk characteristics. For leasing and hire purchase, an individual assessment is made of the future cash flows of all customer contracts terminated due to lack of solvency and of non-performing receivables for which an impairment requirement exists.

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

For loan receivables in leasing and hire purchase whereby the counterparty has a payment that is more than 20 days past due but where the counterparty is deemed to be able to fulfil the conditions of the contract, the collective impairment requirement is assessed based on historical experience about loan losses from other borrowers with similar credit characteristics.

Takeover of collateral
The banking and mortgage operations took over collateral of very insignificant value.

Confirmed losses
Confirmed loan losses are those losses whose amount is regarded as 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.

Leasing
Leases are classified in the consolidated financial statements as either finance or operating leases. A finance leases exist if the financial risks and rewards if ownership have substantially been transferred to the lessee. If this is not the case, then this is a matter of operating leases. The Bank Group's assets that are leased under finance leases are not recognised as property and equipment since the risks associated with ownership are transferred to the lessee. Instead, the leases are recognised as loans to the lessee regarding future leasing fees. Initially, an amount corresponding to the present value of all minimum lease payments to be paid by the lessee is recognised and any guaranteed residual value accrues to the lessor. Payments received from these agreements are recognised in part as repayment of lease receivables, and in part as interest income.

Both the Parent Company and the Group are lessees in the form of internal and external lease contracts classified as operational leading, where expenses are recognised as rents. In addition, both the Group and Parent Company are, to a limited extent, lessees of company cars and office equipment. These expenses are recognised in their entirety as rental charges. These rental changes are recognised straight-line over the leasing period.

The carrying amount of leased assets is tested for impairment in accordance with IAS 36 Impairment of Assets at the end of each fiscal year. The fair value of the asset less selling expenses is calculated and assessed if there is an indication of impairment. If it is not possible to calculate this value or if the fair value is less than the carrying amount, an assessment of the asset's value in use is also performed. If both these values are less than the carrying amount, impairment takes place at the highest of fair value and value in use.

Intangible assets
Intangible assets primarily comprise proprietary and acquired intangible assets with determinable useful lives that are expected to be of significant value to the operations in future years. These assets are recognised at cost less accumulated amortisation and impairment.

Amortisation commences when the asset is put into operation. The Group's proprietary intangible assets are only recognised if all of the following conditions are met:
- There is an identifiable asset.
- It is probable that the developed asset will generate future economic benefits
- The cost of the asset can be measured reliably.
- The asset is technically and commercially usable, and there are sufficient resources to complete development and thereafter use or sell the intangible asset.

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

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

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

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

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

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

Loan commitments
A loan commitment can be:
- A unilateral commitment by the company to issue a loan with predetermined terms and conditions in which the borrower can choose whether he/she wants to accept the loan or not, or
- A loan agreement in which both the company and the borrower are subject to terms and conditions for a loan that begins at a certain point in the future.

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

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

Financial guarantee agreements are initially measured at fair value, which normally means the amount that the company received as compensation for the guarantee issued. When the agreement is subsequently valued, the liability for the financial guarantee is recognised at the higher of the amounts to be recognised under IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount that was originally recognised less deductions for accumulated allocations, recognised in accordance with IAS 18 Revenue.

Note 3 Risks and capital adequacy

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

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 refers to the risk of loss arising due to changes in the market value of financial assets and liabilities. Market risk includes interest-rate risk, currency risk, equities risk, property risk and rollover risk.
Liquidity risk	Liquidity risk is defined as the risk that a company or several companies jointly is/are unable to fulfil their payment commitments due to insufficient cash funds, or is/are only able to fulfil its commitments 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 pertains to the risk of lower earnings due to more difficult competitive conditions, the wrong strategy or incorrect decisions. 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 fire 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 Bank Group and risk limits through the adoption of relevant governance documents. The Board approves all significant elements of the internal models used within the bank and is also responsible for ensuring that regulatory compliance and risks are managed in a satisfactory manner through the Bank Group's Compliance, Risk Management and Internal Audit control functions. The Risk and Capital Committee supports the Board in risk and capital issues, and prepares cases ahead of Board decisions 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 the Chairman of the Risk Committee, whose main task is to follow up on all risk exposure, 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 Bank Group has an effective and robust system for risk management, which allows continuous evaluation and assessment of the risks associated with the business activities. The system is an integrated part of the decision-making processes.

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

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

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

Credit risk

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

The loan portfolio largely comprises mortgages, mainly with single-family homes as collateral. Most exposures are relatively small, meaning that the Bank Group does not have any significant exposure to concentration risk. The Bank Group has a highly diversified geographic distribution since business activities are conducted in all parts of Sweden. The Bank Group has a robust loan-origination process whereby decisions can be guided with the help of internal credit risk models.

During the year, the Bank Group adapted its systems and procedures to meet the requirements of the Mortgage Credit Directive and mortgage repayment rules.

Credit process

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

The Board's adopted credit regulations form the foundation of all loan origination and apply for all regional insurance companies and the Bank Group. The size of the loan and level of risk determine the decision level, where the highest instance is the Board and the lowest instance a decision 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 monitored by the regional insurance companies and by the Bank Group.

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

IRB system

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

- Credit process for risk assessment and credit-granting decisions
- Calculation of 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. A loss given default (LGD) is the portion of an exposure that is expected to be lost in the event of default.

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

Credit quality

The loan portfolio exclusively comprises loans in Sweden and 74% (73) comprises mortgages, meaning lending for private housing in the form of single-family homes and tenant-owned apartments. First-lien mortgages with loan-to-value ratios of to 75% of the market value at the time of origination account for the largest percentage of retail mortgages. Low loan-to-value ratios, combined with a well-diversified geographic spread and local presence, are the core pillars in ensuring that the loan portfolio maintains high credit quality. The rules regarding loan origination for mortgages have a maximum loan-to-value ratio of 85%. The average exposure of the retail mortgage portfolio per counterparty is SEK 1.2 M and 85% of the commitments amount to less than SEK 3 M.

Loans to the agricultural segment accounted for 11% (12) of the loan portfolio. The lending segment is a complement to the bank's mortgages since a large share pertains to loans to family-owned agricultural businesses. Together with mortgages, this segment accounts for approximately 85% (85) of the total loan portfolio.

Loans for leasing and hire purchase to Swedish households and companies accounted for 6% (6) of the loan portfolio, and comprise collateral in ownership reservations and collateral in leased assets. Loans without collateral, comprising unsecured loans and credit card loans, correspond to 4% (4) of lending. Total IRB exposure was SEK 220,090 M (197,752), corresponding to 97.9% (97.8) of total loans to the public.

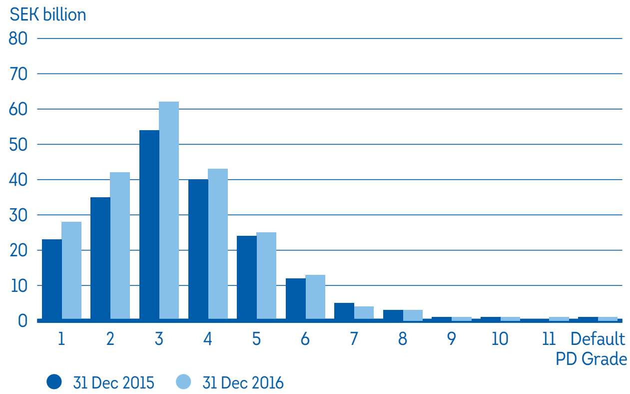
The Bank Group's credit-risk exposure is primarily secured against direct collateral in real property and tenant-owned apartments, the values and LTV ratios of which are taken into consideration when preparing new loans and also within the framework of the risk-classification system's LGD calculations.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

Credit risk exposure	**31 Dec 2016**	**31 Dec 2015**
Credit risk exposure for items recognised in the balance sheet		
Cash and balances with central banks	22	22
Treasury bills and other eligible bills, etc.	7,794	8,824
Loans to credit institutions	280	503
of which collateral in repurchase agreements	0	105
Loans to the public	226,705	201,964
of which collateral in properties and tenant-owned apartments	200,058	176,303
Bonds and other interest-bearing securities	32,422	31,991
Derivative instruments	5,554	4,414
Other assets	505	513
Credit risk exposure for memorandum items		
Guarantees	39	28
Loan commitments and other credit commitments	19,366	16,732
Total	**292,687**	**264,991**

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

Bonds and other interest-bearing securities, SEK M	**Group**		**Parent Company**	
	31 Dec 2016	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**
AAA/Aaa	32,422	31,991	23,220	22,646
Total	**32,422**	**31,991**	**23,220**	**22,646**

The Group's credit exposure according to risk class is presented in the diagram below. The results show a distribution of exposure, with 78% (76) found in the best grades 1–4. Exposure is increasing, particularly in the lowest PD grades 1–4. Overall, on 31 December 2016, the distribution of exposure had shifted slightly towards the lower PD grades compared with the year-earlier period, which means a year-on-year improvement in credit quality.



In addition to the above credit exposure, SEK 4,865 M (4,493) is included in gross loans to the public which are not graded under the IRB Approach, and which include a time-limited exemption that pertains to exposure in one customer segment with Wasa Kredit.

The table on the right shows loans to the public. Collateral is provided in the form of mortgage deeds for mortgages, agricultural lending, multi-family housing and industrial properties, while collateral concerning leasing and hire purchase consists of collateral in assets. The item Other represents around half of overnight deposits with the Swedish National Debt Office.

Loan portfolio

	31 Dec 2016		31 Dec 2015	
Lending segment	**SEK M**	**%**	**SEK M**	**%**
Retail mortgages	168,928	74	147,022	73
Agricultural loans	25,261	11	23,995	12
Unsecured loans	7,937	4	7,642	4
Leasing	6,727	3	6,464	3
Hire purchase	7,582	3	6,348	3
Multi-family housing	7,897	4	7,849	4
Industrial properties	712	0	607	0
Other	1,911	1	2,318	1
Loans to the public, gross	226,955	100	202,245	100
Provisions	-250		-281	
Total	**226,705**		**201,964**	

The following table shows lending distributed between Group companies. Länsförsäkringar Bank and Länsförsäkringar Hypotek's lending mainly comprises loans secured by immovable property, while most lending at Wasa Kredit comprises leasing and hire-purchase loans.

Distribution of companies in loan portfolio, gross, SEK M	**Retail mortgages**	**Agricultural**	**Unsecured loans**	**Leasing**	**Hire purchase**	**Multi-family housing**	**Industrial properties**	**Other**	**Total**
Länsförsäkringar Hypotek	160,213					7,897	712	153	168,975
Länsförsäkringar Bank	8,715	25,261	3,827					1,758	39,561
Wasa Kredit			4,110	6,727	7,582				18,419
Total	**168,928**	**25,261**	**7,937**	**6,727**	**7,582**	**7,897**	**712**	**1,911**	**226,955**

The following table shows mortgages distributed according to the size of the commitment. The distribution of commitments by size has moved toward the higher amount intervals compared with the preceding year.

Retail mortgages, distribution of commitments

	31 Dec 2016			31 Dec 2015		
	SEK M	**%**	**Average commitment, SEK M**	**SEK M**	**%**	**Average commitment, SEK M**
– SEK 0.5 M	11,253	7	0.3	11,133	8	0.3
SEK 0.5 M–SEK 1.0 M	27,709	16	0.7	26,904	18	0.7
SEK 1.0 M–SEK 2.0 M	64,993	39	1.4	58,645	40	1.4
SEK 2.0 M–SEK 3.0 M	38,908	23	2.4	31,533	21	2.4
> SEK 3.0 M	26,065	15	3.9	18,807	13	3.9
Total	**168,928**	**100**	**1.2**	**147,022**	**100**	**1.1**

The following table shows the distribution of retail mortgages by type of collateral. The percentage of tenant-owned apartments has increased somewhat between these years, while the percentage of single-family homes and vacation homes has fallen.

Retail mortgages by collateral

	31 Dec 2016		31 Dec 2015	
Collateral	**SEK M**	**%**	**SEK M**	**%**
Single-family home/vacation home	128,012	76	113,778	77
Tenant-owned apartments	40,916	24	33,244	23
Total	**168,928**	**100**	**147,022**	**100**

The distribution of the retail mortgage portfolio by loan-to-value ratio interval is shown below. The average loan commitment for each borrower is low and the relationship between the loan portfolio and the underlying assets expressed as the weighted average loan-to-value (LTV) ratio was 61% (64).

sRetail mortgages by loan-to-value ratio interval

	31 Dec 2016		31 Dec 2015	
Loan-to-value ratio	**SEK M**	**%**	**SEK M**	**%**
0–50%	135,867	80	113,975	78
51–60%	16,327	10	15,352	10
61–70%	10,735	6	10,959	8
71–75%	3,022	2	3,367	2
75%–	2,977	2	3,369	2
Total	**168,928**	**100**	**147,022**	**100**

The distribution of the retail mortgage portfolio across Swedish counties is shown below. The distribution is stable with some concentration to counties with large metropolitan areas.

Retail mortgages by county

	31 Dec 2016		31 Dec 2015	
County	**SEK M**	**%**	**SEK M**	**%**
Blekinge	2,888	2	2,552	2
Dalarna	8,085	5	7,455	5
Gotland	3,023	2	2,815	2
Gävleborg	5,049	3	4,640	3
Halland	7,496	4	6,707	5
Jämtland	3,147	2	2,803	2
Jönköping	6,363	4	5,323	4
Kalmar	3,935	2	3,435	2
Kronoberg	2,707	2	2,436	2
Norrbotten	2,351	1	2,070	1
Skåne	18,545	11	16,258	11
Stockholm	26,860	16	22,274	15
Södermanland	5,036	3	4,660	3
Uppsala	8,884	5	7,863	5
Värmland	2,555	1	2,168	1
Västerbotten	6,125	4	5,178	4
Västernorrland	2,715	2	2,433	2
Västmanland	5,847	3	5,108	4
Västra Götaland	29,814	18	25,594	17
Örebro	5,791	3	4,972	3
Östergötland	11,712	7	10,278	7
Total	**168,928**	**100**	**147,022**	**100**

The following table shows the distribution of agricultural loans by size of commitment. The distribution is stable compared with the previous year, and the number of commitments exceeding SEK 15.0 M amounted to 19%. The average commitment amounted to SEK 1.9 M, which is unchanged compared with the preceding year.

Agricultural loans, distribution of commitments

	31 Dec 2016				31 Dec 2015			
	SEK M	Exposure, %	Counterparty, %	Average commitment, SEK M	SEK M	Exposure, %	Counterparty, %	Average commitment, SEK M
– SEK 1 M	2,217	2	54	0.3	2,173	9	56	0.3
SEK 1.0 M–SEK 3.0 M	7,198	29	30	1.8	6,578	27	29	1.8
SEK 3.0 M–SEK 8.0 M	6,919	27	12	4.6	6,440	27	11	4.7
SEK 8.0 M–SEK 15.0 M	4,101	16	3	10.8	4,001	17	3	10.8
SEK 15 M–SEK 30 M	3,194	13	1	19.6	3,108	13	1	19.4
> SEK 30 M	1,633	6	0	41.9	1,695	7	0	41.3
Total	**25,261**	**100**	**100**	**1.9**	**23,995**	**100**	**100**	**1.9**

The distribution of agricultural loans by regions in Sweden is shown below.

Geographical distribution of agricultural loans

	31 Dec 2016		31 Dec 2015	
Region	**SEK M**	**%**	**SEK M**	**%**
Western Sweden	5,615	22	5,417	23
Eastern Central Sweden	6,555	26	6,214	26
Stockholm	107	0	104	0
Southern Sweden	4,893	20	4,727	20
Northern Central Sweden	1,304	5	1,137	5
Småland and islands	4,849	19	4,559	19
Northern Norrland	1,060	4	988	4
Central Norrland	878	4	849	3
Total	**25,261**	**100**	**23,995**	**100**

The table below shows agricultural loans by product type. First-lien mortgages have increased 1 percentage point compared with the preceding year, while second-lien mortgages have reduced the percentage of operating credits.

Agricultural loans, product distribution

	31 Dec 2016			31 Dec 2015		
Product	**SEK M**	**%**	**Average commit-ment, SEK M**	**SEK M**	**%**	**Average commit-ment, SEK M**
First-lien mortgages	23,464	93	2.3	21,994	92	2.3
Second-lien mortgages	1,295	5	0.5	1,464	6	0.5
Operating credits	502	2	0.1	537	2	0.1
Total	**25,261**	**100**	**1.9**	**23,995**	**100**	**1.9**

The following table shows the distribution of loans in terms of hire purchase, leasing and unsecured loans, distributed by size of commitment. The distribution is relatively stable compared with the previous year, and the average commitment amounted to SEK 0.07 M.

Hire-purchase, leasing and unsecured loans, distribution of commitments

	31 Dec 2016			31 Dec 2015		
Interval	**SEK M**	**%**	**Average commit-ment, SEK M**	**SEK M**	**%**	**Average commit-ment, SEK M**
– SEK 0.05 M	2,942	13	0.01	2,916	14	0.01
SEK 0.05–0.1 M	3,547	16	0.07	3,404	17	0.07
SEK 0.1–0.2 M	5,350	24	0.14	5,066	25	0.14
SEK 0.2–0.5 M	5,246	24	0.29	4,735	23	0.29
> SEK 0.5 M	5,161	23	1.08	4,333	21	1.10
Total	**22,246**	**100**	**0.07**	**20,454**	**100**	**0.07**

The distribution of loans in terms of hire purchase, leasing and unsecured loans in Sweden is shown below.

Geographic distribution of hire-purchase, leasing and unsecured loans

	31 Dec 2016		31 Dec 2015	
Region	**SEK M**	**%**	**SEK M**	**%**
Western Sweden	4,009	18	3,626	18
Eastern Central Sweden	4,262	19	4,020	20
Stockholm	4,561	21	4,705	23
Southern Sweden	3,632	16	2,856	14
Northern Central Sweden	2,210	10	2,147	10
Småland and islands	1,838	8	1,618	8
Northern Norrland	856	4	698	3
Central Norrland	877	4	784	4
Total	**22,246**	**100**	**20,454**	**100**

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 has a non-performing payment that is more than nine days and up to 60 days past due. Impaired loan receivables amounted to SEK 240 M (241), corresponding to an unchanged gross percentage of impaired loans in relation to loans to the public and credit institutions of 0.11% (0.12). The 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 in the Bank Group (excluding Wasa Kredit AB), on the date when an impairment is identified, by off-setting this against a buffer of accrued commission. On 31 December 2016, the total credit reserve requirement amounted to SEK 380 M, of which the Bank Group's recognised credit reserve accounted for SEK 250 M and the remainder of SEK 130 M was offset against the regional insurance companies' withheld funds, according to the model described above. The transition to the settlement model means that the Bank Group's credit reserves attributable to the regional insurance companies' business on the date of introduction will be gradually reversed by SEK 158 M, of which SEK 0 M remained on 31 December 2016. SEK 23 M was reversed during the period.

Loan losses remained very low at SEK 37.6 M (6.1) net, corresponding to a loan loss level of 0.02% (0.00). Impaired loans and loan losses continued to account for a minor percentage of total loans.

The table below shows impaired loans by product.

Impaired loans by product SEK M	Group		Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Retail mortgages	0.0	2.8	0.0	2.8
Agricultural loans	16.5	8.4	16.5	8.4
Unsecured loans	132	123.6	4.3	11.8
Leasing	58.4	71.2		
Hire purchase	32.3	30.4		
Multi-family housing				
Industrial properties				
Other	1.0	4.7	1.0	4.7
Total	**240.2**	**241.1**	**21.8**	**27.7**

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

Non-performing receivables not included in impaired loans, SEK M	Group		Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Receivables overdue by 1–39 days	275.5	276.7	14.9	27.1
Receivables overdue by 40–60 days	4.4	2.0	0.0	0.1
Total	**279.9**	**278.7**	**14.9**	**27.5**

Non-performing loan receivables not included in impaired loans, specified by company, 31 Dec 2016, SEK M	Länsförsäkringar Bank	Länsförsäkringar Hypotek	Wasa Kredit	Group
Receivables overdue by 1–39 days	14.9	26.5	234.1	275.5
Receivables overdue by 40–60 days	0	0	4.4	4.4
Total	**14.9**	**26.5**	**238.5**	**279.9**

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 is to be 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.

Collateral is only withdrawn by the subsidiary Wasa Kredit AB. Such collateral primarily comprises vehicles and machinery.

A decision to withdraw collateral is made after taking into account the customer's repayment capacity and Section 42 of the Consumer Credit Act, and takes place following documented procedures. The carrying amount on 31 December 2016 was SEK 35 M.

Counterparty risk

Counterparty risk is defined as the risk that the Group could suffer losses pertaining to investments in other credit institutions, bank funds or derivative transactions due to counterparties not fulfilling their commitments. Repurchase agreements are included in counterparty risk. Risk in derivative transactions is managed by the company having a number of swap counterparties, all with high ratings and established ISDA agreements. ISDA agreements allow net accounting of positive and negative derivatives, which reduces the risk to the net position per 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. During the year, the Group started to apply central counterparty clearing for Swedish interest-rate derivatives in accordance with the European Market Infrastructure Regulation (EMIR).

Derivatives, fair value, SEK M	Group	
	31 Dec 2016	31 Dec 2015
AA-/Aa3	1,243.3	900.6
A+/A1	0	55.4
A/A2	237.6	44.7
Total	**1,480.9**	**1,000.8**

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

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 Bank Group applies a number of supplementary risk measures to market risk, such as Value-At-Risk and sensitivity measures. The primary market risks are interest-rate risk and currency risk. These risks are measured and monitored on a daily basis.

Interest-rate risk

Interest-rate risk arises when 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. Interest-rate risk is managed by the bank's Treasury unit in accordance with the instructions issued by the President. On 31 December 2016, an upward parallel shift of 100 base points in the yield curve would have decreased the value of interest-bearing assets and liabilities, including derivatives, by SEK 16.1 M (increase: 31.2).

Impact of interest-rate risk Group, SEK M	31 Dec 2016	31 Dec 2015
Interest-rate risk	-16.1	-31.2
Impacts profit	0.0	0.0
Impacts equity	4.17	10.1
Impacts own funds	-7.1	0.0

Interest-rate risk per currency Group, SEK M Currency	31 Dec 2016	31 Dec 2015
EUR	-0.1	-0.1
CHF	0.0	0.0
NOK	-0.1	-0.1
USD	0.0	0.0
SEK	-15.9	-31.0

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 bank is exposed to this risk in foreign funding. Currency risk is managed in conjunction with funding by swapping all foreign funding to SEK.

Currency distribution, securities and derivatives

Group, SEK M	31 Dec 2016 CHF	EUR	GBP	NOK	USD
Securities (translated at nominal amount to SEK)	0.0	1,533.1	0.0	0.0	372.5
Liabilities (translated at nominal amount to SEK)	-4,692.7	-22,488.9	-561.3	-3,166.2	-790.4
Derivatives (translated at nominal amount to SEK)	4,692.7	20,955.8	561.3	3,166.2	417.9
Net position in currency (translated at nominal amount to SEK)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Group, SEK M	31 Dec 2015 CHF	EUR	GBP	NOK	USD
Securities (translated at nominal amount to SEK)	0.0	1,602.7	–	0.0	345.7
Liabilities (translated at nominal amount to SEK)	-4,421.6	-17,134.9	–	-2,857.4	-843.1
Derivatives (translated at nominal amount to SEK)	4,421.6	15,532.2	–	2,857.4	497.4
Net position in currency (translated at nominal amount to SEK)	**0.0**	**0.0**	**–**	**0.0**	**0.0**

Other market risks

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

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 Bank 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 Bank Group's liquidity risk is governed based on the liquidity and financing strategy to comply with the Board's low risk tolerance. The strategy is determined annually and is updated whenever necessary. The liquidity strategy is specified in a financing plan decided by the Board and 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 Bank Group's operations reflects 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 bank, 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 Group's risk appetite. The central measure in the management of the Group's liquidity risk comprises the Bank Group's "survival horizon," meaning the period of time during which the Bank Group is able to meet its commitments without requiring access to new financing. The liquidity limit for the survival horizon has been set at 12 months, meaning the period of time during which the Bank Group must be able to meet 12 months of contractual outflows without requiring access to new funding in the capital market.

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. An internal liquidity adequacy assessment process is performed at least once annually.

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.

On 31 December 2016, the liquidity reserve amounted to SEK 41.6 billion (42.5), according to the Swedish Bankers' Association's definition, and 61% (63) of the reserve comprise Swedish covered bonds.

Under Swedish Liquidity Coverage Ratio (LCR) requirements, the LCR for the consolidated situation on 31 December 2016 amounted to 169% (251) of the total level, to 371% percent in USD and to 3,033% in EUR. The Net Stable Funding Ratio (NSFR) for the consolidated situation amounted to 113%[1] (115) on 31 December 2016.

Leverage ratio

The leverage ratio on 31 December 2016 amounted to 4.7% (4.7) according to the applicable rules[2].

Financing

The general objectives of the funding operations are to ensure that the Bank Group 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 Group's assets comprise Swedish mortgages. Refinancing primarily takes place in the markets for SEK and EUR, but certain funding also takes place in CHF, NOK and GBP. The Bank Group endeavours to regularly launch issuances in these markets to achieve healthy diversification and maintain investors' interests and credit limits.

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

[1] The calculation is based on Länsförsäkringar Bank's interpretation of the Basel Committee's most recent Net Stable Funding Ratio proposal. The comparative figure pertains to 30 September 2016.
[2] Commission Delegated Regulation (EU) 2015/62 of 10 October 2014 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio.

Fixed-interest periods for assets and liabilities – interest-rate exposure

Group 31 Dec 2016, 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									
Cash and balances with central banks	21.6								21.6
Treasury bills and other eligible bills	1,700.1		99.9	2,443.2	1,141.7	1,092.1	1,317.3		7,794.4
Loans to credit institutions	280.2								280.2
Loans to the public	92,538.6	62,616.3	6,895.4	11,119.3	39,904.0	11,568.8	2,062.6		226,705.0
Bonds and other interest-bearing securities	406.0	2,104.8	4,483.5	3,037.7	16,446.1	5,447.9	495.5		32,421.5
Other assets								8,728.4	8,728.4
Total assets	**94,946.6**	**64,721.1**	**11,478.8**	**16,600.2**	**57,491.8**	**18,108.8**	**3,875.4**	**8,728.4**	**275,951.1**
Liabilities									
Due to credit institutions	3,872.8								3,872.8
Deposits and funding from the public	69,910.6	12,430.0	7,655.8	566.7	503.0	140.4	0.5		91,207.1
Debt securities in issue	7,114.9	19,247.1	7,449.4	814.9	38,581.7	54,188.9	28,602.6		155,999.5
Other liabilities								9,094.0	9,094.0
Subordinated liabilities	997.0	1100.0				498.4			2,595.4
Equity								13,182.3	13,182.3
Total liabilities and equity	**81,895.3**	**32,777.2**	**15,105.2**	**1,381.6**	**39,084.7**	**54,827.7**	**28,603.1**	**22,276.3**	**275,951.1**
Difference assets and liabilities	**13,051.2**	**31,943.9**	**–3,626.4**	**15,218.6**	**18,407.2**	**–36,718.9**	**–24,727.7**	**–13,547.9**	
Interest-rate derivatives, nominal values, net	–13,333.6	–24,527.4	6,575.1	–18,244.7	–11,956.9	39,112.0	24,941.7		2,566.1
Net exposure	**–282.4**	**7,416.5,**	**2,948.7**	**–3,026.1**	**6,450.3**	**2,393.1**	**213.9**	**–13,547.9**	

Group 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									
Cash and balances with central banks	21.5								21.5
Treasury bills and other eligible bills	3,000.4	400.2	200.2	2,123.8	2,658.6	245.8	195.0		8,824.0
Loans to credit institutions	398.0								398.0
Loans to the public	79,772.4	48,679.8	9,663.9	9,102.7	40,266.9	12,303.3	2,170.1		201,959.2
Bonds and other interest-bearing securities	271.7	250.9	2,654.2	2,913.7	15,840.3	9,913.7	146.7		31,991.3
Other assets								7,885.4	7,885.4
Total assets	**83,404.3**	**49,330.8**	**12,518.3**	**14,200.0**	**58,765.9**	**22,462.8**	**2,511.8**	**7,885.4**	**251,079.4**
Liabilities									
Due to credit institutions	2,954.2								2,954.2
Deposits and funding from the public	61,162.2	13,991.5	6,980.7	942.3	613.5	234.6	0.1		83,924.8
Debt securities in issue	407.9	9,295.8	4,009.4	2,885.0	53,644.0	47,395.2	22,244.9		139,882.1
Other liabilities								9,961.8	9,961.8
Subordinated liabilities			1,199.7		1,100.0				2,299.7
Equity								12,056.9	12,056.9
Total liabilities and equity	**64,524.2**	**23,287.3**	**12,189.8**	**3,827.2**	**55,357.5**	**47,629.8**	**22,244.9**	**22,018.7**	**251,079.4**
Difference assets and liabilities	**18,880.1**	**26,043.6**	**328.5**	**10,372.8**	**3,408.4**	**–25,166.9**	**–19,733.1**	**–14,133.3**	
Interest-rate derivatives, nominal values, net	–6,832.6	–7,385.6	–2,205.0	–10,528.2	–18,316.4	25,608.2	20,527.8		868.3
Net exposure	**12,047.5**	**18,658.0**	**–1,876.5**	**–155.4**	**–14,908.0**	**441.3**	**794.7**	**–14,133.3**	

Fixed-interest periods for assets and liabilities – Interest-rate exposure

Parent Company 31 Dec 2016, 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									
Cash and balances with central banks	21.6								21.6
Treasury bills and other eligible bills	1,700.1	0.1	99.9	2,443.6	1,141.7	1,092.1	1,317.3		7,794.4
Loans to credit institutions	63,095.0	1,036.0	14.1	15.9	20.4	2.2	0.0		64,183.5
Loans to the public	21,303.3	9,517.3	1,060.4	1,488.7	4,455.4	1,331.4	327.0	0.0	39,483.6
Bonds and other interest-bearing securities	406.0	1,802.1	2,647.1	2,829.4	11,097.7	3,942.3	495.5		23,220.1
Other assets								13,304.2	13,304.2
Total assets	**86,526.0**	**12,355.4**	**3,821.5**	**6,777.2**	**16,715.2**	**6,368.1**	**2,139.8**	**13,304.2**	**148,007.4**
Liabilities									
Due to credit institutions	8,682.1							0.0	8,682.1
Deposits and funding from the public	70,209.1	12,430.0	7,655.8	566.7	503.0	140.4	0.5	0.0	91,505.5
Debt securities in issue	5,123.2	15,708.8	56.0	814.9	3,594.2	3,275.9	538.6		29,111.6
Other liabilities								5,818.2	5,818.2
Subordinated liabilities	997.0	1,100.0	0.0	0.0	0.0	498.4.0	0.0		2,595.4
Equity								10,294.5	10,294.5
Total liabilities and equity	**85,011.4**	**29,238.8**	**7,711.8**	**1,381.6**	**4,097.3**	**3,914.7**	**539.1**	**16,112.7**	**148,007.4**
Difference assets and liabilities	**1,514.6**	**–16,883.4**	**–3,890.3**	**5,395.6**	**12,617.9**	**2,453.4**	**1,600.7**	**–2,808.5**	
Interest-rate derivatives, nominal values, net	–2,827.2	19,871.7	4,530.1	–6,284.7	–11,347.8	–1,907.8	–1,357.0		677.2
Net exposure	**–1,312.6**	**2,988.3**	**639.8**	**–889.1**	**1,270.1**	**545.6**	**243.7**	**–2,808.5**	

Parent Company 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									
Cash and balances with central banks	21.5								21.5
Treasury bills and other eligible bills	3,000.3	400.2	200.0	2,124.0	2,659.0	246.0	195.0		8,824.0
Loans to credit institutions	54,803.1			37.5	23.4	465.0	801.0		56,130.0
Loans to the public	20,726.9	8,410.8	1,643.5	1,121.5	5,075.7	1,591.3	357.9		38,927.6
Bonds and other interest-bearing securities	271.7	250.1	1,428.3	2,912.4	10,755.2	6,882.1	147		22,646.4
Other assets								11,666.4	11,666.4
Total assets	**78,823.5**	**9,061.1**	**3,272.0**	**6,195.3**	**18,512.9**	**9,184.2**	**1,500.6**	**11,666.4**	**138,215.8**
Liabilities									
Due to credit institutions	7,020.8								7,020.8
Deposits and funding from the public	61,422.8	13,991.5	6,980.7	942.3	613.5	234.6	0.1		84,185.4
Debt securities in issue	407.9	1,140.7	3,333.2	2,101.8	14,386.0	6,821.9	1,290.7		29,482.3
Other liabilities								5,171.9	5,171.9
Subordinated liabilities			1,199.7		1,100.0				2,299.7
Equity								10,055.7	10,055.7
Total liabilities and equity	**68,851.4**	**15,132.2**	**11,513.6**	**3,044.1**	**16,099.5**	**7,056.5**	**1,290.8**	**15,227.6**	**138,215.8**
Difference assets and liabilities	**9,972.1**	**–6,071.1**	**–8,241.6**	**3,151.2**	**2,413.3**	**2,127.6**	**209.8**	**–3,561.3**	
Interest-rate derivatives, nominal values, net	–1,068.7	19,038.2	2,770.0	–3,903.2	–12,922.5	–4,236.3	620.6		298.1
Net exposure	**8,903.4**	**12,967.0**	**–5,471.6**	**–751.9**	**–10,509.2**	**–2,108.7**	**830.4**	**–3,561.3**	

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

Group 31 Dec 2016, 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									
Cash and balances with central banks	21.6						21.6	21.6	
Treasury bills and other eligible bills		1,700.0	2,474.9	2,004.5	1,100.0		7,279.5	7,794.4	3,104.5
Loans to credit institutions	278.8						278.8	280.2	
Loans to the public		2,557.6	5,538.8	12,405.5	206,773.4		227,275.3	226,705.0	203,435.8
Bonds and other interest-bearing securities		691.6	6,045.7	23,667.8	450.0		30,855.1	32,421.5	24,117.8
Other assets		122.9				8,616.9	8,739.8	8,739.8	
Total assets	**300.4**	**5,072.1**	**14,059.5**	**38,077.8**	**208,323.4**	**8,616.9**	**274,450.1**	**275,962.1**	**231,178.2**
Liabilities									
Due to credit institutions	5.0	3,920.4					3,925.4	3,872.8	22.6
Deposits and funding from the public		82,340.6	8,222.5	643.4	0.5		91,207.1	91,207.1	62,228.3
Debt securities in issue		3,103.4	14,321.8	108,302.8	27,958.9		153,686.9	155,999.5	136,261.7
Other liabilities		150.9				7,736.5	7,887.4	9,093.9	
Subordinated liabilities				2,600.0			2,600.0	2,595.4	2,600.0
Total liabilities	**5.0**	**89,515.3**	**22,544.4**	**111,546.2**	**27,959.4**	**7,736.5**	**259,306.8**	**262,768.8**	**202,621.6**
Difference assets and liabilities	**295.4**	**–84,443.2**	**–8,484.9**	**–73,468.4**	**180,364.0**	**880.4**	**15,143.3**	**13,193.7**	
Loans approved but not disbursed	0.0	4,706.4	0.0	0.0	0.0	0.0	4,706.4	0.0	
Total difference, excluding derivatives	**295.4**	**–89,149.6**	**–8,484.9**	**–73,468.4**	**180,364.0**	**880.4**	**10,437.0**	**13,193.7.3**	

Group 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									
Cash and balances with central banks	21.5						21.5	21.5	
Treasury bills and other eligible bills		3,599.9	2,100.0	2,731.6	200.0		8,631.5	8,824.0	2,931.6
Loans to credit institutions	458.0						458.0	398.0	
Loans to the public		2,907.0	5,407.0	12,136.0	183,796.5		204,246.5	195,570.0	180,446.6
Bonds and other interest-bearing securities	1.7	520.0	5,429.0	24,164.7			30,115.4	31,991.3	24,314.7
Other assets						14,274.6	14,274.6	14,274.6	
Total assets	**481.2**	**7,026.9**	**12,935.9**	**39,032.4**	**183,996.5**	**14,274.6**	**257,747.4**	**251,079.4**	**207,693.0**
Liabilities									
Due to credit institutions	275.1	2,638.7					2,913.8	2,954.2	
Deposits and funding from the public		75,153.7	7,922.9	848.1	0.1		83,924.8	83,924.8	54,908.2
Debt securities in issue		10,819.9	5,670.2	98,872.5	22,761.8		138,124.5	139,882.1	99,198.9
Other liabilities		131.3	6.0			9,824.5	9,961.8	9,961.8	
Subordinated liabilities			1,200.0	1,100.0			2,300.0	2,299.7	1,100.0
Total liabilities	**275.1**	**88,743.6**	**14,799.1**	**100,820.6**	**22,761.9**	**9,824.5**	**237,224.9**	**239,022.5**	**155,207.0**
Difference assets and liabilities	**–756.3**	**–95,770.5**	**–27,735.1**	**–139,853.0**	**–206,758.4**	**–24,099.1**	**20,522.6**	**12,056.9**	
Loans approved but not disbursed		3,500.3					3,500.3		
Total difference, excluding derivatives	**–756.3**	**–99,270.8**	**–27,735.1**	**–139,853.0**	**–206,758.4**	**–24,099.1**	**17,022.3**	**12,056.9**	

A conservative assumption was made regarding deposits from the public without fixed terms; the assumed term is within three months.

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

Parent Company 31 Dec 2016, 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									
Cash and balances with central banks	21.58						21.58	21.58	
Treasury bills and other eligible bills		1,700.00	2,474.93	2,004.52	1,100.00		7,279.45	7,794.41	3,104.52
Loans to credit institutions	177.06	62,698.02	29.95	487.60	801.00		64,193.64	64,183.50	1,288.60
Loans to the public	0.00	1,243.92	1,905.03	1,964.53	34,370.10		39,483.58	39,483.58	32,620.59
Bonds and other interest-bearing securities	0.00	391.64	4,045.73	17,292.76	450.00		22,180.13	23,220.12	17,742.76
Other assets						13,304.22	13,304.22	13,304.22	
Total assets	**198.65**	**66,033.59**	**8,455.64**	**21,749.41**	**36,721.10**	**13,304.22**	**146,462.62**	**148,007.42**	**54,756.48**
Liabilities									
Due to credit institutions	4,830.01	3,852.12					8,682.13	8,682.13	
Deposits and funding from the public	298.46	82,340.63	8,222.55	643.41	0.50		91,505.55	91,505.55	62,228.32
Debt securities in issue		3,103.39	5,905.87	20,481.10	717.98		30,208.34	29,111.61	21,199.08
Other liabilities						5,818.23	5,818.23	5,818.23	
Subordinated liabilities				2,600.00			2,600.00	2,595.44	2,600.00
Total liabilities	**5,128.46**	**89,296.14**	**14,128.42**	**23,724.51**	**718.48**	**5,818.23**	**138,814.24**	**137,712.95**	**86,027.40**
Difference assets and liabilities	**–4,929.82**	**–23,262.55**	**–5,672.77**	**–1,975.10**	**36,002.62**	**7,485.99**	**7,648.37**	**10,294.47**	
Loans approved but not disbursed							0.00	0.00	
Total difference, excluding derivatives	**–4,929.82**	**–23,262.55**	**–5,672.77**	**–1,975.10**	**36,002.62**	**7,485.99**	**7,648.37**	**10,294.47**	

Parent Company 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									
Cash and balances with central banks	21.5						21.5	21.5	
Treasury bills and other eligible bills		3,599.9	2,100.0	2,731.6	200.0		8,631.5	8,824.0	2,931.6
Loans to credit institutions	392.6	54,390.0	37.5	488.4	801.0		56,109.5	56,129.5	1,289.4
Loans to the public		1,587.9	1,759.5	2,073.3	33,506.9		38,927.6	38,927.6	32,064.6
Bonds and other interest-bearing securities	1.7	520.0	4,229.0	16,589.7	150.0		21 490.4	22,646.5	16,739.7
Other assets						11,666.7	11,666.7	11,666.7	
Total assets	**415.8**	**60,097.8**	**8,126.0**	**21,883.0**	**34,657.9**	**11,666.7**	**136,847.2**	**138,215.8**	**53,025.3**
Liabilities									
Due to credit institutions		7,020.8					7,020.8	7,020.8	
Deposits and funding from the public		75,414.3	7,922.9	848.1	0.1		84,185.4	84,185.4	54,908.2
Debt securities in issue		2,674.4	5,420.2	21,082.9	1,352.6		30,530.1	29,482.3	22,435.5
Other liabilities						5,171.9	5,171.9	5,171.9	
Subordinated liabilities			1,200.0	1,100.0			2,300.0	2,299.7	1,100.0
Total liabilities		**85,109.5**	**14,543.2**	**23,031.0**	**1,352.6**	**5,171.9**	**129,208.2**	**128,160.1**	**78,443.6**
Difference assets and liabilities	**415.8**	**–25,011.6**	**–6,417.2**	**–1,148.0**	**33,305.3**	**6,494.8**	**7,639.0**	**10,055.7**	
Loans approved but not disbursed		0.0					0.0		
Total difference, excluding derivatives	**415.8**	**–25,011.6**	**–6,417.2**	**–1,148.0**	**33,305.3**	**6,494.8**	**7,639.0**	**10,055.7**	

A conservative assumption was made regarding deposits from the public without fixed terms; the assumed term is within three months.

Liquidity reporting, derivatives

Group 31 Dec 2016, 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	11.6	-0.9	0.0	0.0	10.8
– Interest	-1.3	0.0	-0.1	0.0	-1.4
Derivatives in hedge relationships					
– Currency	145.1	28.5	2,104.1	1,036.5	3,314.2
– Interest	-78.6	541.4	1,639.0	85.0	2,186.9
Total difference, excluding derivatives	**76.8**	**568.9**	**3,743.1**	**1,121.5**	**5,510.4**

Group 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	-1.2	0.0	0.0	-1.1
– Interest	0.0	0.0	0.0	0.0	0.0
Derivatives in hedge relationships					
– Currency	93.1	168.7	1,092.0	618.4	1,972.1
– Interest	32.4	321.0	1,638.5	115.6	2,107.5
Total difference, excluding derivatives	**125.5**	**488.5**	**2,730.5**	**734.0**	**4,079.7**

Parent Company 31 Dec 2016, 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	11.6	-0.9	0.0	0.0	10.8
– Interest	-1.3	0.0	-0.1	0.0	-1.4
Derivatives in hedge relationships					
– Currency	26.4	13.8	-35.9	15.8	20.2
– Interest	-37.9	-90.8	83.3	-12.5	-58.0
Total difference, excluding derivatives	**-1.1**	**-78.0**	**47.3**	**3.4**	**-28.4**

Parent Company 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	-1.2	0.0	0.0	-1.1
– Interest	0.0	0.0	0.0	0.0	0.0
Derivatives in hedge relationships					
– Currency	-9.9	51.7	-80.1	-16.1	-54.5
– Interest	-18.4	-150.6	-136.1	-6.0	-311.2
Total difference, excluding derivatives	**-28.3**	**-100.1**	**-216.2**	**-22.1**	**-365.6**

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

Types of risk

The Bank 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 and compliance risk	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 Bank 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, liquidity disruptions or other serious event. The Bank 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 at least once annually to ensure that the plans are suitable.

Business risk

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

Capital adequacy analysis

Consolidated situation

The consolidated situation encompasses: Länsförsäkringar AB, Länsförsäkringar Bank AB, Länsförsäkringar Hypotek AB, Wasa Kredit AB, Länsförsäkringar Fondförvaltning AB and Länsförsäkringar AB's holding in the property-company Utile Dulci 2 HB. In addition to Länsförsäkringar Bank AB, Länsförsäkringar AB has the subsidiaries of Länsförsäkringar Fondliv Försäkrings AB, Länsförsäkringar Sak Försäkrings AB and Länsförsäkringar Liv Försäkrings AB. These companies are not subject to prudential requirements for credit institutions and are thus not included in the consolidated situation. They are instead subject to the solvency rules for insurance companies. Capital from companies outside the consolidated situation may not be included in own funds. The capital adequacy rules impose requirements that investments in financial entities above a certain level are to be deducted from own funds. For more information about the Group, refer to Länsförsäkringar AB's Annual Report.

In addition to the requirements on banking operations and the solvency rules for insurance operations under CRR and CRD IV, Länsförsäkringar AB and its subsidiaries are subject to rules on conglomerates.

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

Carrying amount of subsidiaries, consolidated situation

Company name	Carrying amount, SEK M	Parent Company's participating interest (%)	Corporate Registration Number	Consolidation method
Länsförsäkringar AB Parent Company				
Länsförsäkringar Bank AB	8,429.6	100	516401-9878	Complete
Länsförsäkringar Fondliv Försäkrings AB (publ)	5,255.4	100	516401-8219	Deducted from own funds
Länsförsäkringar Sak Försäkrings AB (publ)	3,206.5	100	502010-9681	Deducted from own funds
Länsförsäkringar Liv Försäkrings AB (publ)	8.2	100	516401-6627	Deducted from own funds
Utile Dulci 2 HB	9,66.1	45.6	916601-0067	Complete
Länsförsäkringar Bank AB Parent Company				
Länsförsäkringar Hypotek AB	6,619.2	100	556244-1781	Complete
Länsförsäkringar Fondförvaltning AB	165.0	100	556364-2783	Complete
Wasa Kredit AB	914.8	100	556311-9204	Complete

Own funds and capital requirements

SEK M	Consolidated situation 31 Dec 2016	Consolidated situation 31 Dec 2015	Bank Group 31 Dec 2016	Bank Group 31 Dec 2015
Equity	**23,079.2**	**20,138.4**	**13,182.3**	**12,056.9**
Adjustment for Tier 1 instruments	-1,200.0	-1,200.0	-1,200.0	-1,200.0
Unrecognised dividend, Tier 1 capital	-1.9	-2.1	-1.9	-2.1
Unaudited profit	–	–	–	–
Intangible assets	-947.5	-533.0	-488.3	-306.2
Goodwill	-371.6	-371.6	–	–
Cash-flow hedges	16.1	-46.4	3.0	-74.0
IRB Provisions deficit (-)/surplus (+)	-393.1	-407.8	-393.1	-407.8
Adjustments for prudent valuation	-48.3	-48.7	-47.4	-47.6
Deferred tax assets	–	–	–	–
Threshold deduction: financial companies	-6,218.2	-6,465.2	–	–
Minority interest	-1,297.8	–	–	–
Common Equity Tier 1 capital	**12,616.9**	**11,063.7**	**11,054.6**	**10,019.3**
Additional Tier 1 instruments	1,200.0	1,200.0	1,200.0	1,200.0
Tier 1 capital	**13,816.9**	**12,263.7**	**12,254.6**	**11,219.3**
Tier 2 instruments	2,591.7	2,296.8	2,591.7	2,296.9
IRB Provisions deficit (-)/surplus (+)	–	–	–	–
Tier 2 capital	**2,591.7**	**2,296.8**	**2,591.7**	**2,296.9**
Total own funds	**16,408.6**	**14,560.6**	**14,846.3**	**13,516.1**
Total Risk Exposure Amount	**59,512.8**	**51,724.3**	**44,498.3**	**42,239.1**
Total capital requirement	**4,761.0**	**4,137.9**	**3,559.9**	**3,379.1**
Capital requirement for credit risk according to Standardised Approach	1,297.7	945.7	641.7	538.1
Capital requirement for credit risk according to IRB Approach	2,491.9	2,425.3	2,491.9	2,425.3
Capital requirement for operational risk	857.4	631.2	312.2	280.2
Capital requirement for credit valuation adjustment	114.0	135.7	114.0	135.5
Common Equity Tier 1 capital ratio	**21.2%**	**21.4%**	**24.8%**	**23.7%**
Tier 1 ratio	**23.2%**	**23.7%**	**27.5%**	**26.6%**
Total capital ratio	**27.6%**	**28.2%**	**33.4%**	**32.0%**
Special disclosures				
IRB Provisions surplus (+)/deficit (-)	-393.1	-407.8	-393.1	-407.8
– IRB Total provisions (+)	355.3	353.3	355.3	353.3
– IRB Anticipated loss (-)	-748.5	-761.0	-748.5	-761.0
Capital requirement according to Basel I floor	**11,253.8**	**9,847.0**	**10,911.2**	**9,678.0**
Own funds adjusted according to Basel I floor	16,801.8	14,968.4	15,239.4	13,923.9
Surplus capital according to Basel I floor	**5,548.0**	**121.3**	**4,328.2**	**4,245.9**

For a presentation of own funds in accordance with the European Commission's Implementing Regulation (EU) No 1423/2013, refer to the disclosures on own funds on the Länsförsäkringar Bank AB website.

Minimum capital requirements and buffers consolidated situation	**Minimum capital requirement**	**Capital conservation buffer**	**Countercyclical buffer**	**Systemic risk buffer**	**Total**
%					
Common Equity Tier 1 capital	4.5%	2.5%	1.5%	N/A	8.5%
Tier 1 capital	6.0%	2.5%	1.5%	N/A	10.0%
Own funds	8.0%	2.5%	1.5%	N/A	12.0%
SEK M					
Common Equity Tier 1 capital	2,678.1	1,487.8	892.7	N/A	5,058.6
Tier 1 capital	3,570.8	1,487.8	892.7	N/A	5,951.3
Own funds	4,761.0	1,487.8	892.7	N/A	7,141.6
Common Equity Tier 1 capital available for use as a buffer					16.7%

SEK M	Consolidated situation, 31 Dec 2016 Capital requirement	Consolidated situation, 31 Dec 2016 Risk Exposure Amount	Consolidated situation 31 Dec 2015 Capital requirement	Consolidated situation 31 Dec 2015 Risk Exposure Amount	Bank Group 31 Dec 2016 Capital requirement	Bank Group 31 Dec 2016 Risk Exposure Amount	Bank Group 31 Dec 2015 Capital requirement	Bank Group 31 Dec 2015 Risk Exposure Amount
Credit risk according to Standardised Approach								
Exposures to institutions	111.7	1,396.2	58.5	731.8	107.3	1,340.9	53.9	674.0
Exposures to corporates	135.8	1,697.1	113.5	1,419.3	135.8	1,697.1	111.3	1,391.6
Retail exposures	122.2	1,527.4	96.5	1,206.0	122.2	1,527.4	96.5	1,206.0
Defaulted exposures	5.1	64.0	7.7	95.9	5.1	64.0	7.7	95.9
High risk items	2.4	30.0			2.4	30.0		
Covered bonds	222.3	2,779.3	228.2	2,851.9	215.6	2,695.2	220.2	2,752.0
Equity exposures	379.9	4,748.6	329.7	4,120.8	3.0	38.0	1.8	22.5
Other items	318.3	3,978.4	111.7	1,395.9	50.3	628.8	46.7	584.1
Total capital requirement and Risk Exposure Amount	**1,297.7**	**16,220.9**	**945.7**	**11,821.7**	**641.7**	**8,021.4**	**538.1**	**6,726.3**
Credit risk according to IRB Approach								
Retail exposures								
Secured by immovable property, small and medium-sized businesses	178.2	2,226.9	200.2	2,502.5	178.2	2,226.9	200.2	2,502.5
Secured by immovable property, other	916.2	11,453.0	850.4	10,629.7	916.2	11,453.0	850.4	10,629.7
Other retail exposures, small and medium-sized businesses	320.7	4,008.5	325.3	4,065.9	320.7	4,008.5	325.3	4,065.9
Other retail exposures	513.8	6,422.1	463.2	5,790.5	513.8	6,422.1	463.2	5,790.5
Total retail exposures	**1,928.8**	**24,110.4**	**1,839.1**	**22,988.6**	**1,928.8**	**24,110.4**	**1,839.1**	**22,988.6**
Exposures to corporates	563.1	7,038.7	586.2	7,327.9	563.1	7,038.7	586.2	7,327.9
Total capital requirement and Risk Exposure Amount	**2,491.9**	**31,149.1**	**2,425.3**	**30,316.5**	**2,491.9**	**31,149.1**	**2,425.3**	**30,316.5**
Operational risk								
Standardised Approach	857.4	10,717.4	631.2	7,889.8	312.2	3,902.5	280.2	3,503.1
Total capital requirement for operational risk	**857.4**	**10,717.4**	**631.2**	**7,889.8**	**312.2**	**3,902.5**	**280.2**	**3,503.1**
Credit valuation adjustment, Standardised Approach	**114.0**	**1,425.3**	**135.7**	**1,696.3**	**114.0**	**1,425.3**	**135.5**	**1,693.3**

Own funds

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

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

Common Equity Tier 1 capital

Equity comprises share capital, capital contributed, reserves and net profit for the year. During the period, equity included in the Common Equity Tier 1 capital in the consolidated situation increased net, primarily due to profit generated from the Bank Group and dividends received from the Parent Company Länsförsäkringar AB. Profit may be included in Common Equity Tier 1 capital prior to a decision by a general meeting only if approved by the Swedish Financial Supervisory Authority, after deductions have been made for proposed dividends or other predictable costs and the company's auditors have verified the profits. In accordance with the Board's proposed appropriation of profits, no deductions for dividends are made. Changes in equity attributable to cash-flow hedges may not be included in own funds, which is why this effect is excluded. Common Equity Tier 1 capital is also adjusted due to the regulatory requirements regarding prudent valuation of items measured at fair value. Other deductions from Common Equity Tier 1 capital that are applicable to the consolidated situation are intangible assets, goodwill, IRB deficit and significant holdings in units in the financial sector. Common Equity Tier 1 capital after applicable deductions amounted to SEK 12,617 M (11,064).

Tier 1 capital

Additional Tier 1 capital in the consolidated situation solely comprises Additional Tier 1 instruments. Additional Tier 1 instruments are subordinated liabilities which fulfil certain conditions in order to be included as Tier 1 capital when calculating the size of own funds. Länsförsäkringar Bank AB issued an Additional Tier 1 Capital loan of SEK 1,200 M (1,200).

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.

Tier 2 capital primarily comprises fixed-term subordinated debt, of which externally invested amounts totalled SEK 2,592 M (2,297).

Outstanding subordinated loans 31 December 2016

Borrower	Loan amount	Loan date	Repayment date	Premature redemption (break-off date)
Additional Tier 1 instruments - External				
Länsförsäkringar Bank AB	SEK 1,200,000,000	9 June 2015	Perpetual	Optional first redemption date: 9 June 2020
Tier 2 capital - External				
Länsförsäkringar Bank AB	SEK 1,100,000,000	28 March 2013	28 March 2023	28 March 2018
Länsförsäkringar Bank AB	SEK 500,000,000	26 April 2016	26 April 2026	26 April 2021
Länsförsäkringar Bank AB	SEK 1,100,000,000	26 April 2016	26 April 2026	26 April 2021

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

Minimum requirements for capital adequacy

Capital requirements are divided into Pillar I requirements, which are generally minimum requirements for all institutions, and Pillar II requirements that are based on individual assessments performed by each institution. Pillar I requirements for Common Equity Tier 1 capital are expressed as a percentage of the Risk Exposure Amount (REA). The advanced Internal Ratings-based Approach (IRB) for retail exposures is applied in order to calculate REA. The Foundation IRB Approach (F-IRB) is used for exposures to corporates and the Standardised Approach is used for other exposure classes. The Standardised Approach is applied to the calculation of capital requirements for operational risk and credit valuation adjustment risk.

Under 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. These transition rules form a "safety catch" for the lowest level of the own funds requirement that was introduced in connection with the transition to Basel II and that applies until the end of 2017.

Risk Exposure Amount

Total REA in the consolidated situation on 31 December 2016 amounted to SEK 59,513 M (51,724). Continued growth in lending, primarily to households in the form of mortgages, led to an increase in REA. However, growth in REA due to credit risk is limited as a result of the increased credit quality of the portfolio. The remaining increase in REA was mainly related to the investments made in the property-holding company Utile Dulci 2 HB during the year and to operational risk. Länsförsäkringar AB owns 46% of Utile Dulci 2 HB, and the company is considered to be an associated company in the consolidated situation and is fully consolidated regarding the calculation of REA. REA for operational risk has increased partially due to the annual upward adjustment of the income included in the calculation according to the Standardised Approach, but mainly as the result of the changed distribution of indicators related to the Parent Company Länsförsäkringar AB's business support operations for the Länsförsäkringar Alliance.

Buffer requirement

Alongside the Pillar I capital requirements, there are additional capital requirements in the form of a combined buffer. These capital buffers are regulated in Swedish Capital Buffers Act (2014:966). The consolidated situation is subject to requirements on maintaining a capital conservation buffer a countercyclical capital buffer.

This capital conservation buffer is to correspond to 2.5% of REA and amounted to SEK 1,488 M on 31 December 2016. The Financial Supervisory Authority has set the requirement of the countercyclical capital buffer at 1.5% of REA, which corresponded to SEK 893 M on 31 December 2016. Both buffers are to be covered by Common Equity Tier 1 capital. The Pillar I capital requirement for the consolidated situation amounted to 12.0% (11.5), including the capital conservation buffer and countercyclical buffer.

The various capital requirements are described in more detailed in Risk and Capital Management in Länsförsäkringar Bank AB, which is available from the company's website.

Capital management and Internal Capital Adequacy Assessment Process (ICAAP)

The internal capital adequacy assessment process (ICAAP) was designed based on the Pillar II requirements, the requirements established by the Board of Directors for the operations and the internal demands. The regulations aimed at the internal capital adequacy assessment processes of financial companies are based on principles entailing that companies have the opportunity, and the obligation, to design the scope and level of sophistication of their own process themselves. The consolidated situation's process encompasses the companies included in the prudential consolidation and all material risks and capital requirements. The procedures, implementation and results are to be reported to the Financial Supervisory Authority annually. The CRO of Länsförsäkringar Bank AB is responsible for conducting the process work that leads to an internal capital adequacy assessment for the consolidated situation and forms the basis for business planning and Board decisions concerning capital adequacy targets and capital forecasts. The process is to be carried out annually and the prerequisites for stress tests are to be reviewed by the Board at least once annually, which are to guide future work. The aim of capital planning is to ensure that, at any given time, a sufficiently large amount of capital exists in relation to the risks to which the operations are exposed and that a capital forecast is continuously prepared. The forecast is prospective and is to provide an overall view of total capital requirements over both the long and the short term.

Internally assessed capital requirement

The internally assessed capital requirement for the consolidated situation on 31 December 2016 amounted to SEK 5,914 M, which comprises the minimum capital requirement under Pillar I and the capital requirement for risks managed under Pillar II. This amount includes an assessment of the increased capital requirement due to the application of the Financial Supervisory Authority's new assessment method for the probability of default for exposures to corporates. The Bank Group has applied to apply a model compatible with this method.

Pillar II stipulates a capital requirement for the risk weight floor for Swedish mortgages of 25%, resulting in a capital requirement of SEK 4,134 M. Own funds that meet the capital requirement under the Pillar I and Pillar II requirements, including buffers, amounted to SEK 16,409 M.

New and amended rules

New IFRS and interpretations that have not yet been applied

The new or amended standards and interpretations described below will not take effect until the next fiscal year, and have not impacted the consolidated financial statements or capital adequacy.

IFRS 9 Financial Instruments applies from 1 January 2018. IFRS 9 contains new requirements for the classification and measurement of financial instruments, a expected loss impairment model and simplified conditions for hedge accounting.

Provisions for loan losses in the accounts are expected to be impacted by the transition to IFRS 9 some provisions are to be based on expected rather than occurred loss events as under the current method. The total impact on own funds is expected to be restricted since the institutions can use the reserves calculated under the accounting rules in their own funds to meet expected losses calculated according to the IRB Approach. An increase in accounting reserves is thus expected to be counterbalanced by the IRB deficit in Common Equity Tier 1 capital.

The accounting and recognition of currency basis spreads will be clarified as the new IFRS 9 rules on hedge accounting are introduced. If currency basis spreads in a hedge relationship are recognised in Other comprehensive income, they are to be separated and reported as a separate component in Other comprehensive income. This means that currency basis spreads will impact own funds since they are not included in the included in the prudential filter for cash-flow hedges in Common Equity Tier 1 capital.

IFRS 15 Revenue from Contracts with Customers will apply from 1 January 2018. The new standard contain a single, five-step model for recognising revenue from contracts with customers that is not encompassed by other accounting standards. The Group has performed an analysis of the effects of IFRS 15, and implementation of the standard is ongoing. The assessment is that the new model for revenue recognition will not have any significant effect on the consolidated financial statements or capital adequacy.

IFRS 16 Leases will apply from 1 January 2019 and will then replace the existing standard IAS 17. For lessees, the new standard means that essentially all leases are to be recognised in the balance sheet. The Group currently has a project in progress to analyse the effects of IFRS 16, but the impact on the accounts and capital adequacy has not yet been determined.

For detailed information about forthcoming accounting standards and their effects on the consolidated financial statements, refer to note 2 Accounting policies.

Capital adequacy rules

Impending changes to capital adequacy rules

In November 2016, the European Commission published its proposed reviews of the existing capital-adequacy requirements – both the regulation and the directive. The proposed amendments to the regulation include a binding minimum requirement for the leverage ratio, net stable funding ratio and eligible liabilities for global systemically important institutions. New methods are also proposed for calculating market risk, counterparty risk as well as stricter rules on large exposures. The new directive proposal includes a revised Pillar II framework and revisions of calculation methods and materiality assessments of interest-rate risk in the banking book.

The Basel Committee is continuing its work on reviewing current capital adequacy frameworks. Consultations were published in March 2016 a standardised measurement approach for operational risk and constraints on the use of internal model approaches for credit risk. In addition, the Basel Committee published consultations during the year on the review of the Pillar III framework, leverage ratio and future treatment of accounting provisions according to IFRS 9 under the capital adequacy framework. The Basel Committee has not yet finalised the Standardised Approach for credit risk or future capital floor regulations.

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

Crisis Management Directive

New EU regulations on managing failing institutions, including banks, (resolution) were introduced in Sweden on 1 February 2016. These rules are based on the European Parliament and Council's Crisis Management Directive (2014/59/EU). The key aim is to prevent banks' problems from becoming a burden for the tax payer. The Swedish National Debt Office responsible for applying this new regulatory framework, which replaced much of the previous bank support legislation. The new rules regulate three different phases of managing financial stability: prevention, recovery and resolution. The prevention phase requires that Länsförsäkringar has established a recovery plan in preparation to take action if the bank were to be stressed.

Note 4 Segment reporting

Group, SEK M	Banking operations	Mortgage institution	Finance company	Mutual funds	Eliminations/ Adjustments	Total
Income statement 2016						
Net interest income	1,123.8	1,646.9	684.1	0.0	0.0	3,454.8
Dividends received	0.2	0.0	0.0	0.0	0.0	0.2
Net commission	-60.0	-935.2	51.0	376.8	0.0	-567.4
Net gains / losses from financial items	29.3	39.1	0.0	0.0	0.0	68.4
Intra-Group income	107.3	0.0	1.0	0.0	-108.4	0.0
Other income	16.2	0.2	100.1	0.5	0.0	116.9
Total operating income	**1,216.7**	**751.0**	**836.2**	**377.3**	**-108.4**	**3,072.9**
Intra-Group expenses	8.1	-77.5	-10.3	-28.6	108.4	0.0
Other administration expenses	-808.4	-19.7	-392.3	-271.2	0.0	-1,491.6
Depreciation/amortisation and impairment	-65.0	-0.2	-10.8	-0.4	0.0	-76.3
Total operating expenses	**-865.3**	**-97.4**	**-413.4**	**-300.1**	**108.4**	**-1,567.9**
Profit before loan losses	**351.4**	**653.6**	**422.8**	**77.2**	**0.0**	**1,505.0**
Loan losses, net	-21.6	4.8	-20.8	0.0	0.0	-37.6
Operating profit	**329.8**	**658.4**	**402.0**	**77.2**	**0.0**	**1,467.3**
Balance sheet, 31 December, 2016						
Total assets	148,007.4	189,227.6	18,869.1	520.0	-80,673.1	275,951.1
Liabilities	137,586.6	181,239.9	16,742.0	174.5	-72,974.0	262,768.8
Equity	10,420.8	7,987.7	2,127.2	345.5	-7,699.2	13,182.3
Total liabilities and equity	**148,007.4**	**189,227.6**	**18,869.1**	**520.0**	**-80,673.1**	**275,951.1**
Other information per segment						
Investments	233.8	–	22.7	1.1	–	257.7

Group, SEK M	Banking operations	Mortgage institution	Finance company	Mutual funds	Eliminations/ Adjustments	Total
Income statement 2015						
Net interest income	981.8	1,325.6	687.1	-0.2	0.0	2,994.3
Dividends received	0.1	0.0	0.0	0.0	0.0	0.1
Net commission	-104.5	-800.1	48.7	415.0	0.0	-440.9
Net gains / losses from financial items	28.3	68.3	0.0	0.0	0.0	96.6
Intra-Group income	104.5	0.0	1.2	0.1	-105.8	0.0
Other income	4.2	0.1	92.8	0.0	0.1	97.2
Total operating income	**1,014.4**	**593.9**	**829.8**	**414.9**	**-105.7**	**2,747.3**
Intra-Group expenses	7.3	-75.3	-10.4	-27.4	105.8	0.0
Other administration expenses	-750.1	-19.4	-395.0	-277.8	0.1	-1,442.2
Depreciation/amortisation and impairment	-102.5	-0.2	-21.1	-0.3	0.0	-124.1
Total operating expenses	**-845.3**	**-94.9**	**-426.5**	**-305.7**	**105.9**	**-1,566.3**
Profit before loan losses	**169.1**	**499.0**	**403.3**	**109.4**	**0.2**	**1,181.0**
Loan losses, net	41.0	9.8	-56.9	0.0	0.0	-6.1
Operating profit	**210.1**	**508.8**	**346.4**	**109.4**	**0.2**	**1,174.9**
Balance sheet, 31 December, 2015						
Total assets	**138,215.8**	**166,622.6**	**16,402.4**	**441.9**	**-70,603.2**	**251,079.5**
Liabilities	128,109.4	159,673.9	14,687.5	156.2	-63,604.4	239,022.6
Equity	10,106.4	6,948.7	1,714.9	285.7	-6,998.8	12,056.9
Total liabilities and equity	**138,215.8**	**166,622.6**	**16,402.4**	**414.9**	**-70,603.2**	**251,079.5**
Other information per segment						
Investments	111.5	0.4	9.4	–	–	121.3

Income and assets are attributable in their entirety to Sweden. The segment distribution per legal entity reflects the internal reporting to the chief operating decision maker, i.e.The Group's chief operating decision maker.
The legal structure within Länsförsäkringar Bank Group is in line with the product offering to external customers. The portion of assets and liabilities that is not distributed per segment comprise Group-wide eliminations within the Bank Group.

Note 5 Net interest income

SEK M	2016	2015
Interest income		
Loans to credit institutions	-3.7[1]	3.3
Loans to the public	4,919.9	4,978.4
Interest-bearing securities	330.7[1]	464.3
Derivatives	-1,220.2[2]	-1,316.1
Other interest income	0.2	0.1
Total interest income	**4,026.8**	**4,130.0**
Interest expense		
Due to credit institutions	20.1[1]	-1.4
Deposits and borrowing from the public	-185.6	-308.6
Debt securities in issue	-2,012.7[1]	-2,347.2
Subordinated liabilities	-71.5	-80.6
Derivatives	1,780.2[2]	1,728.8
Other interest expense, including government deposit insurance	-102.6	-126.7
Total interest expense	**-572.0**	**-1,135.7**
Total net interest income	**3,454.8**	**2,994.3**
Interest income on impaired loans	14.7	17.2
Average interest rate on loans to the public during the period, including net leasing, %	2.3	2.6
Average interest rate on deposits from the public during the period, %	0.2	0.4

[1] Of which negative interest on Loans to credit institutions of SEK -20,1 M, Interest-bearing securities of SEK -30,6 M, Due to credit institutions of SEK 38,4 M and Debts securities in issue of SEK 7,5 M.

[2] Derivative interest rates were reclassified in the second quarter. This change means that derivative interest rates on derivative instruments that commercially hedge interest-bearing assets are classified as interest income, while derivative interest rates that commercially hedge interest-bearing liabilities are classified in the item interest expense. Comparative figures have been restated.

Note 6 Commission income

SEK M	2016	2015
Payment mediation	84.3	73.4
Loans	117.6	112.3
Deposits	11.0	11.9
Securities	1,134.4	1,159.8
Cards	173.6	163.0
Other commission	1.7	1.8
Total commission income	**1,522.5**	**1,522.2**

Note 7 Commission expense

SEK M	2016	2015
Payment mediation	-92.8	-88.1
Securities	-626.2	-612.6
Cards	-106.9	-93.9
Remuneration to the regional insurance companies	-1,253.5	-1,159.3
Other commission	-10.4	-9.2
Total commission expense	**-2,090.0**	**-1,963.1**

Note 8 Net gains/losses from financial items

SEK M	2016	2015
Interest-bearing assets and liabilities and related derivatives	23.6	30.6
Other financial assets and liabilities	0.2	0.5
Interest compensation	44.6	65.5
Total net gains/losses from financial items	**68.4**	**96.6**

SEK M	2016	2015
Profit/loss by measurement category		
Derivatives intended for risk management, non-hedge accounting	-0.7	0.1
Loans and receivables	42.4	62.5
Available-for-sale financial assets, realised	18.7	23.5
Other financial liabilities	-50.5	-50.4
Hedge accounting at fair value		
- Change in value of hedged item	-736.3	362.2
- Change in value of hedging instrument	782.1	-299.0
Exchange-rate effect	12.7	-2.3
Total	**68.4**	**96.6**

Note 9 Other operating income

SEK M	2016	2015
Remuneration from the regional insurance companies	28.2	24.4
Other income	88.7	72.8
Total other operating income	**116.9**	**97.2**

Note 10 Employees, staff costs and remuneration of senior executives

Average number of employees	2016	2015
Sweden		
Men	205	216
Women	189	180
Total	**394**	**396**

Salaries, other remuneration and social security expenses, other employees	2016	2015
Salaries and remuneration	-254.6	-247.7
of which, variable remuneration	-0.5	-7.0
Social security expenses	-150.0	-148 .2
of which, pension costs	-58.7	-57.2
Total	**-404.6**	**-395 .9**

Board of Directors and senior executives, number 21 (20)	2016	2015
Salaries and remuneration	-25.7	-24.1
of which, variable remuneration	-0.0	-0.0
Social security expenses	-19.6	-18.4
of which, pension costs	-9.1	-8.7
Total	**-45.3**	**-42.5**

Total salaries, other remuneration and social security expenses	2016	2015
Salaries and remuneration	-280.3	-271.8
of which, variable remuneration	-0.5	-7.0
Social security expenses	-169.5	-166.6
of which, pension costs	-67.8	-65.9
Total	**-449.8**	**-438.4**

Länsförsäkringar Bank has about 1,300 individuals who are also employed at Länsförsäkringar Bank and the regional insurance companies. They receive their entire remuneration from their respective regional insurance company.

Note 10 Employees, staff costs and remuneration of senior executives, cont.

Variable remuneration
Variable remuneration refers to deviations from calculated costs for 2015. No variable remuneration is paid from 2016.

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.

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

Pensions
The retirement age for the President is 65. The pension is a defined-contribution plan and pension premium is to amount to 35% of monthly salary. In addition, the company takes out endowment insurance for five years. For 2016, the premium was SEK 0.2 M (0.5). The retirement age for the Executive Vice President and other senior executives is 65. The pension is a defined-contribution plan and pension premium is to amount to 35% of monthly salary. The retirement age for a senior executive is 62. The pension between 62 and 65 is a defined-contribution plan and the pension premium is to amount to 14% of monthly salary. Pension from the age of 65 is subject to the terms of the pension agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (FTF) and the Swedish Confederation of Professional Associations (SACO). The retirement age for other senior executives is 65. The terms comply with pension agreements between the FAO and the FTF/SACO. An additional pension premium corresponding to one price base amount per year is also paid for each individual. One senior executive has an agreement for an additional pension provision corresponding to 12% of the executive's monthly salary.

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

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

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

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

Pensions
Pensions should comply with the terms of the pension agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (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.

Preparation and decision-making process applied in relation to the issue of remuneration of senior executives
Remuneration to the President is determined by the Remuneration Committee and thereafter confirmed by the Board. Remuneration to other senior executives is determined by the President in accordance with the policies for salaries and conditions for senior executives.

Number of women among senior executives, %	31 Dec 2016	31 Dec 2015
Board members	34	36
Other senior executives	46	42

Loans to senior executives

	Bank Group		Parent Company Group	
SEK M	**2016**	**2015**	**2016**	**2015**
Board members	**17.6**	**10.2**	**72.7**	**44.3**
Of which, loans from Bank	3.4	3.5	7.9	9.1
Of which, loans from Hypotek	14.2	6.7	64.9	35.2
Of which, loans from Wasa Kredit	–	–	–	–
President and Executive Vice Presidents	**–**	**–**	**15.7**	**12.6**
Of which, loans from Bank	–	–	2.0	2.5
Of which, loans from Hypotek	–	–	13.7	10.1
Of which, loans from Wasa Kredit	–	–	–	–
Senior executives	**27.8**	**25.6**	**69.3**	**61.5**
Of which, loans from Bank	3.8	5.1	8.7	10.9
Of which, loans from Hypotek	24.0	20.5	60.3	50.3
Of which, loans from Wasa Kredit	–	–	0.3	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 personnel loans is the repo rate less 0.5 percentage points, but can never be lower than 0.5 percentage points. The interest benefit is calculated in accordance with the Swedish National Tax Board's rules and is included in other benefits as above. Personnel loans are restricted to SEK 500,000. The terms and conditions of other loans are market-based.

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

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

Note 11 Other administration expenses

SEK M	2016	2015
Costs for premises	–43.7	–42.7
IT costs	–345.7	–310.4
Consultant costs	–83.2	–77.8
Marketing	–16.3	–14.6
Management costs	–185.0	–203.3
Other administration expenses	–347.9	–331.4
Total administration expenses	**–1,021.7**	**–980.2**

Note 12 Remuneration of auditors

SEK M	2016	2015
Audit fees		
KPMG		
– Audit assignment	–3.3	–3.2
– Audit activities other than audit assignment	–2.3	–2.4
– Tax advice	–0.4	–0.7
– Other assignments	–0.9	–2.9
Deloitte		
– Other assignments	–	–0.4

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

Note 13 Operational leasing

These agreements pertain to internal and external lease contracts where the Group is the lessee.

SEK M	2016	2015
Lease expenses paid		
Rent for premises	-43.0	-41.5
of which, variable fees	-0.3	-0.3
Leasing fees, company cars	-7.5	-7.9
Future basic rents for irrevocable leasing contracts		
Within 1 year	-18.9	-22.2
Between 1 and 5 years	-1.1	-1.3
Total	**-20.0**	**-23.5**

Note 15 Depreciation/amortisation and impairment of property and equipment/intangible assets

SEK M	2016	2015
Depreciation of property and equipment	-3.9	-3.7
Amortisation of intangible assets	-72.4	-66.6
Total depreciation/amortisation	**-76.3**	**-70.3**
Impairment of intangible assets	–	-53.8
Total depreciation/amortisation and impairment of assets	**-76.3**	**-124.1**

Note 14 Loan losses and impaired loans

SEK M	2016	2015
Specific reserve for individually assessed loan receivables		
Write-off of confirmed loan losses during the year	-135.1	-111.4
Reversed earlier provisions of loan losses recognised in the year-end accounts as confirmed losses	133.3	111.1
Provisions of loan losses during the year	-140.9	-121.5
Payment received for prior confirmed loan losses	66.8	41.4
Reversed provisions of loan losses no longer required	67.1	66.6
Net expense for the year for individually assessed loan receivables	**-8.8**	**-13.8**
Collectively assessed homogenous groups of loan receivables with limited value and similar credit risk		
Provision/reversal of reserve for loan losses	-29.1	7.5
Net expense for the year for collectively assessed receivables	**-29.1**	**7.5**
Net expense for the year for fulfilment of guarantees	0.3	0.2
Net expense of loan losses for the year	**-37.6**	**-6.1**

The 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. Off-setting takes place against, and can amount to a maximum of, accrued commission. Remuneration corresponding to 80% of the provision requirement is withheld on every occasion until the lending mediated by the regional insurance company has been regulated. On 31 December 2016, the total credit reserve requirement amounted to SEK 380 M, of which the Bank Group's recognised credit reserve accounted for SEK 250 M and the remainder of SEK 130 M was offset against the regional insurance companies' withheld funds, according to the model described above. The transition to the settlement model means that the Bank Group's credit reserves attributable to the regional insurance companies' business on the date of introduction was gradually reversed by SEK 158 M. The final reversal took place in the fourth quarter of 2016 and a total of SEK 23,3 (60) M was reversed in 2016.

Reserve ratios	2016	2015
Total impaired loans reserve ratio, %	104.1	117.6
Impaired loans reserve ratio excluding collective impairments, %	59.5	84.9

	31 Dec 2016				31 Dec 2015			
Impaired loans, SEK M	**Gross**	**Individual reserve**	**Collective reserve**	**Net**	**Gross**	**Individual reserve**	**Collective reserve**	**Net**
Corporate sector	60.9	-49.8	-18.8	-7.7	73.7	-82.0	-16.5	-24.9
Retail sector	179.3	-93.1	-88.4	-2.2	167.5	-120.4	-61.6	-14.5
of which, private	147.4	-85.2	-42.1	20.1	132.2	-107.3	-45.1	-20.2
Total	**240.2**	**-142.9**	**-107.2**	**-9.9**	**241.1**	**-202.4**	**-78.1**	**-39.4**

	31 Dec 2016			31 Dec 2015		
Reconciliation of provisions of loan losses, SEK M	**Individual provisions**	**Collective provisions**	**Total**	**Individual provisions**	**Collective provisions**	**Total**
Opening balance	**-202.4**	**-78.1**	**-280.5**	**-258.6**	**-85.6**	**-344.2**
Reversed earlier provision of loan losses recognised in the annual accounts as confirmed losses	133.3	–	133.3	111.1	–	111.1
Reversed provision of loan losses no longer required	67.1	-29.1	38	66.6	7.5	74.1
Provision of loan losses during the year	-140.9	–	-140.9	-121.5	–	-121.5
Closing balance	**-142.9**	**-107.2**	**-250.1**	**-202.4**	**-78.1**	**-280.5**

Note 16 Taxes

SEK M	2016	2015
Current tax		
Tax expense for the year	-200.8	-177.4
Adjustment of tax expense pertaining to prior years	-3.0	0.9
Total current tax	**-203.8**	**-176.5**
Deferred tax		
Change in deferred tax expense on temporary differences	-127.0	-87.3
Total deferred tax	**-127.0**	**-87.3**
Total recognised tax expense	**-330.8**	**-263.8**
Reconciliation of effective tax rate		
Profit before tax	1,467.3	1,174.9
Tax in accordance with applicable tax rate for Parent Company	-322.8	-258.5
Tax on non-deductible costs	-7.3	-18.4
Tax on non-taxable income	2.3	12.2
Tax attributable to earlier years	-3.0	0.9
Total tax on net profit for the year	**-330.8**	**-263.8**
Applicable tax rate	22%	22%
Effective tax rate	22.5%	22.5%
Tax items recognised in other comprehensive income		
Tax on available-for-sale financial assets	-28.6	42.7
Tax on cash flow hedges	21.7	-7.6
Tax on revaluation of defined-benefit pension plans	–	-0.0
Total tax attributable to other comprehensive income	**-6.9**	**35.1**

	2016			2015		
SEK M	Before tax	Tax	After tax	Before tax	Tax	After tax
Tax attributable to other comprehensive income						
Available-for-sale financial assets	130.2	-28.6	101.6	-194.3	42.7	-151.6
Cash flow hedges	-98.6	21.7	120.3	34.7	-7.6	27.1
Förmånsbestämda pensionsplaner	–	–	–	0.1	-0.0	0.1

Note 17 Treasury bills and other eligible bills

SEK M	31 Dec 2016	31 Dec 2015
Carrying amount		
Swedish government	7,215.4	8,247.8
Finnish government	579.0	576.2
Total treasury bills and other eligible bills	**7,794.4**	**8,824.0**
Fair value	7,794.4	8,824.0
Amortised cost	7,637.1	8,715.2
Nominal value	7,279.5	8,631.6
Remaining term of not more than 1 year	4,243.2	5,723.5
Remaining term of more than 1 year	3,551.2	3,100.5

Note 18 Loans to credit institutions

SEK M	31 Dec 2016	31 Dec 2015
Other loans to credit institutions	280.2	502.7
Total loans to credit institutions	**280.2**	**502.7**
Fixed-interest period		
Payable on demand	216.9	250.7
Remaining term of not more than 3 months	63.3	252.0
Total loans to credit institutions	**280.2**	**502.7**

Reversed repurchase transactions amount to SEK – (104.7).

Note 19 Loans to the public

Loan receivables are geographically attributable in their entirety to Sweden.

SEK M	31 Dec 2016	31 Dec 2015
Public sector	1,136.9	1,520.1
Corporate sector	17,276.0	16,662.8
Retail sector	208,524.0	184,062.0
Other	18.2	0.0
Loan to the public before reserves	**226,955.1**	**202,244.9**
Reserves	-250.1	-280.5
Loans to the public	**226,705.0**	**201,964.4**
Fixed-interest period		
Remaining term of not more than 3 months	155,156.4	128,457.5
Remaining term of more than 3 months but not more than 1 year	18,017.6	18,766.6
Remaining term of more than 1 year but not more than 5 years	51,468.5	52,570.3
Remaining term of more than 5 years	2,062.6	2,170.0
Loans to the public	**226,705.0**	**201,964.4**

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

Note 20 Financial leasing

Financial lease agreements specified by maturity structure where the Group is the lessor

31 Dec 2016, SEK M	Up to 1 year	1–5 years	More than 5 years	Total
Present value of future minimum lease fees	2,315.4	3,739.8	629.7	6,684.9
Unearned financial income[1]	416.6	529.8	52.8	999.3
Gross investment	**2,732.0**	**4,269.6**	**682.5**	**7,684.2**

31 Dec 2015, SEK M	Up to 1 year	1–5 years	More than 5 years	Total
Present value of future minimum lease fees	2,246.5	3,563.5	584.3	6,394.3
Unearned financial income[1]	387.5	476.6	43.6	907.7
Gross investment	**2,634.0**	**4,040.1**	**627.9**	**7,302.0**

[1] Attributable to present value calculation.

	2016	2015
Provision for impaired loans pertaining to minimum lease fees	41.9	70.1
Variable portion of leasing fees included in net profit for the year	1.5	1.1

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

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

Financial leasing is included in loans to the public.

Note 21 Bonds and other interest-bearing securities

Issued by organisations other than public bodies.

SEK M	31 Dec 2016	31 Dec 2015
Carrying amount		
Swedish mortgage institutions (not guaranteed)	25,150.5	26,269.3
Other Swedish issuers (not guaranteed)	3,999.7	3,613.8
Other foreign issuers (guaranteed by German government)	1,073.3	910.6
Other foreign issuers (not guaranteed)	2,198.0	1,197.6
Total bonds and other interest-bearing securities	**32,421.5**	**31,991.3**
Fair value	32,421.5	31,991.3
Amortised cost	31,828.5	31,476.5
Nominal value	30,855.1	30,263.7
Market status		
Securities listed	32,421.5	31,991.3
Remaining term of not more than 1 year	6,895.5	6,080.7
Remaining term of more than 1 year	25,526.0	25,910.6

Note 22 Derivatives

	31 Dec 2016		31 Dec 2015	
SEK M	Nominal value	Fair value	Nominal value	Fair value
Derivatives with positive values				
Derivatives in hedge accounting				
Interest	99,641.0	2,418.4	82,801.0	2,364.6
Currency	26,514.1	3,097.6	15,182.2	2,049.0
Other derivatives				
Currency	303.9	38.3	41.1	0.8
Total derivatives with positive values	**126,459.0**	**5,554.3**	**98,024.3**	**4,414.4**
Remaining term of not more than 1 year	15,837.5	190.0	17,625.9	132.4
Remaining term of more than 1 year	110,621.5	5,364.3	80,398.4	4,282.0
Derivatives with negative values				
Derivatives in hedge accounting				
Interest	96,235.0	1,232.5	100,574.0	1,610.4
Currency	4,935.9	403.4	11,673.7	777.6
Other derivatives				
Currency	363.8	7.7	803.2	6.2
Total derivatives with negative values	**101,534.7**	**1,643.6**	**113,050.9**	**2,394.2**
Remaining term of not more than 1 year	22,033.3	184.1	27,078.3	271.5
Remaining term of more than 1 year	79,501.4	1,459.5	85,972.6	2,122.7

Note 23 Fair value changes of interest-rate risk hedged items in portfolio hedge

SEK M	31 Dec 2016	31 Dec 2015
Assets		
Carrying amount at beginning of year	815.3	1,146.5
Changes during the year pertaining to lending	-179.4	-331.2
Carrying amount at year-end	**635.9**	**815.3**
Liabilities		
Carrying amount at beginning of year	2,899.4	3,824.4
Changes during the year pertaining to lending	-3.5	-11.1
Changes during the year pertaining to funding	295.5	-913.9
Carrying amount at year-end	**3,191.4**	**2,899.4**

Note 24 Intangible assets

SEK M	Internally developed IT systems		Acquired IT systems		Total	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Cost						
Opening cost	1,293.4	1,176.4	27.9	27.9	1,321.3	1,204.3
Acquisitions during the year	254.6	117.0	–	–	254.6	117.0
Divestments during the year	–	–	–	–	–	–
Closing cost	**1,548.0**	**1,293.4**	**27.9**	**27.9**	**1,575.9**	**1,321.3**
Amortisation						
Opening accumulated amortisation	–785.6	–719.0	–27.9	–27.9	–813.5	–746.9
Amortisation for the year	–72.4	–66.6	–	–	–72.4	–66.6
Divestments during the year	–	–	–	–	–	–
Closing accumulated amortisation	**–858.0**	**–785.6**	**–27.9**	**–27.9**	**–885.9**	**–813.5**
Impairment						
Opening accumulated impairment	–201.6	–147.8	–	–	–201.6	–147.8
Impairment for the year	–	–53.8[1]	–	–	–	–53.8
Closing accumulated impairment	**–201.6**	**–201.6**	**–**	**–**	**–201.6**	**–201.6**
Total intangible assets	**488.3**	**306.2**	**–**	**–**	**488.3**	**306.2**

[1] The impairment pertains to two internally developed systems. Impairments losses were recognised for commercial and technical reasons.

Note 25 Property and equipment

SEK M	31 Dec 2016	31 Dec 2015
Equipment		
Opening cost	48.2	46.2
Purchases	3.1	4.4
Sales/scrapping	–2.2	–2.4
Closing cost	**49.1**	**48.2**
Opening depreciation	–38.6	–35.9
Sales/scrapping	1.2	1.0
Depreciation for the year	–3.9	–3.7
Closing accumulated depreciation	**–41.3**	**–38.6**
Total property and equipment	**7.8**	**9.6**

Note 26 Deferred tax assets and tax liabilities

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

SEK M	Deferred tax assets		Deferred tax liabilities		Net	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Other financial investment assets	–1.1	–2.7	0.3	–	–0.8	–2.7
Liabilities, provisions	–1.6	–3.3	–	–	–1.6	–3.3
Untaxed reserves	–	–	421.3	296.0	421.3	296.0
Deferred tax assets(–)/deferred tax liabilities (+)	**–2.7**	**–6.0**	**421.6**	**296.0**	**418.9**	**290.0**

Note 26 Deferred tax assets and tax liabilities, cont.

Change in deferred tax in temporary differences

SEK M	Amount at 1 Jan	Recognised in profit and loss	Recognised in other comprehensive income	Amount at 31 Dec
2016				
Other financial investment assets	-2.7	–	1.9	-0.8
Liabilities	-3.3	1.7	–	-1.6
Untaxed reserves	296.0	125.6	–	421.6
Deferred tax assets (–)/deferred tax liabilities (+)	**290.0**	**127.3**	**1.9**	**418.9**

SEK M	Amount at 1 Jan	Recognised in profit and loss	Recognised in other comprehensive income	Amount at 31 Dec
2015				
Other financial investment assets	–	–	-2.7	-2.7
Liabilities	-8.8	5.5	–	-3.3
Untaxed reserves	214.2	81.8	–	296.0
Deferred tax assets (–)/deferred tax liabilities (+)	**205.4**	**87.3**	**-2.7**	**290.0**

Note 27 Other assets

SEK M	31 Dec 2016	31 Dec 2015
Accounts receivable	170.4	187.0
Other assets	334.7	325.5
Total other assets	**505.1**	**512.5**

Note 28 Prepaid expenses and accrued income

SEK M	31 Dec 2016	31 Dec 2015
Accrued interest income	1,224.9	1,456.4
Other accrued income	142.6	137.5
Prepaid expenses	141.4	102.2
Total prepaid expenses and accrued income	**1,508.9**	**1,696.1**

Note 29 Due to credit institutions

SEK M	31 Dec 2016	31 Dec 2015
Swedish banks	3,752.7	2,585.9
Other Swedish credit institutions	120.1	368.3
Total due to credit institutions	**3,872.8**	**2,954.2**
Payable on demand	155.5	345.8
Remaining term of not more than 3 months	3,701.6	2,503.7
Remaining term of more than 3 months but not more than 1 year	15.7	104.7

Genuine repurchase transactions amount to SEK 15,7 M (104,7).

Note 30 Deposits from the public

SEK M	31 Dec 2016	31 Dec 2015
Deposits from insurance companies	3,764.2	4,244.8
Deposits from households	77,421.1	70,192.3
Deposits from other Swedish public	10,021.8	9,487.7
Total deposits from the public	**91,207.1**	**83,924.8**
Payable on demand	91,207.1	83,924.8

Fixed-term deposits amount to SEK 27,147.8 M (29,224.0). Interest compensation is paid on premature redemption.

Note 31 Debt securities in issue

SEK M	31 Dec 2016	31 Dec 2015
Commercial papers	1,125,9	1,342.4
Bond loans[1]	154,810,9	138,469.0
Cashier's cheques issued	62,7	70.7
Total debt securities in issue	**155,999,5**	**139,882.1**
Remaining term of not more than 1 year	16,831,7	16,567.9
Remaining term of more than 1 year	139,167,8	123,314.2

[1] Covered bonds in the Group amount to SEK 126,887.9 M (110,399.8).

Note 32 Other liabilities

SEK M	31 Dec 2016	31 Dec 2015
Accounts payable	69.2	74.1
Withheld preliminary tax, customers	18.5	21.1
Other liabilities	507.5	600.2
Total other liabilities	**595.2**	**695.4**

Note 33 Accrued expenses and deferred income

SEK M	31 Dec 2016	31 Dec 2015
Accrued interest expense	1,629.6	2,097.2
Accrued remuneration of regional insurance companies	937.7	842.3
Prepaid rent	236.5	234.6
Other accrued expenses	426.0	492.3
Total accrued expenses and deferred income	**3,229.8**	**3,666.4**

Note 34 Provisions

SEK M	31 Dec 2016	31 Dec 2015
Pension provisions	0.6	0.6
Provision for early retirement in accordance with the pension agreement	2.9	4.1
Other provisions	8.8	5.9
Total provisions	**12.3**	**10.6**

Note 34 Provisions, cont.

Defined-benefit pensions

The Group has a defined-benefit pension plan. This is a pension agreement from 2006 for the insurance industry, by which persons born in 1955 or earlier can voluntarily retire at the age of 62. The terms and conditions of this plan are designed such that the pension comprises about 65% of the pensionable salary at the age of 62.

Pensions and senior executive benefits

Defined-benefit pension plans	2016	2015
Present value of unfunded commitments	2.8	4.1
Total deficit in defined-benefit pension plans	**2.8**	**4.1**
Liabilities in balance sheet	**2.8**	**4.1**
Change in defined-benefit obligation:		
At 1 January	**4.1**	**6.7**
Costs for service during current year	0.1	0.2
Interest expense	0.0	0.1
Costs for service during prior periods and gains and losses from settlement	–	3.1
Gain/loss as a result of changed financial assumptions	–	–
Experience-based gains	-0.1	-0.1
Special employer's contribution related to revaluations	-0.0	-0.0
Payments in conjunction with settlement	-1.2	-5.9
Assumed/transferred pension commitments	–	–
At 31 December	**2.8**	**4.1**

Actuarial assumption	2016	2015
Discount rate	0.36%	0.9%
Salary increases	2.5%	2.5%
Inflation	1.2%	1.4%
Employee turnover	0.0%	0.0%
Life expectation assumptions	FFFS 2007:31	FFFS 2007:31
Probability of early retirement	50.0%	40.0%

Population	2016	2015
Active	6	10
Total	**6**	**10**

Defined-contribution pension plans

Defined-contribution pension plans are plans according to which the company pays fixed contributions to a separate legal entity and does not have a legal or informal obligation to pay additional contributions. The Group's payments of defined-contribution plans are recognised as expenses during the period in which the employee performed the services to which the contributions refer. Primarily, contributions to the Insurance Industry's Pension Fund (FPK) are recognised here. This plan includes all company employees except for a few employees who have individual solutions. The pension agreement for the insurance industry, the FTP plan, through insurance with the 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 2017 for the FTP plan amount to SEK 30.5 M.

	2016	2015
Expenses for defined – contribution plans	61.6	57.5

Note 35 Subordinated liabilities

SEK M	31 Dec 2016	31 Dec 2015
External subordinated debt with three-month floating interest rates	2,097.0	1,545.0
External subordinated debt with a fixed interest rate	498.4	754.7
Total subordinated liabilities	**2,595.4**	**2,299.7**

All subordinated debts at 31 December 2016 are listed and due on 28 March 2023 and 26 April 2026, interest on the variable loans was 1.9% and 1.8%. The interest rate on fixed loans is 2.7%.

Note 36 Equity according to the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL)

SEK M	31 Dec 2016	31 Dec 2015
Restricted equity		
Share capital (9,548,708 shares, quotient value SEK 100 per share)	954.9	954.9
Statutory reserve	18.5	18.5
Total restricted equity	**973.4**	**973.4**
Non-restricted equity		
Reserves	83.8	59.2
Additional Tier 1 instruments	1,200.0	1,200.0
Retained earnings	9,788.7	8,913.2
Net profit for the year	1,136.5	911.1
Total non-restricted equity	**12,208.9**	**11,083.5**
Total equity	**13,182.3**	**12,056.9**

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

Note 37 Pledged assets, contingent liabilities and commitments

SEK M	31 Dec 2016	31 Dec 2015
For own liabilities, pledged assets		
Pledged securities in the Riksbank	2,500.0	2,500.0
Pledged securities in Euroclear	2,000.0	2,000.0
Collateral provided for derivatives	15.2	18.8
Securities collateral paid, derivatives	200.0	–
Loan receivables, covered bonds	159,446.3	137,484.4
Loan receivables, substitute collateral	8,675.0	8,775.0
Commitments resulting from repurchase agreement	15.7	104.7
Other collateral for securities	10.0	20.0
For own liabilities, pledged assets	**172,862.1**	**150 902,9**
Other pledged assets	**None**	**None**
Contingent liabilities		
Guarantees	38.9	27,6
Total contingent liabilities	**38.9**	**27,6**
Commitments		
Loans approved but not disbursed	15,530.5	13,109.9
Unutilised portion of overdraft facilities	2,309.1	2,234.1
Unutilised portion of credit card facilities	1,526.2	1,387.8
Total other commitments	**19,365.8**	**16,731.8**

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

Note 38 Classification of financial assets and liabilities

31 Dec 2016 SEK M	Financial assets at fair value in profit and loss						
	Financial assets valued according to fair value option	Held for trading	Derivatives used in hedge accounting	Loans and receivables	Available-for-sale financial assets	Total	Fair value
Assets							
Cash and balances with central banks				21.6		21.6	21.6
Treasury bills and other eligible bills					7,794.4	7,794.4	7,794.4
Loans to credit institutions				280.2		280.2	280.2
Loans to the public				226,705.0		226,705.0	227,784.0
Bonds and other interest-bearing securities					32,421.5	32,421.5	32,421.5
Shares and participations					25.4	25.4	25.4
Derivatives		38.3	5,516.0			5,554.3	5,554.3
Other assets	20.0			187.3		207.3	207.3
Total assets	**20.0**	**38.3**	**5,516.0**	**227,194.1**	**40,241.3**	**273,009.7**	**274,088.7**

31 Dec 2016 SEK M	Financial liabilities at fair value in profit and loss					
	Financial assets valued according to fair value option	Held for trading	Derivatives used in hedge accounting	Other financial liabilities	Total	Fair value
Liabilities						
Due to credit institutions				3,872.8	3,872.8	3,872.8
Deposits and funding from the public				91,207.1	91,207.1	91,644.4
Debt securities in issue				155,999.5	155,999.5	161,185.9
Derivatives		7.7	1,635.9		1,643.6	1,643.6
Others liabilities				119.7	119.7	119.7
Subordinated liabilities				2,595.4	2,595.4	2,674.8
Total liabilities		**7.7**	**1,635.9**	**253,794.5**	**255,438.1**	**261,141.2**

31 Dec 2015 SEK M	Financial assets at fair value in profit and loss						
	Financial assets valued according to fair value option	Held for trading	Derivatives used in hedge accounting	Loans and receivables	Available-for-sale financial assets	Total	Fair value
Assets							
Cash and balances with central banks				21.5		21.5	21.5
Treasury bills and other eligible bills					8,824.0	8,824.0	8,824.0
Loans to credit institutions				502.7		502.7	502.7
Loans to the public				201,964.4		201,964.4	202,784.8
Bonds and other interest-bearing securities					31,991.3	31,991.3	31,991.3
Shares and participations					15.5	15.5	15.5
Derivatives		0.8	4,413.6			4,414.4	4,414.4
Other assets				186.5		186.5	186.5
Total assets		**0.8**	**4,413.6**	**202,675.1**	**40,830.8**	**247,920.3**	**248,740.7**

31 Dec 2015 SEK M	Financial liabilities at fair value in profit and loss					
	Financial assets valued according to fair value option	Held for trading	Derivatives used in hedge accounting	Other financial liabilities	Total	Fair value
Liabilities						
Due to credit institutions				2,954.2	2,954.2	2,954.2
Deposits and funding from the public				83,924.8	83,924.8	84,107.1
Debt securities in issue				139,882.1	139,882.1	144,105.8
Derivatives		6.2	2,388.0		2,394.2	2,394.2
Others liabilities				112.7	112.7	112.7
Subordinated liabilities				2,299.7	2,299.7	2,362.1
Total liabilities		**6.2**	**2,388.0**	**229,173.5**	**231,567.7**	**236,036.1**

The carrying amount of cash and balances with central banks, treasury bills and other eligible bills, loans to credit institutions, other assets, due to credit institutions and other liabilities comprises a reasonable approximation of the fair value based on the cost of the assets and liabilities since these assets and liabilitieshave short terms. Gains and losses are recognised in profit and loss under "net gains from financial items."

Note 39 Fair value valuation techniques

Level 1 refers to prices determined from prices listed in an active market
Level 2 refers to prices determined by calculated prices of observable market listings
Level 3 refers to prices based on own assumptions and judgements

Financial instruments measured at fair value in the balance sheet

31 Dec 2016 SEK M	Level 1	Level 2	Level 3	Total
Assets				
Treasury bills and other eligible bills	7,794.4			7,794.4
Bonds and other interest-bearing securities	32,421.5			32,421.5
Shares and participations	0.2	6.0	19.2	25.4
Derivatives		5,554.3		5,554.3
Övriga tillgångar			20.0	20.0
Liabilities				
Derivatives		1,643.6		1,643.6

31 Dec 2015 SEK M	Level 1	Level 2	Level 3	Total
Assets				
Treasury bills and other eligible bills	8,824.0			8,824.0
Bonds and other interest-bearing securities	31,991.3			31,991.3
Shares and participations			15.5	15.5
Derivatives		4,414.4		4,414.4
Liabilities				
Derivatives		2,394.2		2,394.2

Shares and participations and other assets in Level 3 are initially measured at cost since the holdings cannot be reliably measured at fair value, and impaired if objective evidence exists to recognise an impairment loss. The assessment is based on the most recent Annual Report and forecast earnings. The fair value of Level 2 shares and participations that pertain to unquoted Series B shares with conversion rights to quoted Series A shares without restrictions is measured based on the price of the Series A share on the balance-sheet date. Derivatives in Level 2 essentially refer to swaps for which fair value has been calculated by discounting expected future cash flows.
There were no significant transfers between Level 1 and Level 2 in 2016 or 2015. There were also no transfers from Level 3 in these years.

Change in Level 3 SEK M	Other assets	Shares and participations
Opening balance, 1 January 2016	–	**15.5**
Acquisition	20.0[1]	3.7
Closing balance, 31 December 2016	**20.0**	**19.2**

Change in Level 3 SEK M	Other assets	Shares and participations
Opening balance, 1 January 2015	–	**11.7**
Shareholder contributions	–	3.8
Closing balance, 31 December 2015	–	**15.5**

[1] Refers to investment in Bohemian Wrappsody AB.

Note 39 Fair value valuation techniques, cont.

Financial instruments measured at amortised cost in the balance sheet

31 Dec 2016 SEK M	Level 1	Level 2	Level 3	Total
Assets				
Loans to the public		227,784.0		227,784.0
Liabilities				
Deposits and borrowing from the public		91,644.4		91,644.4
Debt securities in issue		161,185.9		161,185.9
Subordinated liabilities		2,674.7		2,674.7

31 Dec 2015 SEK M	Level 1	Level 2	Level 3	Total
Assets				
Loans to the public		202,784.8		202,784.8
Liabilities				
Deposits and borrowing from the public		84,107.1		84,107.1
Debt securities in issue		144,105.8		144,105.8
Subordinated liabilities		2,362.1		2,362.1

When calculating the fair value of deposits and funding from the public and loans to the public, anticipated cash flows have been discounted using a discount rate set at the current deposit and lending rates applied (including discounts). Fair value for debt securities in issue and subordinated liabilities is determined based on quoted prices. Parts of debt securities in issue that are considered to be illiquid are adjusted based on expected current issue prices. Commercial papers do not have external market prices and the fair value is determined based on the yield curve of each currency.

There were no significant transfers between Level 1 and Level 2 in 2016 or 2015. There were also no transfers from Level 3 in these years.

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

Note 40 Information about offsetting

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

	Financial assets and liabilities that are offset or subject to netting agreements					
				Related amounts not offset in the balance sheet		
SEK M 31 Dec 2016	Gross amount	Offset in balance sheet	Net amount in balance sheet	Netting framework agreement	Collateral Received (-) / Pledged (+)	Net amount
Assets						
Derivatives	5,554.3	–	5,554.3	-1,300.5	-2,541.6	1,712.2
Reversed repurchase agreements	–	–	–	–	–	–
Liabilities						
Derivatives	-1,643.6	–	-1,643.6	1,300.5	15.2	-328.0
Repurchase agreements	-15.7	–	-15.7	–	15.7	–
Total	**3,895.0**	**–**	**3,895.0**	**–**	**-2,510.7**	**1,384.3**

	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	4,414.4	–	4,414.4	-1,767.5	-1,861.2	785.7
Reversed repurchase agreements	104.7	–	104.7	–	-104.7	–
Liabilities						
Derivatives	-2,394.2	–	-2,394.2	1,767.5	18.8	-607.9
Repurchase agreements	-104.7	–	-104.7	–	104.7	–
Total	**2,020.2**	**–**	**2,020.2**	**–**	**-1,842.4**	**177.9**

Note 41 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.

Agreements

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

Pricing, preparation and decision-making process

Pricing for business operations and remuneration of the regional insurance companies are based on market terms. The price level of the goods and services that the Bank Group purchases and sells within the Länsförsäkringar Alliance is determined by Länsförsäkringar AB's corporate management once a year in conjunction with the adoption of the business plan.

Transactions	Receivables		Liabilities		Income		Expenses		Commitments	
SEK M	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	2016	2015	2016	2015	2016	2015
Länsförsäkringar AB (Parent Company)	42.7	28.1	210.2	589.9	3.0	0.4	488.8	401.0	–	2
Other companies in the Länsförsäkringar AB Group	2.3	2.1	1,136.9	727.6	-10.1	-10.7	361.1	358.0	–	–
Regional insurance companies	83.6	68.7	4,127.8	4,291.1	28.3	24.5	1,263.6	1,165.2	59	59
Länsförsäkringar Liv Group	–	–	637.4	528.1	–	–	70.2	87.9	–	–
Other related parties	12.5	10.3	16.7	31.7	3.4	3.0	0.1	0.1	5	6

For information regarding remuneration of related key persons such as members of the Board of Directors and senior executives, see note 10 concerning staff costs. In all other respects, no transactions took place between these individuals and their family members apart from normal customer transactions.

Note 42 Events after balance-sheet date

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

Five-year summary for the Parent Company

SEK M	2016	2015	2014	2013	2012
INCOME STATEMENT					
Net interest income	1,123.8	981.8	947.9	796.0	742.7
Net commission expense	–60.0	–104.5	–144.9	–254.3	–316.5
Net gains from financial items	29.3	28.3	49.0	19.4	2.7
Other operating income	123.7	108.8	102.1	229.4	219.7
Total operating income	**1,216.7**	**1,014.4**	**954.1**	**790.5**	**648.6**
Staff costs	–185.7	–173.8	–153.8	–142.6	–137.0
General administrative expenses	–614.6	–569.0	–511.8	–482.9	–449.7
Depreciation/amortisation	–65.0	–102.5	–190.9	–82.7	–73.4
Total operating expenses	**–865.3**	**–845.3**	**–856.5**	**–708.3**	**–660.1**
Profit/loss before loan losses	**351.4**	**169.1**	**97.6**	**82.2**	**–11.5**
Loan losses, net	–21.6	41.0	49.2	–80.1	–22.2
Operating profit/loss	**329.8**	**210.1**	**146.8**	**2.1**	**–33.7**
Appropriations	–97.1	–18.0	–35.0	–11.9	–
Tax	–48.0	–56.2	–25.4	6.2	–3.2
Net profit/loss for the year	**184.7**	**135.9**	**86.4**	**–3.6**	**–36.9**
BALANCE SHEET					
Cash and balances with central banks	21.6	21.5	25.8	108.5	109.4
Treasury bills and other eligible bills	7,794.4	8,824.0	5,409.3	3,389.5	3,677.4
Loans to credit institutions	64,183.5	56,129.9	47,377.5	44,638.6	38,260.7
Loans to the public	39,483.6	38,927.6	38,648.6	36,007.7	35,212.9
Bonds and other interest-bearing securities	23,220.1	22,646.5	23,712.2	19,824.7	14,466.0
Shares and participations	7,724.4	7,014.5	6,511.0	6,157.8	5,880.0
Derivatives	3,870.3	3,029.3	2,894.5	602.7	413.3
Fair value changes of interest-rate-risk hedged items in portfolio hedge	99.5	120.4	165.9	64.8	97.0
Intangible assets	451.9	282.5	275.1	347.7	367.6
Other assets	285.4	303,1	205,6	395,0	324,3
Prepaid expenses and accrued income	872.8	916.5	1,090.8	871.2	694.4
Total assets	**148,007.4**	**138,215.8**	**126,316.3**	**112,408.2**	**99,503.0**
Due to credit institutions	8,682.1	7,020.7	5,665.6	6,099.6	2,750.4
Deposits and funding from the public	91,505.5	84,185.4	76,972.9	69,340.6	62,535.0
Debt securities in issue	29,111.6	29,482.3	27,768.4	24,645.5	23,300.9
Derivatives	4,128.9	3,463.7	3,308.9	653.5	564.5
Fair value changes of interest-rate-risk hedged items in portfolio hedge	164.2	146.9	190.1	46.2	108.9
Other liabilities	535.5	335,4	388,6	473,6	705,5
Accrued expenses and deferred income	989.6	1,226.0	1,371.3	1,134.2	986.2
Subordinated liabilities	2,595.4	2,299.7	2,299.7	2,299.7	1,489.7
Equity	10,294.5	10,055.7	8,350.8	7,715.3	7,061.9
Total liabilities and equity	**148,007.4**	**138,215.8**	**126,316.3**	**112,408.2**	**99,503.0**
KEY FIGURES					
Common Equity Tier 1 capital ratio according to Basel III, %	35.8	36.3	31.1	–	–
Capital adequacy ratio according to Basel III, %	40.7	41.4	31.1	–	–
Tier 1 ratio according to Basel III, %	51.6	51.2	40.3	–	–

Financial statements, Parent Company

Income statement – Parent Company

SEK M	Note	2016	2015
Interest income	5	1,434.1	1,549.8
Interest expense	5	–310.3	–568.0
Net interest income		**1,123.8**	**981.8**
Commission income	6	378.1	357.8
Commission expense	7	–438.1	–462.3
Net gains from financial items	8	29.3	28.3
Other operating income	9	123.5	108.7
Total operating income		**1,216.7**	**1,014.4**
Staff costs	10	–185.7	–173.8
Other administration expenses	11, 12, 13	–614.6	–569.0
Total administration expenses		**–800.3**	**–742.8**
Depreciation/amortisation and impairment of property and equipment/intangible assets	14	–65.0	–102.5
Total operating expenses		**–865.3**	**–845.3**
Profit/loss before loan losses		**351.4**	**169.1**
Loan losses, net	15	–21.6	41.0
Operating profit/loss		**329.8**	**210.1**
Appropriations	37	–97.1	–18.0
Tax	16	–48.0	–56.2
Net profit/loss for the year		**184.7**	**135.9**

Statement of comprehensive income – Parent Company

SEK M	2016	2015
Net profit/loss for the year	**184.7**	**135.9**
Other comprehensive income		
Items that may subsequently be transferred to profit and loss		
Cash-flow hedges		
Change in value for the period	107.0	–13.9
Reclassification to profit and loss	–104.9	10.6
Change in fair value of available-for-sale financial assets		
Change in value for the period	128.6	–95.1
Reclassification of realised securities	–15.6	–35.2
Tax attributable to items that may subsequently be transferred to profit and loss	–25.3	29.4
Total other comprehensive income for the year, net after tax	**89.8**	**–104.2**
Comprehensive income for the year	**274.5**	**31.7**

Balance sheet – Parent Company

SEK M	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Cash and balances with central banks		21.6	21.5
Treasury bills and other eligible bills	17	7,794.4	8,824.0
Loans to credit institutions	18	64,183.5	56,129.9
Loans to the public	19	39,483.6	38,927.6
Bonds and other interest-bearing securities	20	23,220.1	22,646.5
Shares and participations	21	25.4	15.5
Shares and participations in Group companies	22	7,699.0	6,999.0
Derivatives	23	3,870.3	3,029.3
Fair value changes of interest-rate risk hedged items in portfolio hedge	24	99.5	120.4
Intangible assets	25	451.9	282.5
Property and equipment	26	2.5	3.6
Deferred tax assets	27	2.0	1.8
Other assets	28	280.9	297.7
Prepaid expenses and accrued income	29	872.8	916.5
TOTAL ASSETS		**148,007.4**	**138,215.8**
LIABILITIES, PROVISIONS AND EQUITY			
Due to credit institutions	30	8,682.1	7,020.7
Deposits and funding from the public	31	91,505.5	84,185.4
Debt securities in issue	32	29,111.6	29,482.3
Derivatives	23	4,128.9	3,463.7
Fair value changes of interest-rate risk hedged items in portfolio hedge	24	164.2	146.9
Other liabilities	33	366.5	264.8
Accrued expenses and deferred income	34	989.6	1,226.0
Provisions	35	7.0	5.7
Subordinated liabilities	36	2,595.4	2,299.7
Total liabilities and provisions		**137,551.0**	**128,095.2**
Untaxed reserves	37	**162.0**	**64,9**
Equity	38		
Share capital		954.9	954.9
Statutory reserve		18.4	18.4
Development Expenditures Fund		239.9	–
Additional Tier 1 instruments		1,200.0	1,200.0
Fair value reserves		60.9	-29.0
Retained earnings		7,635.8	7,775.5
Net profit/loss for the year		**184.7**	**135.9**
Total equity		**10,294.5**	**10,055.7**
TOTAL LIABILITIES, PROVISIONS AND EQUITY		**148,007.4**	**138,215.8**
Other notes			
Company information	1		
Accounting policies	2		
Risks and capital adequacy	3		
Segment reporting	4		
Pledged assets, contingent liabilities and commitments	39		
Classification of financial assets and liabilities	40		
Fair value valuation techniques	41		
Information about offsetting	42		
Capital adequacy	43		
Disclosures on related parties, pricing and agreements	44		
Events after balance-sheet date	45		

Cash-flow statement, indirect method – Parent Company

SEK M	2016	2015
Cash and cash equivalents, 1 January	**124.1**	**1,231.7**
Operating activities		
Operating profit/loss	329.8	210.2
Adjustment of non-cash items	–103.2	80.6
Change in assets of operating activities		
Change in treasury bills and other eligible bills	1,000.5	–3,414.7
Changes in loans to credit institutions	–8,066.2	–9,377.2
Change in loans to the public	–567.6	–224.9
Change in bonds and other interest-bearing securities	–589.1	961.5
Change in other assets	145.7	–234,0
Change in liabilities of operating activities		
Change in due to credit institutions	1,661.4	1,376.9
Change in deposits and funding from the public	7,284.5	7,185.7
Change in debt securities in issue	–485.4	1,712.8
Change in issued additional Tier 1 instruments	–	1,200.0
Change in other liabilities	28.4	31,4
Cash flow from operating activities	**638.8**	**–492.5**
Investing activities		
Acquisition/Divestment of intangible assets	–233.5	–2.6
Acquisition/Divestment of property and equipment	0.2	–108.9
Acquisition/Divestment of other financial assets	–14.8	–3.5
Subordinated debt paid	–	–500.0
Shareholders' contributions paid	–700.0	–500.0
Cash flow from investing activities	**–948.1**	**–1,115.1**
Financing activities		
Shareholders' contribution received	–	500.0
Amortisation of subordinated debt	–1,202.2	–
Subordinated debt issued	1,497.9	–
Cash flow from financing activities	**295.7**	**500.0**
NET CASH FLOW FOR THE YEAR	**–13.6**	**–1,107.6**
Cash and cash equivalents, 31 December	**110.5**	**124.1**

Cash-flow statement, indirect method – Parent Company, cont.

SEK M Non-cash items	2016	2015
Depreciation/amortisation	65.0	53.9
Impairments	–	48.6
Unrealised portion of net gains from financial items	7.7	4.1
Loan losses, excluding recoveries	11.6	-54.1
Change in accrued expense/income	-192.2	28.9
Provisions	4.9	-0.8
Total non-cash items	**-103.2**	**80.6**
Cash and cash equivalents comprise:		
Cash and balances with central banks	21.6	21.5
Loans to credit institutions[1]	88.9	102.6
Total cash and cash equivalents	**110.5**	**124.1**
Interest received	638.8	1,640.8
Interest paid	-451.7	-663.3
Gross investments	233.9	-111.5
Tax paid	-109.2	-17.5

1 Excluding loans/liabilities to subsidiaries. Cash and cash equivalents is defined as cash and balance at central banks, lending and due to credit institutions payable on demand, as well as overnight loans and investments with the Riksbank that mature on the following banking day.

Statement of changes in shareholders' equity – Parent Company

	Restricted equity			Non-restricted equity					
					Fair value reserve				
SEK M	Share capital	Development expenditures fund	Other capital contributed	Additional Tier 1 instruments	Fair value reserve	Hedge reserve	Retained earnings	Net profit for the year	Total
Opening balance, 1 January 2015	**954.9**	**–**	**18.4**	**–**	**78.2**	**-3.0**	**7,215.9**	**86.4**	**8,350.8**
Net profit for the year								**135.9**	**135.9**
Other comprehensive income for the year					-101.6	-2.6			-104.2
Comprehensive income for the year					*-101.6*	*-2.6*		*135.9*	*31.7*
Resolution by Annual General Meeting							86.4	-86.4	–
Issued Additional Tier 1 instruments[2]				1,200.0			-26.8		1,173.2
Conditional shareholders' contribution received[1]							500.0		500.0
Closing balance, 31 December 2015	**954.9**	**–**	**18.4**	**1,200.0**	**-23.4**	**-5.6**	**7,775.5**	**135.9**	**10,055.7**
Opening balance, 1 January 2016	**954.9**	**–**	**18.4**	**1,200.0**	**-23.4**	**-5.6**	**7,775.5**	**135.9**	**10,055.7**
Net profit for the year								**184.7**	**184.7**
Other comprehensive income for the year					88.2	1.6			89.8
Comprehensive income for the year					*88.2*	*1.6*		*184.7*	*274.5*
Resolution by Annual General Meeting							135.9	-135.9	–
Issued Additional Tier 1 instruments[2]							-35.7[3]		-35.7
Conditional shareholders' contribution received		239.9					-239.9		–
Closing balance, 31 December 2016	**954.9**	**239.9**	**18.4**	**1,200.0**	**64.8**	**-3.9**	**7,635.8**	**184.7**	**10,294.5**

1 The shareholders' contributions that have been paid are conditional and the Parent Company Länsförsäkringar AB (publ) is entitled to receive repayment of the contributions from the unappropriated earnings of Länsförsäkringar Bank AB (publ), provided that approval is obtained from the general meeting. On 31 December 2016, the amount of the conditional shareholders' contribution received was SEK 5,290.0 M (5,290.0).

2 The issued Tier 1 instrument is deemed to fulfil the conditions of an equity instrument since:
- The instrument, according to the conditions, does not have a set maturity date, meaning that the issuer has an unconditional right to refrain from making repayments.
- The issuer of the instrument has full discretion regarding interest payments, that is to say no obligation to pay interest.

3 Of which issue expenses of SEK -10.6 M (-8.7).

Notes to the Parent Company's financial statements

All figures in SEK M unless otherwise stated.

Note 1 Company information

The Annual Report for Länsförsäkringar Bank AB (publ) (Corp. Reg. No. 516401-9878) was presented on 31 December, 2016. Länsförsäkringar Bank AB is a bank registered in Sweden, with its registered office in Stockholm. The address of the head office is Tegeluddsvägen 11–13, Stockholm, Sweden. The company is a wholly owned subsidiary of Länsförsäkringar AB (publ) (Corp. Reg. No. 556549-7020) with its registered office in Stockholm. The Parent Company in the largest and smallest Group in which Länsförsäkringar Bank AB (publ) is the subsidiary and in which the consolidated financial statements are prepared is Länsförsäkringar AB (publ), Stockholm. The Annual Report for Länsförsäkringar Bank (publ) was approved by the Board and President for publication on 22 February, 2017. Final approval of the Annual Report will be made by the Parent Company's Annual General Meeting on 8 May, 2017.

Note 2 Parent company's accounting policies

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

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

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

CHANGES THAT HAVE SIGNIFICANTLY IMPACTED THE FINANCIAL STATEMENTS IN 2016

New rules are applied in the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559) from 1 January 2016 that entail that amounts corresponding to capitalised expenses for development work are transferred from non-restricted equity to a Development Expenditures Fund. The effect of the new regulations on the company is that the disclosure of pledged assets and contingent liabilities is not included in the balance sheet, but set out in the notes.

DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES

Remuneration of employees

Defined-benefit pension plans

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

Subsidiaries

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

Shareholders' contributions

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

Group contributions

Group contributions received by the company from a subsidiary are recognised in profit and loss on the line Dividends received, according to the same accounting policies as dividends. Group contributions paid to a subsidiary are recognised as an investment in shares and participations in Group companies. Group contributions that have been paid to other companies in the Länsförsäkringar AB Group are recognised directly against retained earnings less the relevant tax effect.

Note 3 Risks and capital adequacy

See note 3 Risks and capital adequacy in the notes to the consolidated financial statements.

Note 4 Segment reporting

Segment reporting is only submitted for the Group.

Note 5 Net interest income

SEK M	2016	2015
Interest income		
Loans to credit institutions	614.7[1]	526.6
Loans to the public	1,047.6	1,154.3
Interest-bearing securities	186.3[1]	278.7
Derivatives	–414.6[2]	-409.8
Other interest income	0.1	0.0
Total interest income	**1,434.1**	**1,549.8**
Interest expense		
Due to credit institutions	–2.6[1]	–30.7
Deposits and funding from the public	-185.6	-308.6
Debt securities in issue	-158.9[1]	-211.9
Subordinated liabilities	-71.5	-80.6
Derivatives	158.9[2]	142.9
Other interest expense, including government deposit insurance	-50.6	-79.1
Total interest expense	**-310.3**	**-568.0**
Total net interest income	**1,123.8**	**981.8**
Interest income on impaired loans	9.4	10
Average interest rate on loans to the public during the period, including net leasing, %	2.8	3.1
Average interest rate on deposits from the public during the period, %	0.2	0.4

1 Of which negative interest on Loans to credit institutions of SEK –15,5 M and Interest-bearing securities of SEK –29,8 M and Due to credit institutions of SEK 31,7 M and Debts securities in issue of SEK 5,7 M.

2 Derivative interest rates were reclassified in the second quarter. This change means that derivative interest rates on derivative instruments that commercially hedge interest-bearing assets are classified as interest income, while derivative interest rates that commercially hedge interest-bearing liabilities are classified in the item interest expense. Comparative figures have been restated.

Note 6 Commission income

SEK M	2016	2015
Transfer of payments	84.3	73.4
Loans	29.0	27.5
Deposits	11.0	11.9
Securities	78.5	80.1
Cards	173.6	163.1
Other commission	1.6	1.8
Total commission income	**378.1**	**357.8**

Note 7 Commission expense

SEK M	2016	2015
Payment mediation	-58.7	-55.2
Securities	-23.4	-21.4
Cards	-106.9	-93.9
Remuneration to regional insurance companies	-238.6	-282.7
Other commission	-10.4	-9.1
Total commission expense	**-438.1**	**-462.3**

Note 8 Net gains from financial items

SEK M	2016	2015
Interest-bearing assets and liabilities and related derivatives	22.4	15.1
Other financial assets and liabiliities	0.1	0.3
Interest compensation	6.8	12.9
Total net gains from financial items	**29.3**	**28.3**

SEK M	2016	2015
Profit/loss by measurement category		
Derivative assets intended for risk management, non-hedge accounting	-0.5	-
Loans and receivables	4.6	9.9
Available-for-sale financial assets, realised	15.6	20.6
Other financial liabilities	1.4	1.9
Hedge accounting at fair value		
– Change in value of hedged item	-68.8	-80.4
– Change in value of hedging instrument	71.0	77.0
Exchange-rate effect	6.0	-0.7
Total	**29.3**	**28.3**

Note 9 Other operating income

SEK M	2016	2015
Remuneration from the regional insurance companies	107.3	104.2
Other income	16.2	4.5
Total other operating income	**123.5**	**108.7**

Note 10 Employees, staff costs and remuneration of senior executives

Average number of employees, Sweden	2016	2015
Men	74	70
Women	68	60
Total number of employees	**142**	**130**

Salaries, other remuneration and social security expenses, other employees	2016	2015
Salaries and remuneration	-96.0	-84.9
of which, variable remuneration	–	–
Social security expenses	-60.4	-58.0
of which, pension costs	-24.2	-24.8
Total	**-156.4**	**-142.9**

Board of Directors and other senior executives, 13 (13)	2016	2015
Salaries and remuneration	-14.0	-13.2
of which, fixed salary to the President and Executive Vice President	-4.8	-4.6
of which, variable remuneration to the President and Executive Vice President	–	–
of which, fixed salary to other senior executives	-7.0	-6.8
of which, variable salary to other senior executives	–	-0.0
Social security expenses	-10.4	-10.0
of which, pension costs	-4.8	-4.7
Total	**-24.4**	**-23.2**

Total salaries, other remuneration and social security expenses	2016	2015
Salaries and remuneration	-110.0	-98.1
of which, variable remuneration	–	–
Social security expenses	-70.8	-68.0
of which, pension costs	-28.9	-29.6
Total	**-180.8**	**-166.1**

Länsförsäkringar Bank has about 1,300 individuals who are also employed at Länsförsäkringar Bank and the regional insurance companies. They receive their entire remuneration from their respective regional insurance company.

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

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

Note 10 Employees, staff costs and remuneration of senior executives, cont.

Remuneration and other benefits for senior executives

2016, SEK M	Basic salary	Variable remuneration	Other remuneration	Pension costs	Total	Pension costs as a percentage of pensionable salary, % Defined-contribution
Rikard Josefson, President	4.8	–	0.0	1.9	6.7	35
Anders Borgcrantz, Executive Vice President	2.9	–	0.0	1.1	3.9	35
Bengt Erik Lindgren, Board member	0.4	–	–	–	0.4	–
Ingrid Jansson, Board member	0.3	–	–	–	0.3	–
Per-Ove Bäckström, Board member	0.3	–	–	–	0.3	–
Anna-Greta Lundh, Board member	0.2	–	–	–	0.2	–
Peter Lindgren, Board member	0.2	–	–	–	0.2	–
Sören Schelander, Board member	0.2	–	–	–	0.2	–
Anders Grånäs, Board member	0.2	–	–	–	0.2	–
Beatrcie Kämpe Nikolausson, Board member	0.1	–	–	–	0.1	–
Caesar Åfors, former styrelseledamot	0.1	–	–	–	0.1	–
Marie-Susanne Petersson, former Board member	0.1	–	–	–	0.1	–
Christian Bille, former Board member	0.1	–	–	–	0.1	–
Other senior executives						
Parent Company (4)	7.0	–	0.0	2.9	9.9	41
Subsidiaries (4)	5.8	–	0.0	2.3	8.1	40
Total 2016	**22.6**	**–**	**0.0**	**8.1**	**30.8**	
Total remuneration from Parent Company	14.0	–	0.0	4.8	18.8	
Total remuneration from subsidiaries	8.6	–	0.0	3.3	12.0	

2015, SEK M	Basic salary	Variable remuneration	Other remuneration	Pension costs	Total	Pension costs as a percentage of pensionable salary, % Defined-contribution
Rikard Josefson, President	4.6	–	0.0	2.0	6.6	35
Anders Borgcrantz, Executive Vice President	2.8	–	–	1.0	3.8	35
Caesar Åfors, Board member	0.2	–	–	–	0.2	–
Bengt Erik Lindgren, Board member	0.4	–	–	–	0.4	–
Christian Bille, Board member	0.3	–	–	–	0.3	–
Ingrid Jansson, Board member	0.3	–	–	–	0.3	–
Marie-Susanne Petersson, Board member	0.3	–	–	–	0.3	–
Per-Ove Bäckström, Board member	0.1	–	–	–	0.1	–
Maria Engholm, Board member	0.1	–	–	–	0.1	–
Örian Söderberg, Board member	0.1	–	–	–	0.1	–
Other senior executives						
Parent Company (4)	6.8	–	0.0	2.7	9.5	42
Subsidiaries (4)	5.1	–	0.1	2.0	7.2	42
Total 2015	**21.0**	**–**	**0.1**	**7.8**	**28.9**	
Total remuneration from Parent Company	13.1	–	0.1	4.7	17.9	
Total remuneration from subsidiaries	7.9	–	0.0	3.1	11.0	

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

Note 10 Employees, staff costs and remuneration of senior executives, cont.

Pensions

The retirement age for the President is 65. The pension is a defined-contribution plan and pension premium is to amount to 35% of monthly salary. In addition, the company takes out endowment insurance for five years. For 2016, the premium was SEK 0.2 M (0.5). The retirement age for the Executive Vice President is 65. The pension is a defined-contribution plan and pension premium is to amount to 35% of monthly salary. One senior executive has an agreement for an additional pension provision corresponding to 12% of the executive's monthly salary. The retirement age for other senior executives is 65. The terms comply with pension agreements between the FAO and the FTF/SACO. Furthermore, an additional pension premium corresponding to one price base amount per year is paid every year for each senior executive.

Severance pay

A mutual period of notice of six months applies to the President and one Executive Vice 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. For other senior executives, the period of notice follows applicable agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (FTF) and the Swedish Confederation of Professional Associations (SACO).

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

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

Composition of Remuneration Committee

The composition and duties of the Remuneration Committee are regulated in the Board's formal work plan. 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 2016	31 Dec 2015
Board members	36	33
Other senior executives	44	44

Loans to the Board of Directors, Presidents/Executive Vice Presidents and other senior executives

	Bank Group		Parent Company		Parent Company Group	
	2016	2015	2016	2015	2016	2015
Board members	**17.6**	**10.2**	**7.5**	**15.2**	**72.7**	**44.3**
Of which, loans from Bank	3.4	3.5	1.3	1.7	7.8	9.1
Of which, loans from Hypotek	14.2	6.7	6.2	13.5	64.9	35.2
Of which, loans from Wasa Kredit	–	–	–	–	–	–
President and Executive Vice Presidents	**–**	**–**	**6.6**	**6.0**	**15.7**	**12.6**
Of which, loans from Bank	–	–	1.0	0.9	2.0	2.5
Of which, loans from Hypotek	–	–	5.6	5.1	13.7	10.1
Of which, loans from Wasa Kredit	–	–	–	–	–	–
Senior executives	**27.8**	**25.6**	**17.6**	**8.9**	**69.3**	**61.5**
Of which, loans from Bank	3.8	5.1	1.1	1.5	8.7	10.9
Of which, loans from Hypotek	24.0	20.5	16.5	7.4	60.3	50.3
Of which, loans from Wasa Kredit	–	–	–	–	0.3	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 personnel loans is the repo rate less 0.5 percentage points, but can never be lower than 0.5 percentage points. The interest benefit is calculated in accordance with the Swedish National Tax Board's rules and is included in other benefits as above. Personnel loans are restricted to 0.5 SEK M. The terms and conditions of other loans are market-based.

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

Remuneration Policy

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

Note 11 Other administration expenses

SEK M	2016	2015
Costs for premises	-15.9	-16.0
IT costs	-266.5	-235.4
Consultant costs	-64.6	-61.9
Marketing	-9.6	-6.8
Management costs	-10.3	-9.4
Other administration expenses	-247.7	-239.4
Total administration expenses	**-614.6**	**-569.0**

Note 12 Remuneration of auditors

SEK M	2016	2015
Audit fees, KPMG		
– Audit assignment	-1.7	-1.7
– Audit activities other than audit assignment	-1.2	-1.2
– Tax advice	-0.1	-0.4
– Other assignments	-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 abovementioned items, for example, legal consultations alongside audit activities and that are not attributable to tax consultancy services.

Note 13 Operational leasing

These agreements pertain to internal and external lease contracts where the Parent Company is the lessee.

SEK M	2016	2015
Lease expenses paid		
Rent for premises	-16.3	-15.4
Future basic rents for irrevocable leasing contracts		
Within 1 year	-16.3	-15.4

Note 14 Depreciation/amortisation and impairment of property and equipment/intangible assets

SEK M	2016	2015
Depreciation of property and equipment	-0.9	-0.9
Amortisation of intangible assets	-64.1	-53.0
Total depreciation/amortisation	**-65.0**	**-53.9**
Impairment of intangible assets	–	-48.6
Total depreciation/amortisation and impairment of assets	**-65.0**	**-102.5**

More information on impairment is available in note 25.

Note 15 Loan losses and impaired loans

SEK M	2016	2015
Specific reserve for individually assessed loan receivables		
Write-off of confirmed loan losses during the year	-14.3	-15.7
Reversed earlier impairment of loan losses recognised in the annual accounts as confirmed losses	12.7	15.5
Impairment of loan losses during the year	-21.6	-15.3
Payment received for prior confirmed loan losses	4.0	2.3
Reversed impairment of loan losses no longer required	27.0	54.6
Net expense for the year for individually assessed receivables	**7.8**	**41.4**
Collectively assessed homogenous groups of loan receivables with limited value and similar credit risk		
Provision/reversal of reserve for loan losses	-29.7	-0.7
Net expense for the year for collectively assessed receivables	**-21.9**	**40.7**
Net expense for the year for fulfilment of guarantees	**0.3**	**0.3**
Net expense of loan losses for the year	**-21.6**	**41.0**

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. Off-setting takes place against, and can amount to a maximum of, accrued commission. Remuneration corresponding to 80% of the provision requirement is withheld on every occasion until the lending mediated by the regional insurance company has been regulated. On 31 December 2016, the total credit reserve requirement amounted to SEK 191 M of which the Bank Group's recognised credit reserve accounted for SEK 78 M and the remainder of SEK 113 Mwas offset against the regional insurance companies' withheld funds, according to the model described above.

Note 15 Loan losses and impaired loans, cont.

Impaired loans, SEK M	31 Dec 2016 Gross	Individual reserve	Collective reserve	Net	31 Dec 2015 Gross	Individual reserve	Collective reserve	Net
Corporate sector	2.4	-3.5	-2.3	-3.4	6.1	-5.1	-1.2	-0.2
Retail sector	19.4	-23.3	-48.7	-52.6	21.6	-39.8	-20.1	-38.3
of which, private individuals	4.3	-7.0	-1.2	-3.9	14.6	-16.0	-2.6	-4.0
Total	**21.8**	**-26.8**	**-51.0**	**-56.0**	**27.7**	**-44.9**	**-21.3**	**-38.5**

Reconciliation of impairment of loan losses, SEK M	31 Dec 2016 Individual reserve	Collective reserve	Total	31 Dec 2015 Individual reserve	Collective reserve	Total
Opening balance	**-44.9**	**-21.3**	**-66.2**	**-99.7**	**-20.6**	**-120.3**
Reversed earlier provisions of loan losses recognised in the annual accounts as confirmed losses	12.7	–	12.7	15.5	–	15.5
Reversed provisions of loan losses no longer required	27.0	–	27.0	54.6	-0.7	53.9
Provisions for loan losses during the year	-21.6	-29.7	-51.3	-15.3	–	-15.3
Closing balance	**-26.8**	**-51.0**	**-77.8**	**-44.9**	**-21.3**	**-66.2**

Note 16 Tax on net profit for the year

SEK M	2016	2015
Current tax		
Tax expense/tax income for the year	-49.6	-41.6
Adjustment of tax expense pertaining to prior years	2.6	-12.2
Total current tax	**-47.0**	**-53.8**
Deferred tax		
Change in deferred tax expense on temporary differences	-1.0	-2.4
Total deferred tax	**-1.0**	**-2.4**
Total recognised tax expense	**-48.0**	**-56.2**
Reconciliation of effective tax rate		
Profit before tax	232.7	192.1
Tax in accordance with applicable tax rate	-51.2	-42.3
Tax on non-deductible costs	-1.7	-13.7
Tax on non-taxable income	2.2	12.1
Tax attributable to earlier years	2.6	-12.3
Total tax on net profit for the year	**-48.0**	**-56.2**
Applicable tax rate	22.0%	22.0%
Effective tax rate	20.6%	29.3%
Tax items recognised in other comprehensive income		
Tax on cash flow hedges	-0.4	0.8
Tax on available-for-sale financial assets	-24.9	28.7

Note 17 Treasury bills and other eligible bills

SEK M	31 Dec 2016	31 Dec 2015
Swedish government	7,215.4	8,247.8
Finnish government	579.0	576.2
Total treasury bills and other eligible bills	**7,794.4**	**8,824.0**
Fair value	7,794.4	8,824.0
Amortised cost	7,637.1	8,715.2
Nominal value	7,279.5	8,631.6
Remaining term of not more than 1 year	4,243.2	5,723.5
Remaining term of more than 1 year	3,551.2	3,100.5

Note 18 Loans to credit institutions

SEK M	31 Dec 2016	31 Dec 2015
Loans to subsidiaries	64 016,6	55,814.3
Other loans to credit institutions	166,9	315.6
Total loans to credit institutions	**64 183,5**	**56,129.9**
Fixed-interest period		
Payable on demand	103.7	168.3
Remaining term of not more than 3 months	63.3	147.3
Remaining term of more than 3 months but not more than 1 year	62,728.0	54,525.0
Remaining term of more than 1 year but not more than 5 years	487.6	488.3
Remaining term of more than 5 years	801.0	801.0
Total loans to credit institutions	**64,183.5**	**56,129.9**

Note 19 Loans to the public

Loan receivables are geographically attributable in their entirety to Sweden.

SEK M	31 Dec 2016	31 Dec 2015
Public sector	937.0	1,306.1
Corporate sector	1,243.4	1,361.2
Retail sector	37,362.8	36,326.5
Other	18.2	0.0
Total	**39,561.4**	**38,993.8**
Reserves	-77.8	-66.2
Loans to the public	**39,483.6**	**38,927.6**
Fixed-interest period		
Remaining term of not more than 3 months	30,820.6	29,137.7
Remaining term of more than 3 months but not more than 1 year	2,549.1	2,765.0
Remaining term of more than 1 year but not more than 5 years	5,786.8	6,667.0
Remaining term of more than 5 years	327.0	357.9
Total	**39,483.6**	**38,927.6**

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

Note 20 Bonds and other interest-bearing securities

Issued by organisations other than public bodies

SEK M	31 Dec 2016	31 Dec 2015
Carrying amount		
Swedish mortgage institutions (not guaranteed)	15,949.1	16,924.5
Other Swedish issuers (not guaranteed)	3,999.7	3,613.8
Other foreign issuers (guaranteed by German government)	1,073.3	910.6
Other foreign issuers (not guaranteed)	2,198.0	1,197.6
Total bonds and other interest-bearing securities	**23,220.1**	**22,646.5**
Fair value	23,220.1	22,646.5
Amortised cost	22,826.7	22,359.5
Nominal value	22,180.1	21,488.7
Market status		
Securities listed	23,220.1	22,646.5
Remaining term of not more than 1 year	4,548.1	4,856.1
Remaining term of more than 1 year	18,672.0	17,790.4

Note 21 Shares and participations

SEK M	31 Dec 2016	31 Dec 2015
Opening amount at beginning of the year	15.5	12.0
Acquisition of shares	8.8	3.5
Gains/losses net, transferred to equity	1.1	–
Sales during the year	–	–
Carrying amount at year-end	**25.4**	**15.5**

Note 22 Shares and participations in group companies

The bank has a total of three wholly-owned subsidiaries with registered offices in Stockholm.

	31 Dec 2016			31 Dec 2015		
SEK M	Number of shares	Nominal value	Carrying amount	Number of shares	Nominal value	Carrying amount
Wasa Kredit AB (556311-9204)	875,000	87.5	914.8	875,000	87.5	814.8
Länsförsäkringar Hypotek AB (556244-1781)	70,335	70.3	6,619.2	70,335	70.3	6,019.2
Länsförsäkringar Fondförvaltning AB (556364-2783)	15,000	1.5	165.0	15,000	1.5	165.0
Total shares and participations in Group companies			**7,699.0**			**6,999.0**

	2016				2015			
SEK M	Wasa Kredit AB	Länsförsäkringar Hypotek AB	Länsförsäkringar Fondförvaltning AB	Total	Wasa Kredit AB	Länsförsäkringar Hypotek AB	Länsförsäkringar Fondförvaltning AB	Totalt
Carrying amount at beginning of year	814.8	6,019.2	165.0	6,999.0	814.8	5,519.2	165.0	6,499.0
Conditional shareholders' contribution	–	600.0	–	600.0	–	500.0	–	500.0
Unconditional shareholders' contribution	100.0	–	–	100.0	–	–	–	
Carrying amount at year-end	**914.8**	**6,619.2**	**165.0**	**7,699.0**	**814.8**	**6,019.2**	**165.0**	**6,999.0**

	2016		2015	
Equity (incl. 78% of untaxed reserves) and profit after tax in subsidiaries, SEK M	Equity	Net profit for the year	Equity	Net profit for the year
Wasa Kredit AB	2,127.2	74.2	1,715.1	113.0
Länsförsäkringar Hypotek AB	7,987.7	387.3	6,948.7	308.3
Länsförsäkringar Fondförvaltning AB	345.5	46.2	285.7	63.7
Total	**10,460.4**	**507.7**	**8,949.5**	**484.9**

Note 23 Derivatives

SEK M	31 Dec 2016 Nominal value	31 Dec 2016 Fair value	31 Dec 2015 Nominal value	31 Dec 2015 Fair value
Derivatives with positive values				
Derivatives in hedge accounting				
Interest	17,688.0	188.7	17,030.0	161.4
Currency	3,546.4	157.0	1,575.7	87.3
Other derivatives				
Interest	61,388.0	1,487.1	45,765.0	1,405.5
Currency	17,638.3	2,037.5	12,500.5	1,375.1
Total derivatives with positive values	**100,260.7**	**3,870.3**	**76,871.2**	**3,029.3**
Remaining term of not more than 1 year	14,277.5	144.5	11,959.9	94.0
Remaining term of more than 1 year	85,983.2	3,725.8	64,911.3	2,935.3
Derivatives with negative values				
Derivatives in hedge accounting				
Interest	32,710.0	411.2	28,449.0	470.8
Currency	1,722.7	223.3	3,974.3	207.0
Other derivatives				
Interest	59,687.0	1,487.6	45,765.0	1,405.5
Currency	17,698.2	2,006.8	13,262.6	1,380.4
Total derivatives with negative values	**111,817.9**	**4,128.9**	**91,450.9**	**3,463.7**
Remaining term of not more than 1 year	17,328.3	154.2	13,378.3	97.6
Remaining term of more than 1 year	94,489.6	3,974.7	78,072.6	3,366.1

Note 24 Fair value changes of interest-rate risk hedged items in portfolio hedge

SEK M	31 Dec 2016	31 Dec 2015
Assets		
Carrying amount at beginning of year	120.4	165.9
Changes during the year pertaining to lending	-20.9	-45.5
Carrying amount at year-end	**99.5**	**120.4**
Liabilities		
Carrying amount at beginning of year	146.9	190.1
Changes during the year pertaining to deposits	-3.5	-11.1
Changes during the year pertaining to funding	20.8	-32.1
Carrying amount at year-end	**164.2**	**146.9**

Note 25 Intangible assets

SEK M	Internally developed IT systems 31 Dec 2016	Internally developed IT systems 31 Dec 2015	Acquired IT systems 31 Dec 2016	Acquired IT systems 31 Dec 2015	Total 31 Dec 2016	Total 2015-12-31
Cost						
Opening cost	1,095.2	986.3	27.9	27.9	1,123.1	1,014.2
Acquisitions during the year	233.5	108.9	–	–	233.5	108.9
Divestments during the year	–	–	–	–	–	–
Closing cost	1,328.7	1,095.2	27.9	27.9	1,356.6	1,123.1
Amortisation						
Opening accumulated amortisation	-641.6	-588.6	-27.9	-27.9	-669.5	-616.5
Amortisation for the year	-64.1	-53.0	–	–	-64.1	-53.0
Reversed amortisation, divestments	–	–	–	–	–	–
Closing accumulated amortisation	**-705.7**	**-641.6**	**-27.9**	**-27.9**	**-733.6**	**-669.5**
Impairments						
Opening accumulated impairments	-171.1	-122.6	–	–	-171.1	-122.6
Impairments for the year	–	-48.5	–	–	–	-48.5
Closing accumulated impairments	**-171.1**	**-171.1**	**–**	**–**	**-171.1**	**-171.1**
Total intangible assets	**451.9**	**282.5**	**–**	**–**	**451.9**	**282.5**

Note 26 Property and equipment

SEK M	31 Dec 2016	31 Dec 2015
Equipment		
Opening cost	24.5	23.6
Sales/Disposals for the year	-1.1	-1.7
Purchases for the year	0.4	2.6
Closing cost	**23.7**	**24.5**
Opening depreciation	-20.9	-20.7
Reversed depreciation, sales/scrapping	0.5	0.8
Deprecation for the year	-0.9	-1.0
Closing accumulated depreciation	**-21.3**	**-20.9**
Total property and equipment	**2.5**	**3.6**

Note 27 Deferred tax assets and tax liabilities

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

	Deferred tax assets		Deferred tax liabilities		Net	
SEK M	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Other financial investment assets	-0.9	-	-	-	-	-
Liabilities, provisions	-1.1	-1.8	-	-	-2.0	-1.8
Deferred tax assets(-)/deferred tax liabilities (+)	**-2.0**	**-1.8**	**-**	**-**	**-2.0**	**-1.8**
Net deferred tax assets (-)/deferred tax liabilities (+)	**-2.0**	**-1.8**	**-**	**-**	**-2.0**	**-1.8**

The Parent Company has no temporary differences with tax effects in Group companies.

Change in deferred tax in temporary differences

SEK M	Amount at 1 Jan	Recognised in profit and loss	Recognised in other comprehensive income	Amount at 31 Dec
2016				
Other financial investment assets	-	-	-0.9	-0.9
Liabilities	-1.8	0.7	-	-1.1
Deferred tax assets (-) /deferred tax liabilities (+)	**-1.8**	**0.7**	**-0.9**	**-2.0**
2015				
Other financial investment assets	-	-	-	-
Liabilities	-4.2	2.4	-	-1.8
Deferred tax assets (-) /deferred tax liabilities (+)	**-4.2**	**2.4**	**-**	**-1.8**

Note 28 Other assets

SEK M	31 Dec 2016	31 Dec 2015
Accounts receivable	10.8	11.0
Other assets	270.1	286.7
Total other assets	**280.9**	**297.7**

Note 29 Prepaid expenses and accrued income

SEK M	31 Dec 2016	31 Dec 2015
Accrued interest income	816.8	876.0
Other accrued income	21.3	21.5
Prepaid expenses	34.6	19.0
Total prepaid expenses and accrued income	**872.8**	**916.5**

Note 30 Due to credit institutions

SEK M	31 Dec 2016	31 Dec 2015
Swedish banks	3,752.7	2,586.0
Other Swedish credit institutions	4,929.4	4,434.7
Total due to credit institutions	**8,682.1**	**7,020.7**
Payable on demand	4,980.5	4,517.1
Remaining term of not more than 3 months	3,701.6	2,503.6
Remaining term of more than 3 months but not more than 1 year	-	-
Total	**8,682.1**	**7,020.7**

Note 31 Deposits and funding from the public

SEK M	31 Dec 2016	31 Dec 2015
Deposits from insurance companies	4,062.7	4,505.4
Deposits from households	77,421.1	70,192.3
Deposits from other Swedish public	10,021.8	9,487.7
Total deposits from the public	**91,505.5**	**84,185.4**
Payable on demand	**91,505.5**	**84,185.4**

Fixed-term deposits amount to SEK 27 147,8 (29 224,0). Interest compensation is paid on premature redemption.

Note 32 Debt securities in issue

SEK M	31 Dec 2016	31 Dec 2015
Commercial papers	1,126.0	1,342.4
Bond loans	27,923.0	28,069.2
Cashier's cheques issued	62.6	70.7
Total debt securities in issue	**29,111.6**	**29,482.3**
Remaining term of not more than 1 year	8,352.9	8,164.6
Remaining term of more than 1 year	20,758.7	21,317.9

Note 33 Other liabilities

SEK M	31 Dec 2016	31 Dec 2015
Accounts payable	22.0	3.6
Withheld preliminary tax, customers	18.5	21.1
Other liabilities	291.2	240.1
Current tax liability	34.8	-
Total other liabilities	**366.5**	**264.8**

Note 34 Accrued expenses and deferred income

SEK M	31 Dec 2016	31 Dec 2015
Accrued interest expense	632.4	773.8
Accrued remuneration of regional insurance companies	198.4	214.3
Other accrued expenses	158.8	237.9
Total accrued expenses and deferred income	**989.6**	**1,226.0**

Note 35 Provisions

SEK M	31 Dec 2016	31 Dec 2015
Provision for early retirement in accordance with the pension agreement	1.9	2.7
Other provisions	5.1	3.0
Total provisions	**7.0**	**5.7**

Defined-benefit pensions

The Group has a defined-benefit pension plan. The plan is a pension agreement from 2006 for the insurance sector whereby persons born in 1955 or earlier are entitled to voluntarily retire from the age of 62. The terms and conditions of this plan are designed such that the pension comprises about 65% of the pensionable salary at the age of 62.

No portion of the amount recognised as Provision for early retirement in accordance with the pension agreement is encompassed by the Pension Obligations Vesting Act.

SEK M	2016	2015
Pension commitments		
Provision for early retirement in accordance with the pension agreement	1.9	2.7
Total pension commitments	**1.9**	**2.7**
Assumptions pertaining to defined-benefit commitments:		
Discount rate	0.6%	0.7%
Expected rate of salary increase	2.5%	2.5%
Percentage expected to retire voluntarily at age 62	0.0%	40.0%

Defined-contribution pension plans

The company pays fixed contributions to a separate legal entity and does not have a legal or informal obligation to pay additional contributions. The company's payments to defined-contribution plans are recognised as expenses during the period in which the employee performed the services to which the contributions refer. Primarily, contributions to the Insurance Industry's Pension Fund (FPK) are recognised here. This plan encompasses all employees except for a few employees who have individual solutions. The pension agreement for the insurance industry, the FTP plan, through insurance with the FPK, is a multi-employer defined-benefit pension plan. According to IAS 19 Employee Benefits, this pension plan entails that, as a rule, a company is to recognise its proportional share of the defined-benefit pension commitment and the plan assets and expenses associated with the pension commitment. Disclosure is also to be presented in the accounts according to the requirements for defined-benefit pension plans. FPK is currently unable to provide the necessary information on this, which is why the pension plans above are recognised as a defined-contribution plan in accordance with item 34 of IAS 19. Nor is any information available on surpluses and deficits in the plan or whether these surpluses and deficits would then affect the contributions for the plan in future years. The company's expected fees in 2017 for the FTP plan amount to SEK 12.9 M.

	2016	2015
Expenses for defined-contribution plans	26.9	23.7

Note 36 Subordinated liabilities

SEK M	31 Dec 2016	31 Dec 2015
External subordinated debt with three-month floating interest rate	2,097.0	1,545.0
External subordinated debt, listed	498.4	754.7
Total subordinated liabilities	**2,595.4**	**2,299.7**

All subordinated debts at 31 December 2016 are listed and due on 28 March 2023 and 26 April 2026. On 31 December 2016, interest on the variable loans was 1,9% and 1,8%. The interest rate on fixed loans is 2,7%.

Note 37 Untaxed reserves

SEK M	31 Dec 2016	31 Dec 2015
Tax allocation reserve	162.0	64.9
Total	**162.0**	**64.9**

See also appropriations in the income statement.

Note 38 Equity

SEK M	31 Dec 2016	31 Dec 2015
Restricted equity		
Share capital (9,548,708 shares, quotient value SEK 100 per share)	954.9	954.9
Development Expenditures Fund	239.9	–
Statutory reserve	18.4	18.4
Total restricted equity	**1,213.2**	**973.3**
Non-restricted equity		
Fair value reserve	60.9	-29.0
Additional Tier 1 instruments	1,200.0	1,200.0
Retained earnings	7,635.8	7,775.5
Net profit for the year	184.7	135.9
Total non-restricted equity	**9,081.4**	**9,082.4**
Total equity	**10,294.5**	**10,055.7**

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

Proposed appropriation of profit

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

SEK M	31 Dec 2016	31 Dec 2015
Other reservs	60,883,492	-28,954,350
Retained earnings	7,635,792,693	7,775,498,668
Net profit for the year	184,684,535	135,902,531
Profit to be appropriated	7,881,360,720	7,882,446,849

The Board proposes that the following be carried forward 7,881,360,720 SEK.

Note 39 Pledged assets, contingent liabilities and other commitments

SEK M	31 Dec 2016	31 Dec 2015
For own liabilities, pledged assets		
Pledged securities in the Riksbank	2,500.0	2,500.0
Pledged securities in Euroclear	2,000.0	2,000.0
Cash collateral paid, derivatives	15.2	18.8
Securities collateral paid, derivatives	200.0	–
Other collateral for securities	10.0	20.0
Total pledged assets for own liabilities	**4,725.2**	**4,538.8**
Other pledged assets	**None**	**None**
Contingent liabilities		
Guarantees	38.9	27.6
Total contingent liabilities	**38.9**	**27.6**
Other commitments		
Loans approved but not disbursed	1,279.1	1,686.3
Unutilised portion of overdraft facilities	31,781.0	22,746.6
Unutilised portion of credit card facilities	1,526.2	1,387.8
Total other commitments	**34,586.5**	**25,820.7**

Note 40 Classification of financial assets and liabilities

31 Dec 2016 SEK M	Financial assets at fair value in profit and loss: Financial assets valued according to fair value option	Held for trading	Derivatives used in hedge accounting	Loans and receivables	Available-for-sale financial assets	Total	Fair value
Assets							
Cash and balances with central banks				21.6		2.6	21,6
Treasury bills and other eligible bills					7,794.4	7,794.4	7,794.4
Loans to credit institutions				64,183.5		64,183.5	64 ,183.5
Loans to the public				39,483.6		39,483.6	39,946.2
Bonds and other interest-bearing securities					23,220.1	23,220.1	23,220.1
Shares and participations					25.4	25.4	25.4
Derivatives		3,524.6	345.7			3,870.3	3,870.3
Other assets	20.0			10.7		30.7	30.7
Total assets	**20.0**	**3,524.6**	**345.7**	**103,699.4**	**31,039.9**	**138,629.6**	**139,092.2**

31 Dec 2016 SEK M	Financial liabilities at fair value in profit and loss: Financial assets valued according to fair value option	Held for trading	Derivatives used in hedge accounting	Other financial liabilities	Total	Fair value
Liabilities						
Due to credit institutions				8,682.1	8,682.1	8,682.1
Deposits and funding from the public				91,505.5	91,505.5	91,644.4
Debt securities in issue				29,111.6	29,111.6	29,411.0
Derivatives		3,494.4	634.5		4, 128.9	4,128.9
Other liabilities				62.9	62.9	62.9
Subordinated liabilities				2,595.4	2,595.4	2,674.8
Other liabilities		**3,494.4**	**634.5**	**131,957.5**	**136,086.4**	**136,604.1**

Note 40 Classification of financial assets and liabilities, cont.

31 Dec 2015 SEK M	Financial assets at fair value in profit and loss: Financial assets valued according to fair value option	Financial assets at fair value in profit and loss: Held for trading	Financial assets at fair value in profit and loss: Derivatives used in hedge accounting	Loans and receivables	Available-for-sale financial assets	Total	Fair value
Assets							
Cash and balances with central banks				21.5		21.5	21.5
Treasury bills and other eligible bills					8,824.0	8,824.0	8,824.0
Loans to credit institutions				56,129.9		56,129.9	56,129.9
Loans to the public				38,927.6		38,927.6	39,090.7
Bonds and other interest-bearing securities					22,646.5	22,646.5	22,646.5
Shares and participations					15.5	15.5	15.5
Derivatives		2,780.6	248.7			3,029.3	3,029.3
Other assets				11.0		11.0	11.0
Total assets		**2,780.6**	**248.7**	**95,090.0**	**31,486.0**	**129,605.3**	**129,768.4**

31 Dec 2015 SEK M	Financial liabilities at fair value in profit and loss: Financial assets valued according to fair value option	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				7,020.7	7,020.7	7,020.7
Deposits and funding from the public				84,185.4	84,185.4	84,367.7
Debt securities in issue				29,482.3	29,482.3	29,524.7
Derivatives		2,785.9	677.8		3,463.7	3,463.7
Other liabilities				48.7	48.7	48.7
Subordinated liabilities				2,299.7	2,299.7	2,362.1
Other liabilities		**2,785.9**	**677.8**	**123,036.8**	**126,500.5**	**126,787.6**

TThe carrying amount of cash and balances with central banks, treasury bills and other eligible bills, loans to credit institutions, other assets, due to credit institutions and other liabilities comprises a reasonable approximation of the fair value based on the cost of the assets and liabilities since these assets and liabilities have short terms.
Gains and losses are recognised in profit and loss under "net gains from financial items."

Note 41 Fair value valuation techniques

Financial assets and liabilities measured at fair value in the balance sheet are presented in the table based on the valuation techniques applied:
Level 1 refers to prices determined from prices listed in an active market
Level 2 refers to prices determined by calculated prices of observable market listings
Level 3 refers to prices based on own assumptions and judgements

Financial instruments measured at fair value in the balance sheet

31 Dec 2016

SEK M	Level 1	Level 2	Level 3	Total
Assets				
Treasury bills and other eligible bills	7,794.4			7,794.4
Bonds and other interest-bearing securities	23,220.1			23,220.1
Shares and participations	0.2	6.0	19.2	25.4
Derivatives		3,870.3		3,870.3
Other assets			20.0	20.0
Liabilities				
Derivatives		4,128.9		4,128.9

31 Dec 2015

SEK M	Level 1	Level 2	Level 3	Total
Assets				
Treasury bills and other eligible bills	8,824.0			8,824.0
Bonds and other interest-bearing securities	22,646.5			22,646.5
Shares and participations			15.5	15.5
Derivatives		3,029.3		3,029.3
Liabilities				
Derivatives		3,463.7		3,463.7

Shares and participations and other assets in Level 3 are initially measured at cost since the holdings cannot be reliably measured at fair value, and impaired if objective evidence exists to recognise an impairment loss. The assessment is based on the most recent Annual Report and forecast earnings. The fair value of Level 2 shares and participations that pertain to unquoted Series B shares with conversion rights to quoted Series A shares without restrictions is measured based on the price of the Series A share on the balance-sheet date. Derivatives in Level 2 essentially refer to swaps for which fair value has been calculated by discounting expected future cash flows. There were no significant transfers between Level 1 and Level 2 in 2016 or 2015. There were also no transfers from Level 3 in these years.

Change in holdings in Level 3

SEK M	Other assets	Shares and participations
Opening balance, 1 January 2016	–	**15.5**
Acquisition	20.0[1]	3.7
Closing balance, 31 December 2016	**20.0**	**19.2**

Change in holdings in Level 3

SEK M	Other assets	Shares and participations
Opening balance, 1 January 2015	–	**12.0**
Shareholder contributions	–	3.5
Closing balance, 31 December 2015	**–**	**15.5**

[1] Refers to investment in Bohemian Wrappsody AB.

Not 41 Fair value valuation techniques
Financial instruments measured at amortised cost in the balance sheet

31 Dec 2016	Level 1	Level 2	Level 3	Total
Assets				
Loans to the public		39,946.2		39,946.2
Liabilities				
Deposits and borrowing from the public		91,644.4		91,644.4
Debt securities in issue		29,411.0		29,411.0
Subordinated liabilities		2,674.8		2,674.8

2015-12-31	Level 1	Level 2	Level 3	Total
Assets				
Loans to the public		39,090.7		39,090.7
Liabilities				
Deposits and borrowing from the public		84,367.7		84,367.7
Debt securities in issue		29,524.7		29,524.7
Subordinated liabilities		2 362.1		2 362.1

When calculating the fair value of deposits and funding from the public and loans to the public, anticipated cash flows have been discounted using a discount rate set at the current deposit and lending rates applied (including discounts). Fair value for debt securities in issue and subordinated liabilities is determined based on quoted prices. Parts of debt securities in issue that are considered to be illiquid are adjusted based on expected current issue prices. Commercial papers do not have external market prices and the fair value is determined based on the yield curve of each currency. There were no significant transfers between Level 1 and Level 2 in 2016 or 2015. There were also no transfers from Level 3 in these years. For further information about how the fair value was determined for financial instruments measured at fair value, and about valuation techniques and inputs, see also the note on Accounting policies.

Note 42 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 2016	Gross amount	Offset in balance sheet	Net amount in balance sheet	Netting framework agreement	Collateral Received (–) / Pledged (+)	Net amount
Assets						
Derivatives	3,870.3	–	3,870.3	–916.0	–2,541.6	412.8
Reversed repurchase agreements	–	–	–	–	–	–
Liabilities						
Derivatives	–4,128.9	–	–4,128.9	916.0	15.2	–3,197.8
Repurchase agreements	–	–	–	–	–	–
Total	**–258.6**	**–**	**–258.6**	**–**	**–2,526.4**	**–2,785.0**

	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	3,029.3	–	3,029.3	–1,338.4	–1,686.5	4.4
Reversed repurchase agreements	–	–	–	–	–	–
Liabilities						
Derivatives	–3,463.7	–	–3,463.7	1,338.4	18.8	–2,106.4
Repurchase agreements	–	–	0.0	–	–	0.0
Total	**–434.4**	**–**	**–434.4**	**–**	**–1,667.7**	**–2,102.0**

Note 43 Capital adequacy

Capital base and capital requirements SEK M	31 Dec 2016	31 Dec 2015
Equity	10,294.5	10,055.7
Non-verified profit	–1.9	–2.1
78% of untaxed reserves	126.4	50.6
Equity for capital adequacy	**10,418.9**	**10,104.2**
Intangible assets	–451.9	–282.5
Casf-flow hedges	3.9	5.6
IRB Provisions deficit (–)/surplus (+)	–85.4	–124.5
Adjustments for prudent valuation	–39.0	–38.0
Adjustment for Additional Tier 1 instruments	–1,200.0	–1,200.0
Common Equity tier 1 capital	**8,646.5**	**8,464.9**
Additional tier 1 capital instruments	1,200.0	1,200.0
Tier 1 capital	**9,846.5**	**9,664.9**
Tier 2 capital instruments	2,591.7	2,296.8
IRB Provisions deficit (–)/surplus (+)	27.9	–
Tier 2 capital	**2,619.6**	**2,296.8**
Total own funds	**12,466.2**	**11,961.7**
Total Risk Exposure Amount according to CRD IV	**24,179.9**	**23,341.8**
Total capital requirement according to CRD IV	**1,934.4**	**1,867.3**
Capital requirement for credit risk according to Standardised Approach	960.9	859.2
Capital requirement for credit risk according to IRB Approach	782.3	839.0
Capital requirement for operational risk	130.5	118.5
Capital requirement for credit valuation adjustment	60.6	50.7
Common Equity tier 1 capital ratio CRD IV	**35.8%**	**36.3%**
Tier 1 ratio CRD IV	**40.7%**	**41.4%**
Total capital ratio CRD IV	**51.6%**	**51.2%**
Special disclosures		
IRB Provisions surplus (+)/deficit (–)	**–57.4**	**–124.5**
– IRB Total provisions (+)	191.0	159.9
– IRB Anticipated loss (–)	–248.4	–284.4
Capital requirement according to Basel I floor	**3,155.3**	**3,039.1**
Capital base adjusted according to Basel I floor	12,523.6	12,086.2
Surplus capital according to Basel I floor	9,368.2	9,047.1

	31 Dec 2016		31 Dec 2015	
SEK M	Capital requirement	Risk Exposure Amount	Capital requirement	Risk Exposure Amount
Credit risk according to Standardised Approach				
Exposures to institutions	65.8	822.3	23.7	297.0
Exposures to corporates	2.4	30.0	–	–
Covered bonds	141.1	1,763.5	144.3	1,803.4
Equity exposures	720.3	9,003.8	663.1	8,288.4
Other items	31.4	392.1	28.1	351.1
Total capital requirement and Risk Exposure Amount	**960.9**	**12,011.8**	**859.2**	**10,739.5**
Credit risk according to IRB Approach				
Retail exposures				
Exposures secured by real estate collateral	144.3	1,803.7	159,3	1,990,7
Other retail exposures	111.6	1,394.9	118,9	1,485,9
Other retail exposures, small and medium-sized businesses	42.9	536.8	41,6	520,5
Other retail exposures	188.4	2,354.5	210,5	2,631,8
Total retail exposures	**487.2**	**6,089.9**	**530.3**	**6,628.9**
Exposures to corporates	295.1	3,689.0	308.7	3,858.8
Total capital requirement and Risk Exposure Amount	**782.3**	**9,778.9**	**839.0**	**10,487.7**
Operational risk				
Standardised Approach	130.5	1,631.1	118.5	1,481.4
Total capital requirement for operational risk	**130.5**	**1,631.1**	**118.5**	**1,481.4**
Credit valuation adjustment, Standardised Approach	**60.6**	**758.1**	**50.7**	**633.2**

For more information about risk and capital adequacy, see note 3 for the Bank Group.

Minimum capital requirements and buffers	Minimum capital requirement	Capital conservation buffer	Countercyclical buffer	Systemic risk buffer	Total
Percentage					
Common Equity Tier 1 capital	4.5%	2.5%	1.5%	n/a	8.5%
Tier 1 capital	6.0%	2.5%	1.5%	n/a	10.0%
Capital base	8.0%	2.5%	1.5%	n/a	12.0%
SEK M					
Common Equity Tier 1 capital	1,088.1	604.5	362.7	n/a	2,055.3
Tier 1 capital	1,450.8	604.5	362.7	n/a	2,418.0
Capital base	1,934.4	604.5	362.7	n/a	2,901.6
Common Equity Tier 1 capital available for use as a buffer					27.3%

Note 44 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, 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 close family members to these individuals.

Agreements
Significant agreements for the Parent Company are primarily assignment agreements with the 23 regional insurance companies and assignment agreements regarding development, service, finance and IT. The Parent Company has agreements with its subsidiaries for Group-wide services.

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

Transactions

	Income		Expenses		Receivables		Liabilities		Commitments	
SEK M	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Companies in the Bank Group	827.6	697.2	922.5	855.9	64,201.4	56,205.5	8,771.6	7,397.9	29,472.0	20,512.5
Other companies in the Länsförsäkringar AB Group	5.7	0.2	400.2	319.2	34.0	16.0	1,299.7	1,276.9	–	–
Länsförsäkringar Liv Group	–	–	–	–	–	–	631.9	521.0	–	–
Regional insurance companies	16.8	15.3	238.9	283.0	55.2	41.3	3,378.6	3,654.6	52.0	53.3
Other related parties	–	–	–	–	–	–	16.7	31.7	5.0	5.0

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

Note 45 Events after balance-sheet date

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

Statement from the Board

The Board and President affirm that this Annual Report was prepared in accordance with generally accepted accounting policies in Sweden and that the consolidated financial statements were prepared in accordance with the international accounting standards referred to in Regulation (EC) No 1606/2002 of the European Parliament and the Council issued on 19 July 2002 on the application of international accounting standards. The Annual Report and consolidated financial statements provide a true and fair view of the Parent Company's and the Group's financial position and earnings. The Board of Directors' Report provides a true and fair overview of the Group's and the Parent Company's operations, financial position and earnings, and describes the significant risks and uncertainties to which the Parent Company and the companies included in the Group are exposed

Stockholm, 22 February 2017

Johan Agerman
Chairman

Per-Ove Bäckström
Board Member

Anders Grånäs
Board Member

Ingrid Jansson
Board Member

Beatrice Kämpe Nikolausson
Board Member

Bengt-Erik Lindgren
Board Member

Peter Lindgren
Board Member

Anna-Greta Lundh
Board Member

Sören Schelander
Board Member

Rikard Josefson
President

Ingrid Ericson
Employee Representative

Mirek Swartz
Employee Representative

My audit report was submitted on 22 February 2017

Dan Beitner
Authorised Public Accountant

Auditor's report

To the general meeting of the shareholders of Länsförsäkringar Bank AB (publ), corp. id 516401-9878

Translation from the Swedish original

Report on the annual accounts and consolidated accounts

Opinions

I have audited the annual accounts and consolidated accounts of Länsförsäkringar Bank AB (publ) for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 16–92 in this document.
In 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 the parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The consolidated accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies.

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 and consolidated accounts, and the corporate governance statement is in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.
I therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Basis for Opinions

I conducted my audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. My responsibilities under those standards are further described in the Auditor's Responsibilities section. I am independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled my ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Key audit matters of the audit are those matters that, in my professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of my audit of, and in forming my opinion thereon, the annual accounts and consolidated accounts as a whole, but I do not provide a separate opinion on these matters.

Loan origination and provisions for loan losses

See disclosure in notes 3, 14, 19, 20 and accounting policies in note 2 on pages 34, 37, 39 in the annual account and the consolidated accounts for detailed disclosures and a description of the matter for the Group, and corresponding notes for the Parent Company are notes 3, 15 and 19.

Description of key audit matter	Response in the audit
Länsförsäkringar Bank's lending primarily comprises mortgages to private individuals. Loans are granted locally in Sweden, via the regional insurance companies, based on standardised, centrally established credit regulations at Länsförsäkringar Bank. The bank's loans to the public amounted to SEK 39,484 M on 31 December 2016, corresponding to 27% of the bank's total assets. The bank's reserves for loan losses in the loan portfolio amounted to SEK 191 M.	We have tested the bank's and its subsidiaries' key controls in the lending process, including credit decisions, credit examinations, rating classifications and identification and confirmation of the loans for which reserves have been made.
The Group in which Länsförsäkringar Bank AB is the Parent Company and in which Länsförsäkringar Hypotek AB and Wasa Kredit AB are subsidiaries had loans to the public amounting to SEK 226,705 M on 31 December 2016, corresponding to 82% of the Group's total assets. The Bank Group's reserves for loan losses in relation to lending amounted to SEK 380 M.	Controls tested included both manual controls and automatic controls in the application system. We also tested general IT controls including authorisation management for the relevant systems.
The reserves for loan losses in the bank's loan portfolio and its subsidiaries Länsförsäkringar Hypotek AB and Wasa Kredit AB correspond to corporate management's best estimate of potentially occurring losses in the loan portfolio as per the balance-sheet date. Depending on the type of loan, credit reserves are calculated either collectively for portfolios of similar loans or individually for loans that are past due.	We challenged corporate management's assessments of the recoverable amount of future cash flows for reverses made on an individual basis.
For the bank and its subsidiaries, we believe that a provision for individual loan losses encompasses the greatest uncertainty in corporate management's assessments, since these are based on a high number of internal and external observations. The assessments made by the companies are linked to expected future cash flows and thus the uncertainty in terms of time and outcome related to these cash flows.	For loans valued using collective reserve models, we challenged the assumptions in the models that use historical actual outcomes. We also conducted random checks of inputs in the models and the accuracy of the calculations.
	We have assessed the circumstances presented in the disclosures in the annual accounts and in the consolidated accounts and whether the information is sufficiently extensive as a description of corporate management's assessments.

Measurement of financial instruments

See disclosure in notes 3, 8, 21, 22, 23, 39 and accounting policies in note 2 on pages 38, 39, in the annual account and the consolidated accounts for detailed disclosures and a description of the matter for the Group, and corresponding notes for the Parent Company are notes 23 and 41.

Description of key audit matter	Response in the audit
Länsförsäkringar Bank AB has financial instruments measured at fair value in the balance sheet. Some of these financial instruments do not have current market prices, which means that the fair value is determined using valuation techniques based on market data. These financial instruments are classed as Level 2 in the IFRS valuation hierarchy and correspond to assets of a value of SEK 3,877 and liabilities of SEK 4,129 M. The corresponding amounts for the Group are SEK 5,560 M for assets and SEK 1,644 M for liabilities.	We tested key controls in the valuation process, including confirmation and approval of assumptions and methods used in model-based calculations, controls of data quality and change management for internal valuation techniques. Controls tested included both manual controls and automatic controls in the application system. We also tested general IT controls including authorisation management for the relevant systems.
Länsförsäkringar Bank AB and the Group have, to a limited extent, financial instruments, the fair-value measurement of which is determined based on valuation techniques where the value is influenced by inputs that cannot be verified by external market data. These financial instruments are classed as Level 3 in the IFRS valuation hierarchy and amounted to SEK 39 M in the bank and the Group.	With the assistance of our internal valuation specialists, we challenged the methods and assumptions used in measuring unquoted/illiquid financial instruments.
Level 2 and 3 instruments total 2.6% of the bank's total assets and 2% of the Group's assets, and 3% of the bank's liabilities and 0.6% of the Group's liabilities.	We assessed the methods of the valuation techniques against industry practice and valuation guidelines.
Most of the Group's derivatives contracts, including interest-rate and cross-currency swaps, comprise Level 2 financial instruments. Level 2 derivatives contracts are measured using valuation techniques based on market interest rates and other market prices.	We have verified the values of the financial instruments by comparing the assumptions applied by the bank for the entire portfolio with suitable benchmark values and pricing sources, and have investigated significant deviations in one of the monthly accounts during the year. The result of this examination was also randomly tested in the annual accounts.
Level 3 financial instruments, which total relatively low amounts, comprise unquoted shares in jointly owned operations associated with Länsförsäkringar Bank AB's business activities.	We have assessed the circumstances presented in the disclosures in the Annual Report and in the consolidated financial statements and whether the information is sufficiently extensive as a description of corporate management's assessments.
The valuation of Level 2 and Level 3 financial instruments includes assessments by corporate management, since these instruments are measured using models. In light of this, these financial instruments have been deemed to be a particularly significant audit matter.	

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 0–15 and 96–100. The Board of Directors and the Managing Director are responsible for this other information.

My opinion on the annual accounts and consolidated accounts does not cover this other information and I do not express any form of assurance conclusion regarding this other information.

In connection with my audit of the annual accounts and consolidated accounts, my responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure I also take into account my knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If I, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

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

In preparing the annual accounts and consolidated accounts The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

My objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to my audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. I also draw a conclusion, based on the audit evidence obtained, as to whether any

material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify my opinion about the annual accounts and consolidated accounts. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my opinions.

I must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. I must also inform of significant audit findings during my audit, including any significant deficiencies in internal control that I identified.

I must also provide the Board of Directors with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, I determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. I describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinions

In addition to my audit of the annual accounts and consolidated accounts, I have also audited the administration of the Board of Directors and the Managing Director of Länsförsäkringar Bank AB (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions

I conducted the audit in accordance with generally accepted auditing standards in Sweden. My responsibilities under those standards are further described in the Auditor's Responsibilities section. I am independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled my ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

My objective concerning the audit of the administration, and thereby my opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:
- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

My objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby my opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, I exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on my professional judgment with starting point in risk and materiality. This means that I focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. I examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to my opinion concerning discharge from liability. As a 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.

Stockholm 22 February 2017

Dan Beitner
Authorized Public Accountant

Board of Directors

1 Johan Agerman

Chairman. Born 1962. President of Länsförsäkringar AB from 9 January 2017. **Education:** Business Administration, Uppsala. AMPT, Stockholm School of Economics. **Other Board appointments:** Chairman of Länsförsäkringar Sak, Länsförsäkringar Bank and Länsförsäkringar Fondliv, Board member of Länsförsäkringar Liv, Insurance Sweden, European Alliance Partners Company AG and Swedish Insurance Employers' Association (FAO). **Previous experience:** CEO of Trygg-Hansa, Board Chairman of IDUR, Personal Lines Director Scandinavia RSA, IS&Change director and CIO RSA, CEO of Know IT Consulting AB.

2 Per-Ove Bäckström

Born 1959. President of Länsförsäkringar Gävleborg Elected 2015. **Education:** Bachelor of Arts. Uppsala University. **Other Board appointments:** Board member of Länsförsäkringar Gävleborg. **Previous experience:** Deputy Regional Manager at Swedbank, Head of Operations at SEB.

3 Anders Grånäs

Born: 1966. President of Dalarnas Försäkringsbolag Elected 2016. **Education:** Master of Science in Engineering physics, Uppsala University, MBA Stanford University. **Other Board appointments:** Board member of Länsförsäkringar Secondary PE Investments S.A, Humlegården AB and Lansa Fastigheter AB. **Previous experience:** Background as a venture capitalist specialising in technology investments and has served as Investment manager for 15 years at Investor Growth Capital, Industrifonden and Via Venture Partners (ATP, Denmark).

4 Ingrid Jansson

Born 1950. Consultant specialising in financial services and leadership. Elected 2013. **Education:** Master of Science in Business and Economics. **Other Board appointments:** None. **Previous experience:** Many years of experience in banking, asset management, marketing and business development, and has held senior positions.

5 Beatrice Kämpe Nikolausson

Born 1972. President of Länsförsäkring Kronoberg Elected 2016. **Education:** Master of Business Administration, Linnaeus University and Cardiff Business School, Bachelor Majors: Accounting and Finance, Bachelor Minors: Banking and Finance (Cardiff), Master: Majors: Accounting, Behaviour and Organisation. **Other Board appointments:** President and Board member of Länsförsäkring Kronoberg AB, Board member of Länförsäkringar Grupplivförsäkringsaktiebolag, Chairman of Länsgården AB and Hjalmar Petri, Board member of LF Affärsservice Sydost AB, Bergvik Skog AB, Micki Leksaker, and AXB Education AB. **Previous experience:** Accounting Manager, Financial Director and Productivity Manager at Södra Cell, Director of Supply Chain and Logistics at Södra Skogsägarna, President of Alstom AQCS and President of Munksjö Aspa Bruk.

6 Bengt-Erik Lindgren

Born 1950. Chairman of Länsförsäkringar Bergslagen. Elected 2012. **Education:** Bachelor of Economics. **Other Board appointments:** Board member of Lansa Property AB, Nordanå Trä AB, Humlegården Fastigheter AB and Prevas AB. **Previous experience:** Executive Vice President of Swedbank.

Secretary of the Board: Anna Rygaard. Born 1966.
Company Lawyer at Länsförsäkringar AB.
Auditor: Dan Beitner Auditor.
Authorised Public Accountant, KPMG AB.

7 Peter Lindgren

Born 1959. President. Elected 2016. **Education:** Master of Science in Business and Economics. **Other Board appointments:** Chairman of Länsförsäkringar Östgöta and Developing Design Sweden AB, Board member of Humlegården Fastigheter AB, Ryssnäs AB and FemSju AB. **Previous experience:** Auditor, CFO, President.

8 Anna-Greta Lundh

Born 1955. President Länsförsäkringar Södermanland. Elected 2016. **Education:** Master of Science in Business and Economics. **Other Board appointments:** Eskilstuna-Kuriren, Almi Invest Östra Mellansverige, Länsförsäkringar Södermanland. **Previous experience:** Business area manager, Marketing Director.

9 Sören Schelander

Born 1965. President Länsförsäkringar Älvsborg. Elected 2016. **Education:** Master of Science in Business and Economics. **Other Board appointments:** Deputy Chairman of Gothia Science Park AB, Board member of Länsförsäkringar Älvsborg, Humlegården Fastigheter AB and Skaraborgs Invest AB. **Previous experience:** Managerial roles at Danske Bank and Swedbank.

Employee representatives

10 Ingrid Ericson

Born 1958. Employee representative Elected 2004. **Education:** Master of Science in Business and Economics. **Other Board appointments:** Board member of Länsförsäkringar AB's local SACO Board. **Previous experience:** Product Specialist, Process Developer, Credit Administrator of Länsförsäkringar Bank.

11 Mirek Swartz

Born 1962. Service owner Service Desk. Employee representative Elected 2015. **Education:** IT-related educational courses. **Other Board appointments:** Board member of Wasa Kredit and Länsförsäkringar Fondförvaltning. Deputy Board member of Länsförsäkringar AB. **Previous experience:** Head of IT at Länsförsäkringar Stockholm.

Deputy: Linda Pettersson

Executive management

1 Rikard Josefson

Born 1965. President of Länsförsäkringar Bank. Employed since 2011. **Education:** Bachelor of Arts. **Previous experience:** President of SEB Finans, Regional Director East SEB, Deputy Head of Retail Sweden SEB, Senior Vice President and Head of Retail Banking Business Area Latvijs Unibanka in Latvia, Head of Global Transaction Services SEB Merchant Banking.

2 Anders Borgcrantz

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

3 Gert Andersson

Born 1959. Head of Product & Process. Employed since 2013. **Education:** Master of Science in Business and Economics. **Previous experience:** Head of Sales Area Direct, Head of Sales and Marketing at Wasa Kredit and 25 years of experience in various senior positions at SEB.

4 Pia Bergman

Born 1963. HR Manager. Employed since 2014. **Education:** Bachelor of Arts. **Previous experience:** More than 25 years of HR experience in the retail, IT and banking industries.

5 Susanne Calner

Born 1969. Head of Credit. Employed since 2012. **Education:** Master of Science in Business and Economics. **Previous experience:** Office Manager at SEB, auditor and management consultant at Andersen.

6 Bengt Clemedtson

Born 1964. Head of Business. Employed since 2006. **Education:** Master of Science in Business and Economics. **Previous experience:** President of Skandiabanken Bolån AB.

7 Eva Gottfridsdotter Nilsson

Born 1960. President of Länsförsäkringar Fondförvaltning. Employed since 2000. **Education:** Master of Science in Business and Economics. **Previous experience:** President of Fondbolaget, CFO of Länsförsäkringar Asset management.

8 Louise Lindgren

Born 1959. Chief Risk Officer. Employed since 2014. **Education:** Master of Science in Business and Economics. **Previous experience:** 17 years at Nordea, most recently as Head of Group Capital, Head of Financial Risk Management at PWC, Head of Fixed Income Trading at Citibank.

9 Marie Lundberg

Born 1968. Elected 2015. President of Wasa Kredit. **Education:** Studies in culture and economic geography, international relations and pedagogics at Stockholm University and Universidad de Cantábria. **Previous experience:** President of Handelsbanken Finans AB. Chairman of Handelsbanken Rahoitus Oyi and Kredit-Inkasso AB. Head of Development at Handelsbanken International.

10 Richard Lundberg

Born 1976. Head of Bank Business Service. Employed at Länsförsäkringar since 2005, and at Länsförsäkringar Bank since 2012. **Education:** Studies in chemical engineering, industry training. **Previous experience:** 22 years of experience at Länsförsäkringar and Folksam. Head of Back Office, Head of Sales Support, Head of Advisory Services, Head of Sales.

Definitions

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

Business volume
The total volume of internally and externally managed funds, agricultural loans, mortgages and other loans in Länsförsäkringar Bank and Wasa Kredit and deposits from the public.

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

Loan-to-value ratio
Refers to loans with single-family homes, tenant-owned apartments or vacation homes as collateral.

Own funds
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 own funds as a percentage of the risk-weighted amount at year-end.

Capital ratio
Own funds in relation to capital requirements.

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

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

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

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

Impaired loans
Receivables for which payments are unlikely to be made in accordance with the agreed contractual terms and after deductions for the value of collateral. 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.

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

Tier 1 capital
Tier 1 capital is part of the own funds 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.

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

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

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%.

Return on equity
Operating profit less standard tax in relation to average equity, adjusted for items in equity recognised in other comprehensive income and for Additional Tier 1 Capital loans.

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

Small businesses
Companies with basic business requirements (loans, savings and payments).

Tier 2 capital
Primarily comprises fixed-term subordinated debt.

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

Financial calendar 2017

First quarter:
Interim report January-March: 5 May 2017

Second quarter:
Interim report April-June: 10 August 2017

Third quarter:
Interim report July-September: 10 November 2017

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