

# Annual Report

# 2016



# The 2016 fiscal year

## Earnings 2016

Figures in parentheses pertain to 2015.

- Operating profit for the Länsförsäkringar AB Group increased to SEK 2,286 M (2,155). The return on equity amounted to 10% (11). The Group's equity rose SEK 1,991 M to SEK 22,529 M.
- Operating profit in the non-life insurance operations amounted to SEK 644 M (908). Premiums earned after ceded reinsurance increased to SEK 5,342 M (5,074). The combined ratio amounted to 92% (85).
- Operating profit for the Bank Group increased to SEK 1,467 M (1,175). Net interest income strengthened to SEK 3,455 M (2,994).
- Profit for Länsförsäkringar Fondliv totalled SEK 512 M (516). Premium income amounted to SEK 8,637 (8,645). Commission income was SEK 1,412 M (1,384).

Equity: SEK 22,529 M

**+10%**

Combined ratio non-life insurance:

**92%**

Operating profit bank: SEK 1,467 M

**+25%**

Managed assets unit-linked life assurance: SEK 114 billion

**+11%**

## Five-year summary

	2016	2015	2014	2013	2012
<b>Länsförsäkringar AB, Group<sup>1)</sup></b>					
Operating profit, SEK M	2,286	2,155	1,469	923	819
Equity per share, SEK	2,046	1,858	1,675	1,557	1,479
Total assets, SEK M	421,750	384,595	355,933	322,550	290,994
Return on equity, %	10	11	7	5	5
Own funds for the group (FRL) <sup>2)</sup>	40,602	36,905 <sup>3)</sup>	-	-	-
Capital requirement for the group (FRL) <sup>2)</sup>	30,121	28,233 <sup>3)</sup>	-	-	-
Own funds for the financial conglomerate	40,352	-	-	-	-
Capital requirement for the financial conglomerate	30,121	-	-	-	-
<sup>1)</sup> Excluding Länsförsäkringar Liv Försäkrings AB. The company is operated in accordance with mutual principles.					
<sup>2)</sup> According to Swedish Insurance Business Act (FRL), the Solvency II directive in Swedish law.					
<sup>3)</sup> Opening balance on 1 January 2016 according to Solvency II.					
<b>Länsförsäkringar Sak, Group</b>					
Premiums earned after ceded reinsurance, SEK M	5,342	5,074	4,099	4,122	4,024
Technical result for the insurance operations, SEK M	435	821	611	434	306
Operating profit, SEK M	644	908	791	427	486
Solvency ratio, % (Länsförsäkringar Sak Försäkrings AB)	260	235 <sup>3)</sup>	-	-	-
<b>Länsförsäkringar Bank, Group</b>					
Deposits from the public, SEK M	91,207	83,925	76,790	69,220	62,396
Loans to the public, SEK M	226,705	201,964	179,424	162,003	149,942
Operating profit, SEK M	1,467	1,175	935	647	555
Return on equity, %	10	9	8	7	6
Common Equity Tier 1 capital ratio Bank Group, %	25	24	16	14	13
Tier 1 ratio Bank Group, %	28	27	16	14	14
<b>Länsförsäkringar Fondliv AB</b>					
Premium income, SEK M	8,637	8,645	8,543	9,473	8,714
Operating profit, SEK M	512	516	373	247	127
Managed assets, SEK M	114,450	102,807	93,610	77,517	62,944
Solvency ratio, %	150	141 <sup>3)</sup>	-	-	-
<b>Länsförsäkringar Liv, Group</b>					
Premium income, SEK M	1,720	1,919	2,639	3,388	4,319
Net profit for the year, SEK M	2,682	5,089	1,903	5,174	4,872
Collective consolidation, Old Trad, %	125	120	120	107	111
Solvency ratio, %	195	182 <sup>3)</sup>	-	-	-

## Länsförsäkringar AB

# The Länsförsäkringar Alliance's jointly owned company

Länsförsäkringar AB is wholly owned by the regional insurance companies, together with 16 local insurance companies. Through its distinct role in the Länsförsäkringar Alliance's value chain, Länsförsäkringar AB contributes to increasing competitiveness and reducing costs, thereby creating possibilities for the regional insurance companies to be successful in their respective markets. In addition to the Parent Company, Länsförsäkringar AB, the Group consists of Länsförsäkringar Sak, Länsförsäkringar Bank, Länsförsäkringar Fondliv, Länsförsäkringar Liv and the subsidiaries of these companies. Länsförsäkringar Liv and its subsidiaries are not consolidated in the consolidated financial statements since the company is operated according to mutual principles.

## Länsförsäkringar in brief

### Local companies with customers who are owners and the only principal

Länsförsäkringar comprises 23 local and customer-owned regional insurance companies and the jointly owned Länsförsäkringar AB with subsidiaries. Customers are provided with a complete solution for banking, insurance, pension and real-estate brokerage services through the regional insurance companies. The regional insurance companies are owned by the insurance customers – there are no external shareholders and customers' needs and requirements are always Länsförsäkringar's primary task. Long-term respect for customers' money and their security is fundamental. The Länsförsäkringar Alliance jointly has 3.7 million customers and 6,200 employees.

**3.7 million customers**

**23 local regional insurance companies**

**Länsförsäkringar AB**

Länsförsäkringar Bank 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.

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

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

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# Stable grounds for meeting new challenges

**Statement by the President** The Länsförsäkringar AB Group reports strong earnings for 2016. The strong brand continues to drive growth, but Länsförsäkringar needs to continue to develop in a changeable and increasingly digitised world in order to continuously improve the customer experience. Johan Agerman took office as the new President of Länsförsäkringar AB after year-end when Sten Dunér retired.

**Sten Dunér, President, Länsförsäkringar AB until 9 January 2017**

## Yet another strong year in times of instability

Both Länsförsäkringar AB and our owners – the 23 regional insurance companies – can summarise yet another strong year and face the future on stable ground, based on the strength of the finances and the brand.

2016 was a turbulent year dominated by terrorism, war and political unrest. Even the financial markets were turbulent at times. The year began with a sharp decline in the oil price and uncertainty surrounding China's growth prospects, which resulted in stock-market downturns and falls in interest rates. The market unease in the wake of unexpected political outcomes, such as Brexit and the Republican success in the US presidential election, passed relatively quickly. However, the long-term implications are more difficult to assess. Political uncertainty is also expected to continue into 2017 since many European countries will hold elections. Despite political woes, most 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. However, inflation remained low, meaning that we are now in the unusual situation of having a more expansive monetary policy despite Sweden experiencing an economic boom.

### **Continued profitable growth and strong earnings**

In these unstable time, the Länsförsäkringar AB Group continued to report strong earn-

ings in 2016 posting operating profit of SEK 2.3 billion. The bank's profit increased by 25% year-on-year, driven by lower refinancing costs and continued strong growth while retaining high credit quality and a well-diversified geographic spread in Sweden. Health care insurance in the non-life insurance operations performed better than in the preceding year. Price adjustments and extensive quality enhancements to claims adjustment have led to lower claims costs. Agria is continuing to contribute a healthy volume trend and strong earnings, with yet another branch opening in 2016, this time in Finland. New products such as "Bo Kvar" and completion insurance enjoyed a positive market reception during the year. Our unit-linked life assurance company is now Sweden's leading pension insurance company for individual occupational pensions, managing assets of SEK 114 billion. Our index funds have some of the lowest fund fees in the market and in September we reduced our fund fees for our own equities funds to create even better value for our customers. During the year, we continued to work actively on a number of improvements to the traditional life-assurance company to strengthen its capital situation, which is particularly important with continued low interest rates.



### **Customer focus**

The two key reasons for our profitable growth are our focus on customer satisfaction with a strong local presence and our leading digital services. We saw proof again this year that our customers appreciate our efforts – according to the 2016 Swedish Quality Index we have the most satisfied customers in banking, non-life insurance, pension insurance and real-estate brokerage. Our successful business model – where Länsförsäkringar AB's task is to provide business, service and development activities to strengthen the competitiveness of the locally based regional insurance companies and enhance value for customers – is

“ Länsförsäkringar’s successful business model, with its customer focus, is more relevant and current than ever.

more relevant and current than ever. The most recent example of Länsförsäkringar AB’s role as a driver was in the transfer of a large part of the accident business from Länsförsäkringar AB to the regional insurance companies during 2016, when this product was deemed to have achieved the desired volume, profitability and stability for being locally based.

#### **Financial Supervisory Authority approved Solvency II partial internal model**

The EU’s Solvency II regulations came into force at the start of 2016. In May, the Swedish Financial Supervisory Authority approved our application to use a partial internal model for calculating Solvency II capital requirements in the Länsförsäkringar AB Group and Länsförsäkringar Liv. I am delighted that we are the first insurance group in Sweden to have our model approved – a model that reflects our business logic and our actual risk profile.

For competition reasons, we believe that it is important that insurance companies and occupational pension institutions in Sweden are regulated in the same way as far as possible. We believe that it is absolutely essential that consumers are protected and that the new proposal ensures competition neutrality in the Swedish

market. This need for protection is the same regardless of whether it is a matter of an occupational pension, a privately paid pension or other type of insurance.

#### **Sustainability creates security for customers**

We continued our ongoing work on sustainability issues in 2016, which for me is a completely natural element of a customer-owned organisation. Priority areas include our work on responsible investments, responsible offering, social commitment, long-term environmental efforts and demands on suppliers and partners. Our efforts in 2016 to implement processes for responsible investment led to high ratings from external advisors, for example, Söderberg & Partners and Max Matthiessen. Also, our new sustainability fund, Länsförsäkringar Global Hållbar, was launched in October. Another pleasing achievement is that the Swedish Sustainability Ranking revealed that the Swedish public rank Länsförsäkringar as number one for sustainability in banking, pension and insurance. At the end of 2016, Länsförsäkringar Sak became the first Swedish insurance company to sign the Principles for Sustainable Insurance (PSI), the largest international initiative between the

UN and the insurance industry on sustainable insurance.

#### **New President of Länsförsäkringar AB**

Both Länsförsäkringar AB and our owners – the 23 regional insurance companies – can meet future challenges on stable ground, in terms of financial strength and the business model, as well as core values and customer satisfaction. I am now retiring after having worked at Länsförsäkringar AB for 35 years, six of which as President. I am very grateful for having been part of Länsförsäkringar’s development for such a long and exciting period.

Stockholm, March 2017



**Sten Dunér**

*Former President of Länsförsäkringar AB*

**Johan Agerman, President, Länsförsäkringar AB from 9 January 2017:**

# The customer experience is always crucial – we have the best prerequisites

The foundation of both our processes and what we develop must always be that everything is based on the customer. The customer experience is crucial in attracting our targeted customers.

I have had the opportunity to follow the development of Länsförsäkringar in insurance and bank for several years. I think I speak for the entire industry when I say that Länsförsäkringar, with its unique business model, is the company that competitors envy the most. Länsförsäkringar has become a type of benchmark for the industry. The local, customer-owned structure and the customer value it provides. The broad brand with its banking, non-life insurance and life-assurance offering, and also in real-estate brokerage. No one else has truly succeeded in breaking through this. And most of all – the high level of confidence and reputation that Länsförsäkringar enjoys from its customers, as created by this work approach. In addition to our favourable results and strong growth, we have received confirmation for many years that our customers appreciate our efforts – according to the Swedish Quality Index we have the most satisfied customers in banking, insurance and real-estate brokerage services. The public also believe that Länsförsäkringar is the best at sustainability in banking, pensions and insurance. Long-term sustainability is a central part of our operations and we work continuously on sustainability issues, such as claims prevention and responsible investment.

## Digital challenges

At the same time, we naturally face many challenges. Digitisation will not slow down, in fact it will only accelerate and we have much work ahead of us. We have the best bank app in Sweden and it holds great customer value. However, we do not meet customer expectations in a number of areas. Our customers do not only compare us with our competitors but with other companies

that offer the best customer experience regardless of industry. We must accept that, in many respects, the customers of tomorrow are significantly more digital than we are. If we are to meet their requirements – and the customer experience is crucial if they are to choose us – then we must speed up the pace. We have the prerequisites, in fact better ones than anyone else. Länsförsäkringar's business model supports both local and digital customer meetings, by telephone as needed by the customer and in person when it is more convenient. Digital channels essentially have all the prerequisites for becoming local, and even personal. With our broad customer base and local knowledge, no one has better prerequisites than we do for sending out the right information to the right person. The starting point must always be that everything is based on the customer, and that we base communication on customer data and thus our knowledge. We must be innovative and sometimes think completely outside the box in these development activities. We need to not only develop what we already have but also have to be bold enough to remove certain processes and add others. It involves finding the right balance and forms of cooperation within the Länsförsäkringar Alliance; while the customer experience must always be local, developments can be made together.

## Regulatory developments

Regulatory development is continuing to have a significant impact on banks and insurance companies, with uncertainty still prevailing in many areas. I essentially have a positive view of greater customer protection, but I believe that the regulations between banking and insurance must be

better harmonised to avoid over-complication for groups like Länsförsäkringar. I believe that we are well-positioned to meet the changes under the regulations.

## External environment affects business

Business will naturally also be highly affected by everything that happens around us – by technological advances, urbanisation, climate change and new requirements and expectations that emerge from customers. Growth in our banking business has reached record-breaking levels and we are capturing market shares in all areas. We now have a challenging time ahead in which we will face both traditional competition and be continuously challenged by new and innovative fintech companies. Our non-life insurance business will experience completely new conditions even in the near future. The sharing economy that is evolving – for example, where cars are no longer owned, are safer and safer and will even be driverless in the future – will mean a brand new playing field for us. We simply need to accept that we will have lower motor insurance premiums in ten years than we have today. Buildings are becoming smarter and insurance needs will also change in this respect.

## Acting rather than reacting

We will be able to use new technology to monitor the rehabilitation of a customer with health care insurance and make sure that progress is made in the right direction. The need for solid health care insurance will only increase and insurance solutions for the elderly is an attractive area for the future. To summarise developments, you could say that we are on a journey from being reactive to being proactive. We will act instead of react. We must always bear in mind the aim of

“ No one has better prerequisites than we do for meeting customers based on customers' terms.



dealing less with the effects of claims that have already occurred and instead working increasingly with preventive measures. And this will not only apply to individual customer relationships. We will develop our role as a partner in society to a greater extent. We will increasingly set the tone in matters related to climate threats and natural catastrophes and will play a role in issues of integration and segregation. All of these are areas that greatly affect Länsförsäkringar AB, the regional insurance companies and our customers and owners.

As the new President of Länsförsäkringar AB, I am looking forward to being involved in developing Länsförsäkringar

to meet future challenges in a changeable and increasingly digitised world. We will do this from a position of strength, backed by strong earnings and healthy growth. With satisfied customers and a strong brand. And with a business model that is more modern and customised than ever before.

Stockholm, March 2017

A handwritten signature in blue ink, consisting of stylized initials 'JA' followed by a long, sweeping horizontal line.

**Johan Agerman**  
*President, Länsförsäkringar AB*

# Together we create security and opportunities

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

Länsförsäkringar AB is wholly owned by the 23 regional insurance companies, together with 16 local insurance companies. The regional insurance companies impose demands on effective capital use and a return on equity corresponding to 5% over the risk-free interest. The return on equity in 2016 was 10%. In addition to the Parent Company, Länsförsäkringar AB, the Group consists of Länsförsäkringar Sak, Länsförsäkringar Bank, Länsförsäkringar Fondliv, Länsförsäkringar Liv and the subsidiaries of these companies. Länsförsäkringar Liv and its subsidiaries are not consolidated in the consolidated financial statements since the company's earnings accrue in their entirety to the policyholders.

## Mission

The operations of the jointly owned company Länsförsäkringar AB are tasked with conducting profitable business activities in non-life insurance, banking, life assurance and pension insurance, developing products, concepts, meeting places and tools, and providing business service to the regional insurance companies. This ensures that the regional insurance companies can offer their customers the right range of products and enables private individuals, companies and agricultural customers in Sweden to live with a sense of security. The Länsförsäkringar Alliance's reinsurance cover is managed, through a number of cover pool solutions and joint group insurance cover, by Länsförsäkringar Sak.

## Economies of scale creating added value for customers

Cooperation in the Länsförsäkringar Alliance has gradually emerged. The local com-

panies decided to cooperate together to achieve economies of scale and to concentrate on the most important issue: meetings with customers and developing close customer relationships. Instead of developing these resources at local level, the regional insurance companies can share expenses in such areas as product and concept development, IT operations and management and brand communication. The separation of duties among the regional insurance companies and Länsförsäkringar AB creates a clear focus for each party. Länsförsäkringar AB is to create the conditions for the regional insurance companies to be more effective in their roles. Economic efficiency is a basic prerequisite for this to work. That is why certain non-life insurance operations are considered best suited to a joint concession. This interface does not affect customer relationships, which are managed by the respective regional insurance company in the same manner as a local bank or insurance company. This is the foundation of the Länsförsäkringar concept. For customers, Länsförsäkringar is always close at hand with local decision-making. The basis is local presence and decision-making powers – experience shows that local decision-making authority, combined with shared strengths, creates substantial added value for customers.

## Non-life insurance

Länsförsäkringar Sak is responsible for the non-life insurance operations, including animal and crop insurance, which have been assigned to Länsförsäkringar AB by the regional insurance companies. Its role is to complement the companies' offering with specialist products to meet customer

needs and to start new business that can be channelled out to the regional insurance companies. Business is conducted so that the regional insurance companies can offer customers a broad range of insurance for people, animals and property. Sound reinsurance coverage and pool solutions is created through joint group insurance cover.

The pet insurance operations are conducted in the subsidiary Agria Djurförsäkring and the Länsförsäkringar Alliance's reinsurance solutions are managed jointly by Länsförsäkringar Sak, which is also where internationally assumed reinsurance is underwritten. Of the Länsförsäkringar Alliance's combined premiums earned of SEK 24 billion, premiums earned from the non-life insurance operations in Länsförsäkringar AB accounted for SEK 5 billion.

## Bank

Länsförsäkringar Bank offers banking services to private individuals, agricultural customers and small businesses. Sales, advisory services and customer service are carried out through the branches of the regional insurance companies and via digital channels and by telephone. Deposits and certain lending operations are conducted in Länsförsäkringar Bank, while most of the lending and funding operations are conducted through the subsidiary Länsförsäkringar Hypotek. The subsidiary Länsförsäkringar Fondförvaltning offers mutual funds. The subsidiary Wasa Kredit offers financing services to corporate customers and private individuals – primarily leasing, renting and hire purchase. The number of customers with Länsförsäkringar as their primary bank rose 11% to 419,000. Business volumes in the banking operations increased 13% till SEK 455 billion.



### Life assurance and pension insurance

Länsförsäkringar offers life-assurance and pension solutions to corporate customers and private individuals. Fund management, Guarantee Management and personal insurance are offered through Länsförsäkringar Fondliv. Länsförsäkringar's fund range comprises 39 of its own funds and about 49 external funds. The former are found in Länsförsäkringar's own mutual fund company, with three funds managed by internal managers and the remainder by external managers. The unit-linked life assurance company manages SEK 114 billion on behalf of its life-assurance and pension insurance customers. Länsförsäkringar Fondliv offers management of pension insurance carrying a guarantee element regarding paid-in premiums, while Länsförsäkringar Liv, which is closed for new business, conducts traditional life assurance that was taken out before it was closed in 2011. The work on inviting customers to change the conditions of their insurance product to New Trad continued during 2016. The offer was positively received. Conditions have been changed for 41% of the capital for those customers who have received the offer to date.

### Governance of risk-taking and capital use

Business activities are conducted to generate a profit so that the company can pay returns on equity at market levels. All capital that is not required for Länsförsäkringar AB's operations is returned over time to the owners in the form of dividends. The

Group's capital situation in relation to its combined risks forms the basis of decisions on potential dividend payments. Länsförsäkringar AB endeavours to maintain a balance between capital strength and risk-taking to justify a minimum credit rating of A.

More than 70% of the Länsförsäkringar Alliance's capital, excluding the capital in Länsförsäkringar Liv, which belongs to its policyholders, is invested in the regional insurance companies. Accordingly, the Group's capital strength is assessed not only on its own situation but also includes the capital strength of the regional insurance companies. Rating agencies and other stakeholders have that approach. The regional insurance companies are extremely well consolidated and thus are highly able to contribute capital to the Group.

The Group prioritises its work on governance of risk-taking and capital use. The Länsförsäkringar AB Group bases the risk governance of its insurance operations on a partial internal model for calculating Solvency II capital requirements, which was approved by the Swedish Financial Supervisory Authority in May 2016. Länsförsäkringar Bank has also already received approval from the Financial Supervisory Authority to use the Internal Ratings Based Approach for credit risk measurement for calculating the capital requirement in accordance with the Capital Requirements Regulation. In addition, the Länsförsäkringar AB Group is a financial conglomerate, which means that risk-taking in the sepa-

rate business activities is governed based on how these operations affect the Group's capital use. The aim is to safeguard shareholders' capital and ensure effective use and earnings on the Group's capital.

### Balance between local and shared

Together, the Länsförsäkringar Alliance has developed a balance between the small and the large-scale. Cooperation between the regional insurance companies through Länsförsäkringar AB has emerged from a decentralised perspective, not the other way round. The local companies decided to cooperate together to achieve economies of scale and to concentrate on the most important issue: meetings with customers and developing close customer relationships. Certain elements of the Länsförsäkringar Alliance are conducted on a large-scale to generate economies of scale, for example, the development of products and IT systems. Other areas are better suited to being conducted on a smaller scale, such as customer meetings. Success is found in balancing these elements. The basis for cooperation within the Länsförsäkringar Alliance is that as much of the operations as possible are conducted by the local companies and essentially all customer contact is to take place with them. For Länsförsäkringar, the core concept is to meet and know customers, and this is best achieved on a small scale. Economies of scale arise in the cooperation between the regional insurance companies that takes place through Länsförsäkringar AB and its subsidiaries.

# Vision, values and targets

Länsförsäkringar AB's operations are guided by vision and value-based planning. The vision and values serve as guiding principles for all operations in the Group.

## Vision:

### Together we create security and opportunities

The vision is a description of how Länsförsäkringar AB wants things to be in the world in which it operates. With 6,200 employees, the Länsförsäkringar Alliance works to provide financial security for 3.7 million customers. Länsförsäkringar exists to create a sense of security for our customers no matter what needs they have – from buying a home, non-life insurance, pension banking services and mortgages to different types of savings.

## Targets:

**Länsförsäkringar AB's main target is to help the regional insurance companies be successful and create the best value for customers.**

## 1 Customers' choice

### Targets

Länsförsäkringar's target is to be customers' first choice for financial services and to have the highest customer satisfaction. Länsförsäkringar strives to continuously deliver a customer experience that exceeds customer expectations. To meet customer needs, Länsförsäkringar has set the target of offering its customers a secure, total financial solution comprising both a banking and an insurance offering. Customer demand will, based on the customer's role as the owner, continue to guide Länsförsäkringar's development, from product development to the personal customer meeting. This means that Länsförsäkringar must pursue the innovative development of its business model, digital services and sustainability.

### Outcome

Länsförsäkringar's joint brand is very strong compared with its competitors in the banking, insurance, pension and real-estate brokerage industry. Länsförsäkringar has been a clear market leader in non-life insurance in Sweden for more than 20 years. Länsförsäkringar's unit-linked life assurance company is now Sweden's leading pension insurance company in individual occupational pensions and the banking operations have seen a strong customer inflow, making it the fifth largest retail bank in the country. In addition, Länsförsäkringar has Sweden's fastest growing real-estate brokerage, which through its local presence has advanced from zero to become the third largest real-estate agent in the country.

In 2016, the Swedish Quality Index surveys again revealed that Länsförsäkringar has Sweden's most satisfied customers in banking, pension insurance and real-estate brokerage. Kantar Sifo's 2016 reputation survey showed that Länsförsäkringar has the highest reputation in the insurance industry and the fifth highest reputation of all Swedish companies, with Volvo and Ikea topping the list. In 2016, Länsförsäkringar's digital services won the award of "Mobile Bank of the Year" at Mobilgalan and the Web Service Award for "Best Mobile Site and App." The app also won the "Best Service Design" and "People's Choice" awards from Design S. The Swedish Sustainability Ranking revealed that the Swedish public rank Länsförsäkringar as number one for sustainability in banking, pension and insurance.

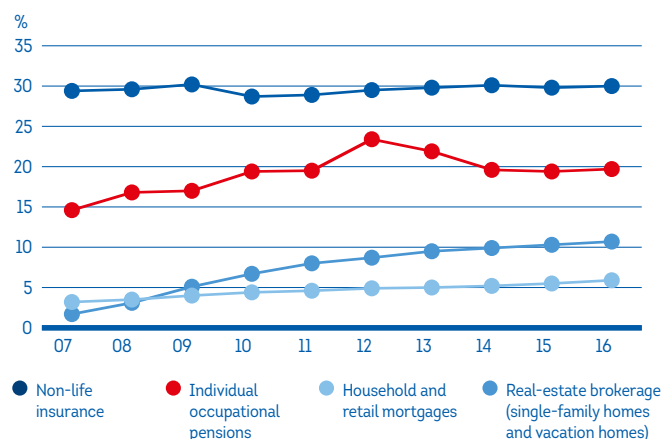
## Values:

**Our values can be summarised in four words – Commitment, Trust, Openness and Professionalism**

The values describe how the Länsförsäkringar AB Group's employees are expected to interact in order to fulfil the vision and achieve the targets.

### Länsförsäkringar's Swedish market shares

Source: Insurance Sweden and Statistics Sweden



## 2 Profitable growth

### Targets

Satisfied customers are the foundation of Länsförsäkringar's target of long-term profitable growth. Being highly proactive and innovative is essential for meeting customer needs in order to achieve the growth target. Long-term efficiency and profitability in the customer-owned regional insurance companies are important for the companies to meet future challenges, assume their social responsibility and supporting the sustainable development of their regions. Financial closeness is created with the customer as owner and the only principal, with no external shareholder interests to be served and instead all surpluses being returned to customers in the form of bonuses and discounts or in the form of involvement in the local society.

### Outcome

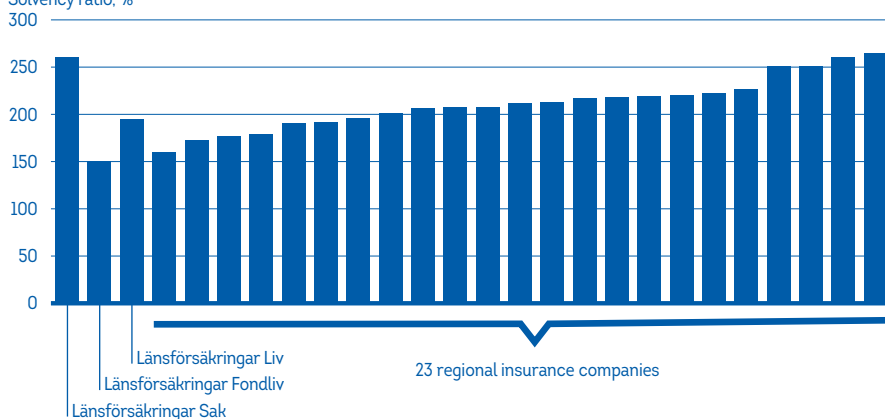
Länsförsäkringar's healthy growth in both earnings and business volumes continued in 2016. Premium volumes in non-life insurance increased 6% to SEK 24 billion from both the private and commercial segments. The bank's growth remained strong with a 13% increase in business volumes, while retaining high credit quality and a well-diversified geographic spread in Sweden. Länsförsäkringar Fondliv's managed assets continued to increase to SEK 114 billion in 2016. Based on profit for the year, the regional insurance companies paid a total of SEK 933 M in bonuses to their owners - their customers.

The regional insurance companies are very well-capitalised with an average capital ratio of 212% as of 31 December 2016. The Länsförsäkringar AB Group and its subsidiaries also remained well-capitalised in 2016. The Länsförsäkringar AB Group bases its business model and risk governance on a partial internal model for calculating Solvency II capital requirements, which was approved by the Swedish Financial Supervisory Authority in May 2016. The return on equity for the Länsförsäkringar AB Group was 10% in 2016.

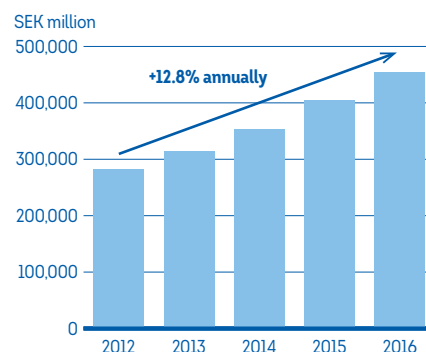
### Solvency II capital ratio

On 31 December 2016

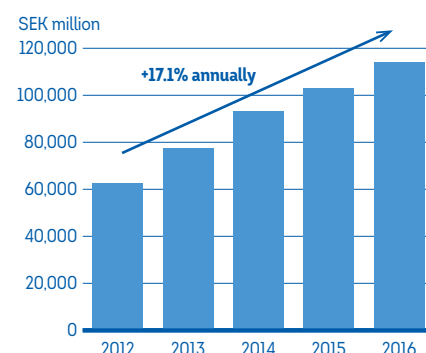
Solvency ratio, %



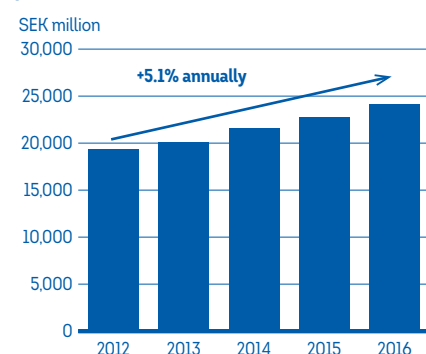
### Länsförsäkringar Bank, business volumes



### Länsförsäkringar Fondliv, managed assets



### Länsförsäkringar Alliance, Non-life insurance, premiums earned



# Owner control that creates a clear interaction

**Owner control** Internal owner control in the Länsförsäkringar Alliance is part of the multi-faceted interaction between the regional insurance companies. The regional insurance companies are simultaneously members of a federation, clients and users of Länsförsäkringar AB's services, distributors of Länsförsäkringar AB's products and owners of Länsförsäkringar AB.

In the interaction between the regional insurance companies, owner control not only involves controlling the joint operations, but also ensuring that all regional insurance companies assume their part of the responsibility for the development of the operations in which they have jointly invested. The development of joint business and the growth plans in recent years have led to the owner control of the regional insurance companies vis-à-vis Länsförsäkringar AB a greater focal point. Owner control has become an increasingly important element of the interaction between the regional insurance companies.

## Foundations of owner control

Länsförsäkringar AB is a limited liability company and also the Parent Company of a financial Group, with shares owned individually in various holdings by the 23 regional insurance companies and 16 local insurance companies. Each of the regional insurance companies, as an owner, is responsible for

ensuring that well-functioning owner control is in place vis-à-vis Länsförsäkringar AB. The Boards of Directors of the regional insurance companies are formally responsible for owner control.

Based on the federal organisation and the purpose of the ownership of Länsförsäkringar AB, the regional insurance companies have together created joint forms for owner control. Forms that comply with the requirements usually imposed on owner control and that at the same time take into account the federal conditions of the cooperation between the companies.

Owner control at Länsförsäkringar AB has clear advantages compared with the owner control of many larger financial groups. This is because all of the regional insurance companies have the same clear purpose for their ownership, conduct active operations and collectively hold sufficient financial capacity to ensure long-term ownership.

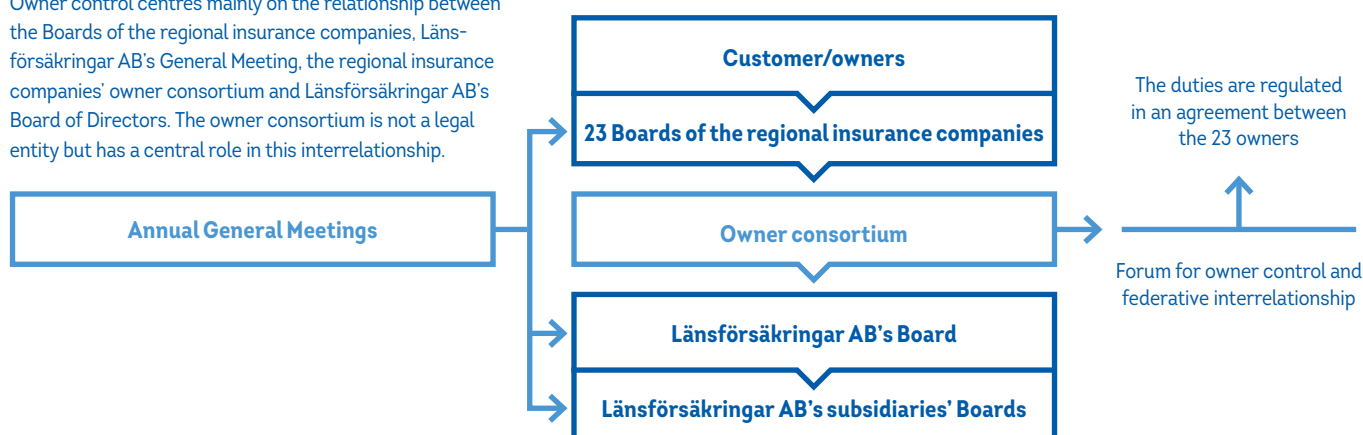
## Owner-control logic

The logic behind owner control centres mainly on the relationship between the Boards of the regional insurance companies, Länsförsäkringar AB's General Meeting, the regional insurance companies' owner consortium and Länsförsäkringar AB's Board of Directors. Formal owner control takes place through the General Meeting, although the regional insurance companies' owner consortium and their representation on Länsförsäkringar AB's Board are also important components. The duties of the Annual General Meeting are formally governed by law and the Articles of Association. The duties of the consortium are governed in the regional insurance companies' consortium agreement. The Chairman of the consortium is appointed by the regional insurance companies.

Länsförsäkringar AB's Board is elected by the General Meeting, which comprises representatives of all shareholders. The Board is elected based on a process con-

## Owner control in the Länsförsäkringar Alliance

Owner control centres mainly on the relationship between the Boards of the regional insurance companies, Länsförsäkringar AB's General Meeting, the regional insurance companies' owner consortium and Länsförsäkringar AB's Board of Directors. The owner consortium is not a legal entity but has a central role in this interrelationship.



trolled by the owners through a Nomination Committee appointed by the General Meeting. The Nomination Committee's composition, mandate period and so forth are governed in the Articles of Association. The Chairman of the consortium is responsible for the process of renewing the Nomination Committee.

The primary task of the Nomination Committee is to propose the election of members to the Board of Directors of Länsförsäkringar AB. Accordingly, the Nomination Committee lays the foundation for owner control of Länsförsäkringar AB's operations. As part of its role, the Nomination Committee represents the owners and the intentions of the owners with Länsförsäkringar AB, and ensures that Länsförsäkringar AB's Board has the right expertise.

The task delegated by the owners to the Nomination Committee is documented in a separate instruction adopted by the General Meeting. It is important that there is a clear boundary between the Nomination Committee and the Board. The Nomination Committee works independently from the Board on behalf of the owners. At the same time, the interrelationship between the Nomination Committee and the Chairman of the Board is important. One example is the Board's annual evaluation of its own work. The evaluation is documented and provided to the Nomination Committee and thereby also comprises the basis of the Nomination Committee's evaluation of the Board.

Länsförsäkringar AB's Board serves as the representative of the owners in the framework of the owners' intentions. Länsförsäkringar AB's Board pursues the strategies and targets that the owners agree on by the owners, thus performing the owners'

assignments. At the same time, Länsförsäkringar AB's Board has a major responsibility for safeguarding the capital invested in Länsförsäkringar AB by the regional insurance companies. The regional insurance companies' assignment to Länsförsäkringar

AB's Board is decided in the consortium and is documented in, for example, the Länsförsäkringar Alliance's governance documents. Länsförsäkringar AB's Board decides on the direction and scope of the operations based on its assignment from the owners.



# Secure business for customers and a sustainable society

**Sustainability** Länsförsäkringar AB holds long-term respect for customers' security. Extensive activities based on sustainability are carried out throughout the regional insurance companies. Sustainability is important in all parts of Länsförsäkringar AB's operations.



## Sustainability is our social responsibility

**Statement by the President** Länsförsäkringar applies a long-term approach to responsible investments, social commitment and claims prevention – areas where we truly can make a difference through our strong market position.

For responsible investments, we firmly believe that well-managed, sustainable companies are more profitable in the long run. Claims prevention makes everyday life simpler for our customers and forms part of our environmental efforts. Preventing a claim is always a win for the environment and customers. Sustainability is also a matter of credibility – we practice what we preach. Accordingly, it is gratifying that

several Swedish sustainability surveys in 2016 showed that the Swedish people and our customers appreciate Länsförsäkringar's efforts in the sustainability area.

New technology, new scientific results and changing customer requirements place new demands on how we manage environmental and societal challenges. We will strengthen our offering and build our role as a partner in society, for example, regard-

ing the threat to the climate and natural catastrophes. Integration and segregation are also issues that we are determined to influence. It is our social responsibility and an area in which we also can make a difference.

**Johan Agerman**  
*President, Länsförsäkringar AB*

### Stakeholder analysis

Priority stakeholders	Communication channels	Issues
<b>Owners and board</b>	Reporting, decisions, Annual General Meeting	Mission of operations, policies and guidelines, risks, long-term objectives
<b>Customers</b>	Self-assessment questionnaires, customer surveys	Availability, service and quality, responsible investments, environmental and social responsibility integrated in offering, transparency
<b>Employees</b>	Training, employee surveys	Code of conduct for employees, diversity, work environment and health, skills development
<b>Suppliers</b>	Procurement, self-assessment questionnaires, strategic supplier control	Code of conduct for suppliers, common social challenges, environmental and social responsibility
<b>Partners and stakeholder organisations</b>	Partnerships, surveys and questionnaires	Responsible offering, common social challenges, climate change, environmental and social responsibility
<b>Authorities</b>	Reporting, partnerships, surveys and questionnaires	Responsible offering, environmental and social responsibility, standards and measurement methods
<b>Investors</b>	Reporting, partnerships, surveys and questionnaires	Responsible offering, common social challenges, environmental and societal risks

### Sustainable business

Sustainability involves generating greater value for customers and contributing to the sustainable development of society. By offering banking and insurance services, Länsförsäkringar AB has many opportunities to incorporate financial, environmental and social aspects into business decisions and operational development, which will benefit customers and other stakeholders. This is essential for remaining a long-term partner for customers and business partners.

### Stakeholders and materiality

Material sustainability issues are identified and prioritised in cooperation with priority stakeholders: customers, owners, employees, suppliers, partners, stakeholder organisations, authorities and investors.

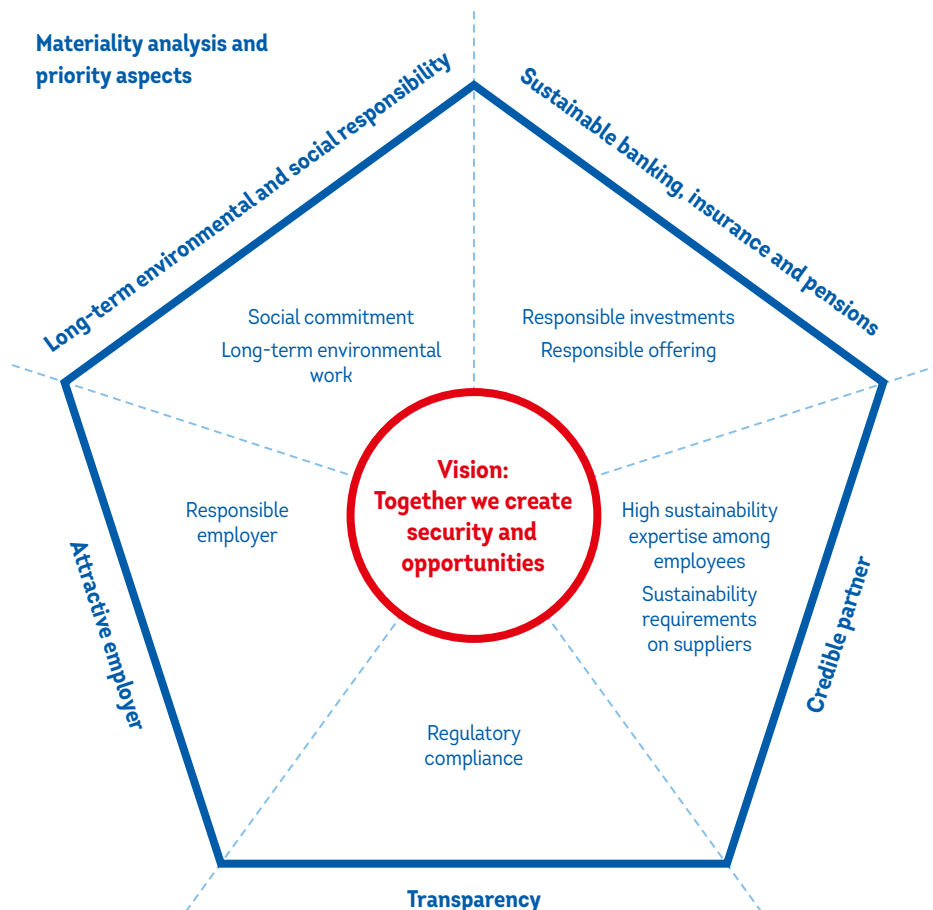
As owners and the recipient of services from Länsförsäkringar AB, the regional insurance companies hold a unique position among stakeholders since part of Länsförsäkringar AB's task is to create possibilities for the regional insurance companies to be successful in their respective markets. Länsförsäkringar AB maintains a continuous dialogue with these stakeholder groups, see page 12.

Länsförsäkringar AB safeguards the transparency of risks and opportunities in order to allow stakeholders to make sound assessments of how they can influence and are affected by the operations. Environmental and societal risks can have a material impact on the business. There are also opportunities to make an even greater contribution to society and the environment, for instance, in changing and adjusting to a more fossil-free society.

### Most significant challenge

Climate change represents a major challenge to Länsförsäkringar AB's sustainability activities, as confirmed in dialogue and collaboration with stakeholders. Climate change – the result of higher carbon emissions – increases the risk of global warming. It is likely that a warmer climate will have major socio-economic consequences, and lead to extreme weather conditions such as hurricanes, torrential rain and drought. The devastating effects for insurance companies and banks are obvious. Länsförsäk-

### Materiality analysis and priority aspects



ringar AB strives to limit and reduce the risk of climate impact, primarily through activities in responsible investments and claims prevention as well as long-term environmental work.

### Direct and indirect impact

Länsförsäkringar AB carries out regular analyses of risks and opportunities and its direct and indirect impact on the entire value chain, from supplier to employees and customers. A risk-based approach is particularly relevant in the areas of responsible offering, responsible investments, regulatory compliance and supplier requirements. A positive impact on the environment and society is especially evident in the areas of social commitment and long-term environmental work.

### Prioritised sustainability aspects

Länsförsäkringar AB has identified eight priority sustainability aspects based on stakeholder dialogue and with the guidance of the Global Reporting Initiative (GRI):

1. Responsible offering – insurance and bank services that take into account environmental and social risks.
2. Responsible investments – considers environmental and social risks and generates higher returns for customers.
3. Social commitment – claims prevention, health promotion and research.

4. Long-term environmental work – proactive and preventive work to limit climate impact and reduce the use of resources.
5. Responsible employer – aims to attract and retain skilled employees.
6. High sustainability expertise among employees – improves the offering and the internal operations.
7. Regulatory compliance – a high level of ambition regarding business ethics and anti-corruption.
8. Requirements on suppliers – for sustainability throughout the supplier chain.

### Policies and overall governance

The eight priority aspects of sustainability activities are detailed in a sustainability policy. The aim of this policy is to clarify the governance and direction of such work, objectives and activities as well as monitoring and communication. Sustainability activities are defined in the following policy documents and instructions: owner policy, credit policy, purchasing and procurement policy, code of conduct for suppliers, code of conduct for employees, policy on inappropriate benefits, anti-money laundering and financing terrorism policy, and guidelines on business travel and company cars.

# Sustainable bank, insurance and pensions

**Offering** Länsförsäkringar AB firmly believes that investments made responsibly and an offering that takes into account environmental and societal risks will contribute to satisfied customers and the sustainable development of society.

## Responsible investments

Länsförsäkringar AB and its subsidiaries invest in companies all over the world. The basic view is that well-managed, sustainable companies are a better investment in the long term. These companies should manage risks and opportunities related to business ethics, the environment and social issues in a responsible manner in order to remain competitive in the long-term. Länsförsäkringar AB has signed the United Nations-supported Principles for Responsible Investments (PRI) to mark this standpoint.

Länsförsäkringar AB invests customers' pension capital and offers both its own highly rated funds and recommended external funds. International conventions, active owner control, manager selection procedures and partnerships form the basis of responsible investments. Länsförsäkringar AB strives to transparently disclose the methods and procedures for responsible investments.

## International conventions

Working with responsible investments is based on the international conventions signed by Sweden in the areas of environment, human rights, labour laws, corruption and controversial weapons (nuclear weapons, cluster munitions, biological and chemical weapons and landmines). An external consultant company has been engaged to analyse companies based on these conventions. Based on these analyses, Länsförsäkringar AB seeks to use dialogue to exert influence on companies that breach inter-

national norms. The aim is for the analysed company to stop its breaches and to take preventive measures to prevent similar incidents from being repeated. If dialogue does not achieve the desired results, the holdings in the company can, as a last resort, be divested. The majority of listed share and bond holdings are analysed in this manner. The analysis is performed for direct investments and external funds in Länsförsäkringar AB's investment portfolios and Länsförsäkringar's own funds, and also for the recommended funds in Länsförsäkringar's fund market.

Furthermore, as a preventive measure, Länsförsäkringar AB is in dialogue with

companies on the subject of sustainability. An area for preventive action in 2016 was the risk of child labour in the cocoa industry, while another was water risks in several companies in emerging markets.

## Active owner control

Owner control includes company dialogues on sustainability issues, active participation in the nomination committees of portfolio companies to influence board compositions and voting at general meetings. A long-term objective is to increase diversity in terms of gender, age and background, on the boards of the portfolio companies. During the annual general meeting season of 2016, the percentage of women board members increased to 41% in the companies in which Länsförsäkringar Fondförvaltning participated in the nomination committee. Länsförsäkringar AB mainly votes at general meetings of the companies that are part of its own funds, in which a substantial holding exists or where it is important to vote for other reasons.

## Partnerships with other investors

Länsförsäkringar AB is an active member of "Sustainable Value Creation," a collaborative project comprising 17 of Sweden's largest



## Activities in responsible investments

	2016	2015
Number of reactive <sup>1)</sup> company dialogues on sustainability pursued by ethics consultant on Länsförsäkringar AB's behalf <sup>2)</sup>	107	105
Of which number of reactive company dialogues on sustainability that Länsförsäkringar AB was involved in	30	38
Number of preventive company dialogues on sustainability	19	24
Number of black-listed companies regarding sustainability <sup>3)</sup> excluding coal companies	27	28
Number of general meetings at which votes were cast <sup>4)</sup>	36	22
Participation in nomination committees	13	12

<sup>1)</sup> Reactive company dialogues refer to dialogues with companies in which a sustainability incident has occurred.

<sup>2)</sup> The ethics consulting firm engaged conducts dialogues with companies that appear in the firm's ethics filter on behalf of Länsförsäkringar AB and other companies. Several of Länsförsäkringar AB's external fund managers also maintain ongoing dialogues with companies on sustainability issues.

<sup>3)</sup> Pertains to black-listing direct ownership of shares and credit bonds.

<sup>4)</sup> Refers to annual and extraordinary general meetings.

institutional investors and Nasdaq Stockholm, with the aim of highlighting the importance of working with sustainability issues in a structured manner. In the 2016 company survey of the 200 largest Swedish listed companies, the majority stated that they have processes and guidelines for their sustainability efforts and sustainability features on the board agenda.

Länsförsäkringar AB is an active member of Swesif, a trade association for sustainable investments. Swesif further developed Sustainability Profile in 2016, an industry standard containing information on how funds apply sustainability criteria in their management, which makes it easier for fund savers to compare funds.

During the year, Länsförsäkringar AB participated in Insurance Sweden's and the Swedish Investment Fund Association's working groups on producing industry-wide standards for measuring the carbon footprint of investments, and a couple of collaboration projects on climate issues via the CDP and PRI. CDP is an organisation that collects environmental data on negative environmental impact from companies based on the needs and requirements of the financial community and investors.

#### **Requirements on external managers**

The majority of Länsförsäkringar AB's investments are managed by external managers through funds or discretionary mandates. The investment philosophy is based on using leading managers in Sweden and abroad with a variety of investment areas and management styles. Sustainability requirements are included in the procurement of new managers. The integration of sustainability issues into managers' models is monitored every year. The majority of managers have signed the PRI and many of them intensified their focus on sustainability issues in their investment analyses, investments decisions and dialogues in 2016.

#### **Climate risks in investments**

In the management of customers' pension capital, decisions are made that both affect and are affected by climate change and its

consequences. Fossil energy in general and coal power in particular generate high carbon emissions. Major financial risks are assessed by Länsförsäkringar AB when investing in companies that base their operations on fossil fuels since fossil assets risk becoming "stranded assets." Länsförsäkringar AB decided in 2016 to divest mining companies and energy companies, that derive more than 50% of sales from thermal coal, from all its funds and direct investments to reduce its carbon footprint.

Länsförsäkringar AB has measured and publicly disclosed the carbon footprint of investment portfolios in accordance with the international Montreal Pledge initiative since 2015 and in accordance with the recommendations of the Swedish Investment Fund Association and Insurance Sweden. The analyst firm Trucost is committed to measure the carbon footprint of equity funds. In 2016, Länsförsäkringar AB tried to persuade more companies through dialogue to start reporting their emissions, since many companies do not report this.



*The website [lansforsakringar.se](http://lansforsakringar.se) has more detailed information about the owner policy, owner control, the fund manager selection process, investor partnerships, company dialogues, black-listed companies and the carbon footprints for Länsförsäkringar AB's own funds.*

#### **Insurance for a sustainable society**

Länsförsäkringar Sak supplements the insurance offering of the regional insurance companies with specialist products to meet customer needs, such as brand, liability and special insurance, reinsurance cover and new products with growth potential.

The new products become part of the regional insurance companies' insurance offering when they reach a certain volume, for example, the recycling service for agricultural customers. This service is offered by the regional insurance companies in cooperation with the Keep Sweden Tidy Foundation and local entrepreneurs to reduce scrap and environmentally harmful waste in the Swedish countryside.

#### **International partnerships on sustainability**

At the end of 2016, Länsförsäkringar Sak became the first Swedish insurance company to sign the Principles for Sustainable Insurance (PSI), the largest international initiative between the UN and the insurance industry on sustainable insurance. By becoming a signatory, Länsförsäkringar Sak wishes, by this action, to show a standpoint on enhanced transparency on sustainable insurance and social responsibility, as well as on its work on influence and cooperate to reduce environmental impact.

Länsförsäkringar AB has already signed the Kyoto Statement of the Geneva Association, which encourages the world's insurance companies to work together with customers, policy-makers and industry colleagues to help reduce environmental impact. The Geneva Association, which has existed for 40 years, has a global partnership on economic, political and social issues in the insurance industry.

#### **Security for different situations**

Länsförsäkringar has several offerings that provide financial security in a variety of situations that customers may find themselves in. The "Bo Kvar" insurance policy provides cover in the event of death, illness or unemployment and is offered to Länsförsäkringar Hypotek's mortgage customers. Another example is the "Senior" insurance policy launched at the start of 2017. It provides customised health care insurance for elderly private individuals who need health insurance after they have reached the maximum age for health care insurance.

#### **Sustainability requirements on reinsurance companies**

Länsförsäkringar Sak also handles the Länsförsäkringar Alliance's reinsurance and underwrites assumed international reinsurance. In 2016, Länsförsäkringar Sak initiated a dialogue with partner reinsurance companies to ensure that they have signed Länsförsäkringar AB's code of conduct for suppliers or support the principles of the UN Global Compact. A survey carried out in autumn 2016 indicated that 74% of these

reinsurance companies met at least one of these criteria.

#### Uncertain insurance cases

Länsförsäkringar AB's aim is that the customer collective is treated correctly and that the right compensation is awarded to the right person. Insurance fraud is a problem for the entire insurance industry and it is thus essential to combat it. Länsförsäkringar AB examines uncertain insurance cases and suspected fraud in insurance claims. An important part of this work is training claims processors, cooperation and targeted activities. A nationwide campaign on prearranged road-traffic accidents was held during the year. The investigation organisation denied compensation claims during the year and reclaimed large sums of erroneously paid compensation.

#### 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 UN Global Compact are important to loan origination.

#### Business model with low sustainability risks

All of Länsförsäkringar Bank's loans are granted in Sweden with a well-diversified geographic distribution and in SEK, and are mainly directed to mortgages for private individuals and low-risk small family-owned agricultural operations. Accordingly, the business model for loan origination has relatively low credit risks. The bank does not grant loans to the large-corporates sector in which environmental- and societal-related risks are typically significantly greater.

The credit policy, which is the foundation of loan origination, establishes the criteria for acceptable risk and identifies high-risk areas in sustainability that require special consideration. It imposes strict requirements on customers' repayment capacity and the quality of collateral. Credit scoring, combined with local customer and market knowledge of the advisors, provides favourable conditions for a loan portfolio with high credit quality and low sustainability risks.

#### Environmental and societal risks

Environmental risks and environmental responsibility for agriculture and companies are 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. The overall assessment of identified risks may be to refuse the loan.

#### Collaboration with the Swedish Bankers' Association

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

#### Funding that safeguards sustainability

Länsförsäkringar Bank's main financing sources are deposits and funding through covered bonds. The covered bonds have the highest credit rating from Moody's and S&P Global Ratings, which indicate a low credit risk.

Investors' focus on sustainability issues has intensified, as can be seen in direct dialogue and in 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 monitored. The bank's aim is to continue to enhance the transparency of the low environmental and societal risks in the operations and describe its continued work on sustainability in general.

#### Simplicity and availability of digital services

Länsförsäkringar's customers have access to 125 branches throughout the country where the regional insurance companies are located. Availability for Länsförsäkringar's customers increases as physical customer meetings are supplemented with digital services. As well as serving customers actively choosing digital meeting places, this alternative is offered to customers who have not been able to come to a branch due to long distance, disability or who require service outside normal office hours. Such digitisation also reduces impact on the environment since it reduces the volume of paper documents, letters, print-outs and transportation. The percentage of digitally distributed customer documents was 34% in 2016, compared with 30% in 2015.

## Sustainability awards

According to the 2016 Sustainable Brand Index, Länsförsäkringar had the highest rating among Swedish insurance companies. In the 2016 Sustainability Ranking, Länsförsäkringar was ranked number one among Swedish banks and insurance companies. Both of these surveys are based on consumer questionnaires and show that the Swedish people and customers appreciate Länsförsäkringar's efforts in the sustainability area.



SUSTAINABLE  
BRAND INDEX





# Long-term environmental and social responsibility

**Environment and society** Länsförsäkringar AB's mission from the regional insurance companies includes developing claims-prevention activities, actively entering into various partnerships and conducting research that leads to a sustainable society.

## Claims prevention is environmental work

Preventing a claim is always a win for the environment and customers. Claims-prevention activities help reduce impact on the environment through less waste, energy, materials, transportation and other resources – for both the claim incident itself and also for restoration and repairs. Natural catastrophe, water and fire damage claims and motor insurance claims have the greatest impact on the environment and are thus Länsförsäkringar's focus areas for claims-prevention activities. Länsförsäkringar AB and the regional insurance companies work together with other companies, industry associations, NGOs and authorities in Sweden and internationally.

Länsförsäkringar AB produces claims-prevention methods and standards on behalf of the regional insurance companies. The regional insurance companies are primarily responsible for customer relationships and inform all policyholders about claims risks and how they can be avoided and prevented.

Average water damage to a home generates about 300 kg in carbon emissions.

Water-damage claims can be avoided by choosing the right materials and by installing warning indicators. A fire at a home emits an average of 25 tonnes of carbon dioxide. Fires also cause other chemical emissions to the air, ground and water. Sanitising and restoring a house after a fire requires a vast amount of energy, new or recycled resources and results in huge volumes of waste.

## Climate impact and natural catastrophes

Global warming is a financial risk for the insurance operations and the long-term consequences are difficult to predict. A warmer climate, resulting in a greater risk of natural catastrophes in the form of extreme weather conditions such as hurricanes, torrential rain and drought, will probably result in a risk of higher payments for weather-related insurance claims, with considerable variations over years and

parts of the country. In many respects, adjustment problems associated with managing financial risk and reducing the consequences of climate change means a new situation. Using historic data and correlations risk leading to a systematic underestimating of risks with this rising trend.

During the year, the Länsförsäkringar Alliance introduced a road map to prevent natural catastrophes and coordinators were appointed at almost all of the 23 regional insurance companies by the end of the year.

Länsförsäkringar's claims-prevention activities linked to climate change had the highest rating among non-life insurance companies in the 2016 Swedish Quality Index customer satisfaction survey.

## Reinsurance and natural catastrophes

Länsförsäkringar Sak is one of the largest purchasers of reinsurance for forests and land in Europe and the regional insurance companies insure a large portion of all insured forests in Sweden.

Reinsurance cover has been increasingly impacted by elevated risk of natural catastrophes in recent years. Länsförsäkringar Sak has access to a comprehensive claims statistics database to continuously monitor and assess this risk. New technology and measurement methods are also applied. Mapping, for example, can be used to develop geographic information systems (GIS) to analyse and assess risks.

#### **Motor insurance**

Länsförsäkringar AB and the regional insurance companies strive to reduce the number of accidents on the road. One of the results of their efforts is a joint work method and "Claims on a Map" statistics database. Every motor and motor third-party liability accident and incident is reported geographically and the complete incident and accident statistics provide knowledge of where accidents occur and why, and aid efforts to prevent long-term insurance claims in collaboration with municipal street departments and municipalities.

#### **Sustainability of repairs**

Länsförsäkringar AB has, on behalf of the regional insurance companies, produced a LUPIN certification programme for car workshops in collaboration with Autoteknik. Most regional insurance companies have joined this programme, which ensures that the workshops used for damage repairs meet environmental requirements. Swedish Motor Insurers' 2016 quality survey indicated

that two out of five workshops have general quality shortfalls, for example, in paintwork and rust protection. The survey showed that LUPIN-certified workshops had 45% fewer shortfalls. Work on tightening the requirements for managing environmental and societal risks began during the year.

The regional insurance companies impose high quality demands on repairs to properties and homes. Methods and systems for setting requirements for companies that repair damage to buildings were further developed with Länsförsäkringar AB. Companies are also engaged in dialogue regarding construction methods, recycling and materials that reduce adverse environmental impacts.

#### **Health for a sustainable lifestyle and a sustainable working life**

Länsförsäkringar is one of Sweden's leading companies in health care, accident and health insurance, and actively participates in public debate on good health and a sustainable working life. Health care insurance is based on preventive health services and providing the right type of care at the right time with effective rehabilitation. Independent medical examinations are used to ensure that mediated health care is based on medical grounds and provides the best long-term results for customers. The aim is for health care providers to follow the same guidelines for the forms of treatment that are recommended for various complaints, thus meaning that health care and rehabilitation have better results for customers.

The aim of these preventive health services is to promote good health and prevent illness by, for example, reducing stress, improving sleep and maintaining a healthier lifestyle. Activities include a health profile for employees and organisations, online health programmes, personal counselling and manager support services. Effective rehabilitation not only includes medical but also work-oriented rehabilitation, and also includes treatment for addiction and substance abuse.



*lansforsakringar.se has more information about claims prevention, and health-promotion activities for good health.*

#### **Health promotion and claims prevention for animals**

Agria is the market leader in pet insurance in Sweden, and conducts claims-prevention and health-promotion activities for animals and actively supports research into animal health. Customer awareness is high and they are involved in matters related to their pets and veterinary care. Agria offers advice and information on its website, app and other channels such as the Telephone Vet service and the Pälspodden podcast. Special campaigns targeted to children and young people increase awareness of different animals and the value of having a pet.

Veterinary care is moving towards offering an increasingly comprehensive range of animal care, closer to human health care. Agria wants to be involved in discussions



on ethical positions and develop insurance products supporting a high level of ethics and ensuring high quality veterinary care that also meets the various care needs of animal owners.

Agria supports research into the types of animals that Agria insures. Research grants, which are based on a portion of premiums earned, are targeted to animal health and the importance of animals to people and society. Agria has unique, extensive claims statistics that are used by researchers and breed clubs to improve animal health and sustainability.



*agria.se has more information about claims prevention, health-promotion activities for animals.*

### **Länsförsäkringar Regional Insurance Companies' Research Fund**

Länsförsäkringar AB and the regional insurance companies have supported scientific research into security for people through the Foundation for Regional Insurance Companies' Research Fund for many years. The research must contribute to greater financial and physical security in society. The results are made available to the public and are increasingly used in the operations in customer activities. Two themes, secure homes and unprotected road-users, were priority areas in 2016. Forskningspodden, a podcast on current affairs and research findings that Länsförsäkringar has contributed to, was launched during the year.

### **Research Fund projects**

The Department of Management and Engineering at Linköping University started its three-year research program "Nudging my future self: behavioural economics studies of the financial decisions of young people" in 2016. The "Mutuality in the Swedish insurance model" project at Uppsala University was also initiated. The Foundation decided to award research grants to the "Geography of trust: local society trust in a changing Sweden" project at Ersta Sköndal Bräcke University College and grant funds to research into urbanisation focusing on conditions for growth in various regional environments.



*lansforsakringar.se has more information about Länsförsäkringar's research.*

### **Microinsurance partnership with ICMIF**

Länsförsäkringar AB has supported the Uplift project in India since 2016, the aim of which is to deliver health insurance to more people. The project is taking place under the framework of the ICMIF 5-5-5 Mutual Microinsurance Strategy, which involves developing mutual microinsurance in five countries, reaching out to five million uninsured low-income households over five years. Länsförsäkringar AB provides financial support and expertise to existing mutual and cooperative operations in Mumbai and Pune in India.

Health and environment are interlinked. Climate change is increasing pressure on an already disadvantaged population in these countries. It also means that the actual work conducted is broader than merely a straight-forward health insurance, for example, relating to issues on reducing environmental impact, clean water, sanitation and hygiene opportunities, which are fundamental to the development of people and society and combating poverty.

### **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.

Länsförsäkringar AB is in dialogue with, for instance, its suppliers in the hotel and travel industry to provide information about, prevent the risk of, and stop human trafficking and child sex trafficking.



# Credible partner

**Expertise and requirements** Länsförsäkringar AB's sustainability expertise, including the environment, and requirements on suppliers are key aspects of its credibility as a partner.

## **Sustainability requirements on suppliers**

Länsförsäkringar AB considers financial, social and environmental aspects in procurement and purchasing to manage business risk and safeguard the principles of the UN Global Compact. Procurement procedures are competitive so that goods and services of the right quality and minimal impact on society are acquired at a total cost that is the most financially advantageous in the long-term. A code of conduct for suppliers defines requirements regarding human rights, labour conditions, environment and business ethics. Suppliers, and their sub-suppliers, are expected to comply with the principles of this code.

Sustainability requirements are imposed on external managers in the field of responsible investments, see page 14, and on reinsurance companies in Länsförsäkringar Sak's operations, see page 15.

## **Purchasing, risk assessment and work methods**

Länsförsäkringar AB mainly makes purchases from suppliers in Sweden. Purchases for IT are made from suppliers operating in Sweden, but also other countries, such as India. The most important suppliers are found in the categories of IT & telecom, health & health care, consulting services, marketing & communication, financial services and office management. Länsförsäkringar AB's approximately 90 largest suppliers represent 80% of total invoiced purchasing volumes. The consolidation provides opportunities for efficient delivery, sustainability and business follow-ups.

Continuous assessments of environmental and social risks related to country, category and company are carried out in procurement processes and strategic meetings with major suppliers. The aim is to ensure that suppliers comply with and safeguard the principles of the code of conduct for suppliers. The code of conduct for sup-

pliers is part of the agreement with all new suppliers. Major suppliers, corresponding to 60% of total invoiced purchasing, completed self-assessments in the past two years, and the responses were subsequently monitored. No material risks were identified based on the responses and follow-ups with the suppliers.

Work methods and procedures will be continuously developed as part of the continued work on implementing the code of conduct for suppliers. Strategic contractual procedures will include a broader and deeper scope on sustainability dialogue. It will include assessing whether random checks and audits with suppliers are required.

## **Collaboration and round-table discussions**

During the year, Länsförsäkringar AB participated in two round-table discussions with the procurement and sustainability heads of large companies to discuss how to ensure supplier compliance with codes of conduct and protecting the principles of the UN Global Compact. Matters addressed at these discussions included industry and country-specific social challenges, collaboration and third-party controls.

## **Reduced resource use**

ISO 14001 provides guidance on environmental efforts. The main strategies for reducing the climate impact of Länsförsäkringar's own operations are energy efficiency, a transition to renewable sources, use of green electricity, reducing travel, increasing the use of digital technology and climate compensation for any remaining areas.

## **Carbon emissions from own operations**

The largest sources of carbon emissions in Länsförsäkringar's operations are business travel and heating. Air travel generates the highest amount of carbon emissions.

Carbon emissions in 2016 were somewhat lower compared with 2015, down 1%. Several activities and clarifications in managerial procedures have been implemented to reduce carbon emissions, for example to use train rather than flights or driving where possible and online meetings, video and telephone conferences instead of travelling. During the year 2,162 (1,477) digital meetings were held. At the start of 2016 a double climate compensation for the company's total carbon emissions was decided.

## **Efficiency and renewable energy**

Efforts are made to use renewable sources of energy, and district heating. The electricity used in the properties is Good Environmental Choice electricity. 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.

Constant activities are made to enhance efficiency in order to reduce the negative environmental impact of the office operations in several areas as regards materials, recycling and waste. In 2016, Länsförsäkringar AB was named "Environmental Star of the Year" by the company's partner Coor for its work on reducing negative environmental impact. All waste and office materials are sorted internally and recycled wherever possible.

## Carbon emissions in the operations

Sources of carbon emissions <sup>1)</sup>	CO <sub>2</sub> emissions, kg 2016	Consumption mWh 2016	CO <sub>2</sub> emissions, kg 2015	Consumption mWh 2015
District heating – properties and offices	68,138	1,068	70,303	846
Electricity consumption – operations	26,111	3,072	24,955	2,934
Electricity consumption – properties	8,487	998	8,330	980
Paper print-outs	4,956	26,221 <sup>2)</sup>	5,244	27,734 <sup>2)</sup>
<b>Total</b>	<b>107,692</b>	<b>5,138</b>	<b>108,832</b>	<b>4,760</b>

Sources of carbon emissions <sup>3)</sup>	CO <sub>2</sub> emissions, kg 2016	Km travelled 2016	CO <sub>2</sub> emissions, kg 2015	Km travelled 2015
Flights	556,816	4,465,921	552,350	4,423,574
Car journey – company car	177,198	1,510,907	188,239	1,608,883
Car journey – private car	29,257	230,368	31,276	236,937
Train	3	941,507	2	832,394
<b>Total</b>	<b>763,274</b>	<b>7,148,703</b>	<b>771,867</b>	<b>7,101,788</b>
<b>Total carbon emissions in the operations</b>	<b>870,966</b>		<b>880,699</b>	

Sorted waste for materials recycling	Recycled, kg 2016	Recycled, kg 2015
Corrugated cardboard	14,595	7,044
Office mixed paper	16,960	18,712
Metal	3,713	1,171
Fluorescent tubes	0	1,420
Low-energy bulbs	1,600	377
Glass containers	3,229	3,581
Electronic waste	6,393	3,044

<sup>1)</sup> Scope 2 under the GHG Protocol.

<sup>2)</sup> Paper printouts, kg.

<sup>3)</sup> Scope 3 under the GHG Protocol.

# An attractive employer

**Employees** Openness and diversity are fully aligned to the company's culture and core values. Länsförsäkringar AB strongly believes that differences are enriching and has high ambitions in its future diversity activities.

## One of Sweden's most attractive employers

Länsförsäkringar AB's objective is to be a responsible and attractive employer. Many opportunities for development and career progression are available. Länsförsäkringar AB's recruitment process incorporates sound business ethics and values as well as diversity and equality initiatives to build a corporate culture that attracts the best talents to the company. The employer offering is continuously communicated together with the 23 regional insurance companies via social and digital media and meetings with potential candidates at career days and on campus, such as the Women's Finance Day at the Stockholm School of Economics and Armada at KTH Royal Institute of Technology.

Länsförsäkringar won the title of "The Insurance Industry's Most Attractive Employer" for the ninth consecutive year in Universum's Career Barometer survey of young university graduates, and was the only insurance company in the top 100 most attractive employers. Länsförsäkringar won the same award in Universum's Corporate Barometer survey of business students for the 14th consecutive year.

## High internal attractiveness

Länsförsäkringar AB's internal attractiveness as an employer is measured according to a Net Promotor Score (NPS). The NPS in this year's employee survey was 21, compared with the benchmark of 29 for the best companies. All indexes in the employee survey achieved high results:

Index	2016	2015	High performing benchmark <sup>1)</sup>
Employee Satisfaction (ESI)	94	94	94
Leadership (LSI)	78	79	81
Commitment (CI)	81 <sup>2)</sup>	80	84

<sup>1)</sup> High performing benchmark is based on results from approximately 70,000 responses from high performing companies.

<sup>2)</sup> One of the target's of the business plan is to increase employee commitment from 80 to 81. The survey revealed that there is widespread willingness to be involved in influencing and working towards a culture of continuous improvements, and employees are satisfied with their workplace.

## Skills and performance

Employees are regularly given performance feedback and maintain a dialogue with their

immediate manager about development requirements, work environment and health. Performance is defined as achieving the targets of the business plans and embodying values. Some 83% (83) of employees believe that they receive regular performance feedback from their immediate manager.

Lean initiatives – a structured method for continuous improvements – develop both the business operations and employees. 77% (73) believe that their skills are developed in pace with changed working requirements, as compared with the target of 75% in the business plan.

The internal training activities offer development opportunities and in-house courses in life assurance, banking, non-life insurance and leadership training. A total of 8,752 training courses for the employees of the Länsförsäkringar Alliance were held during the year. A variety of e-courses and the introduction of the employee profile are used to strengthen a learning and innovative culture.

Future strategic skills and recruitment requirements for 2017 and 2019 were analysed during the year based on digital demand, changed external requirements, increased business volumes and strengthening of specialist roles.

## Employeehip and leadership

Well-defined requirements and expectations are defined for managers and employees, based on values and the employee and leader profile. Employeehip means that every employee is responsible for their own development in terms of performance, competencies and health. Employeehip also involves actively making improvements to the operations. This responsibility is described in the personnel policy and the performance management work model.

Länsförsäkringar AB follows the rules of collective agreements when employees leave the company or resign. All employees, except for Group management, have collective agreements.

## Diversity

Diversity activities in the operations is based on an approach that seeks to achieve

the following: create value for customers, employees and society, make a difference that impacts profitability, reflects society and the customer base and broadens the recruitment base. All HR managers received diversity training during the year.

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

Half of the 14 university students who were recruited to Länsförsäkringar AB's summer graduate programme had a non-Swedish ethnic background. The programme provides students with excellent work experience and students' skills and ideas are shared with Länsförsäkringar AB.

## Partnerships

A partnership with the Stockholm School of Economics into Rapid Acceleration Management (RAMP) began in 2016. The aim of the program is to identify new arrivals with academic qualifications and introduce them into the Swedish labour market. A trainee was recruited by Länsförsäkringar AB during the year via the program. Other examples of partnership programmes include Korta vägen ("fast track") and Welcome Talent. There is also a partnership with Diversity Charter Sweden and with My Dream Now for the second consecutive year. Some 30 employees were involved in 2016 and participated in the My Dream Now class coaching programme aimed at helping young people in areas in Stockholm with high unemployment and integration challenges to believe in the future.

## Equality

Working towards an equal opportunity workplace is a priority. The recruitment process endeavours to ensure more even gender distribution in working groups and among various senior positions. Working groups with a 40/60 ratio of men and women increased from 27% to 31% in 2016. See also the table on page 24 for more statistics on equality.

The follow-up of last year's Jämix Equality Index resulted in 120 points, with the mean for financial companies at 119 points and a maximum score of 180 points. Nyckeltalsinstitutet (the Institute of Human Resource Indicators) believes that the company's equality efforts are successful. Focus going forward is a more even gender distribution.

## Employee statistics Länsförsäkringar AB Group including Länsförsäkringar Liv

Employees	2016		2015		Age range, managers	2016		2015	
	Women	Men	Women	Men		Women	Men	Women	Men
Permanent employees, total	1,759	1,679			0-30 years of age	1	4	2	4
of whom, men	730	704			31-40 years of age	23	21	23	23
of whom, women	1,029	975			41-50 years of age	46	55	47	57
Permanent employees recruited externally during the year	185	182			51-60 years of age	33	29	24	32
Permanent employees who have left and now work at another company in the Länsförsäkringar Alliance	13	7			61-	-	5	2	6
Permanent employees who left during the year	125	137			<b>Total</b>	<b>103</b>	<b>114</b>	<b>98</b>	<b>122</b>
					<b>Total</b>	<b>217</b>		<b>220</b>	
Permanent employees recruited externally during the year	2016		2015		Average age, managers	2016		2015	
	Women	Men	Women	Men		Women	Men	Women	Men
0-30 years of age	23	17	20	20	Women	46	46		
31-40 years of age	27	35	35	30	Men	46	47		
41-50 years of age	41	22	29	23					
51-60 years of age	13	7	17	8					
61-	-	-	-	-					
<b>Total</b>	<b>104</b>	<b>81</b>	<b>101</b>	<b>81</b>					
All employees are full-time employees regardless of whether they work full or part-time. Employees who have children under the age of 12 can work part-time according to the industry's collective agreement.									
Age range, all employees	2016		2015		Gender distribution among managers, change in %	2016		2015	
	Women	Men	Women	Men		Women	Men	Women	Men
0-30 years of age	184	177			Corporate management	50	50	58	42
31-40 years of age	454	446			Heads of department	48	52	47	53
41-50 years of age	594	566			Group managers and team leaders	47	53	45	55
51-60 years of age	439	411							
61-	88	79							
Average age, women	44	44							
Average age, men	44	45							
Gender distribution among management and board, number	2016		2015		Sickness absence, %	2016		2015	
	Women	Men	Women	Men		Women	Men	Women	Men
President	4	6	4	6	Total sickness absence, percentage of ordinary working hours	3.1	3.2		
Management teams <sup>1)</sup>	25	37	20	41	Percentage of total sickness, long-term absence for consecutive period of 60 or more days	44.4	46.8		
Board members <sup>2)</sup>	28	38	30	44					
<sup>1)</sup> Includes union representatives. <sup>2)</sup> Regular members including union representatives.									

bution in all groups. According to the employee survey, 80% of women and 92% of men believe that Länsförsäkringar AB is an equal opportunity workplace. All employees have the option of receiving supplementary salary as a complement to the state parents' allowance. The Qnet network develops and coaches future female managers as part of structured equality measures.

Salary levels for men and women in equal positions at the same level are quality assured based on a salary survey that by law must take place every three years. The next survey will be completed in the first quarter of 2017. The salary survey from 2013 showed no differences between gender for similar positions.

### Health and work environment

Länsförsäkringar AB conducts systematic work environment activities and regularly monitors its work environment in order to, for example, counteract stress and

unhealthy work loads according to the Swedish Work Environment Authority's new AFS 2015:4 regulation introduced on 31 March 2016. Sickness absence is also continuously monitored. Total sickness absence has fallen from 3.2% to 3.1%.

This year's employee survey showed that 64% (56) of employees believe that they have a reasonable stress level in their work and 80% (77) think that they have a good work/life balance, which can be considered to be a good result. Managers and health and safety representatives were trained during the year in how they can improve a healthy workplace and cooperation between employer and health and safety representatives. Internal procedures for risk assessment and cooperation between employer and health and safety representatives were developed in 2016 and will be introduced in 2017.

Work environment activities are conducted by the Work Environment and

Equality Committee, which monitors such issues as equality and diversity, sickness absence, occupational injuries and employee surveys. No cases of discrimination were reported in 2016.

All employees have health care insurance that provides rapid access to health care. All employees have the option of changing part of salary to pay extra into the occupational pension scheme and take out group insurance at a discounted price via salary deductions.

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

# Transparency

**Governance and reporting** The focus and governance of sustainability activities are described in several policy documents and instructions. Sustainability is high on the agenda for the board and Group management. Länsförsäkringar AB has a transparent approach to its impact on the environment and society.

## Corporate culture and compliance

Länsförsäkringar AB's corporate culture, ethics and values provide guidance for sustainability work. Policy documents and guidelines describe work methods and conduct related to sustainability. Proactive efficiency efforts are continuously implemented to reduce negative impact on the environment and society, increase positive effects and strengthen the offering.

## Policies and international initiatives

Länsförsäkringar AB has signed the UN Global Compact's ten principles covering the areas of human rights, labour law, the environment and anti-corruption. This represents a clear standpoint in following and safeguarding these principles. The sustainability policy, owner policy and code of conduct for suppliers state that the principles of the UN Global Compact are to be safeguarded.

Länsförsäkringar AB is a member of several international insurance company partnerships to collaborate and strengthen

competitiveness based on various market challenges. Länsförsäkringar AB is, for example, a member of the Association of Mutual Insurers and Insurance Cooperatives in Europe (AMICE), which also has an exchange of information and experiences between members about sustainability.

Länsförsäkringar AB has also signed international initiatives and has several sustainability partnerships, which are outlined in, for example, responsible investments on page 14. Partnerships in the insurance operations are mainly described on pages 15 and 18.

## Sustainability policy

A sustainability policy was introduced during the year following a decision by the Länsförsäkringar AB board. The purpose of the sustainability policy is to define the focus of sustainability activities to employees, outline priority sustainability aspects based on dialogue with priority stakeholders and describe the organisation and governance of sustainability efforts. This policy,

which replaced the environmental policy, also describes environmental consideration, the precautionary principle and priority areas in banking and insurance.

## Code of conduct

The code of conduct for employees is a set of rules and guidelines on business ethics that provides guidance for employees, managers and board members in the expected standards of conduct and behaviour in their day-to-day work according to Länsförsäkringar AB's vision, values, targets, strategies and external requirements.

The code of conduct was revised in 2016 with clarifications of interpretations of regulatory requirements, rules and regulations and ethical standpoints. A mandatory e-course called Länskompassen was launched during the year comprising three sections: code of conduct for employees, safety and sustainability. Both the policy and e-course are available in Swedish and English.

## Sustainability initiatives and partnerships in which Länsförsäkringar AB participates



### Anti-corruption

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

A bribery risk analysis is regularly conducted at Länsförsäkringar AB with subsidiaries to evaluate the risk of bribery or other improper influencing. The areas addressed are the operations of each company, size and organisation, market, customers, distribution channels, partners, sponsoring and purchasing.

The Länskompassen e-course has teaching examples to raise awareness and high-

light the circumstances and the risks of corruption within the Group. The policy on improper benefits provides more detailed guidance on external requirements. Employees can contact their immediate manager or their manager's manager if they suspect any improprieties or make a whistle-blowing report.

### Whistle-blowing procedure

A whistle-blowing procedure has been produced to counteract and stop crime or suspected crime in the business activities or closely related to the business activities, which allows employees, customers, partners and other stakeholders related to the operations to report any suspected improprieties. This procedure is to be considered an alternative to other reporting channels.

The code of conduct contains information about the whistle-blowing procedure. A whistle-blowing report can be made anonymously and the informant will not suffer any repercussions under labour law

as long as the information is not consciously and patently incorrect. No whistle-blower or corruption incidents occurred in the operations in 2016.

### Anti-money laundering and financing of terrorism

Länsförsäkringar AB makes extensive efforts to limit the risk of the operations being used or exposed to financial crime. Measures include obtaining detailed customer information and active monitoring and reporting of transactions, carried out in order to conduct efficient work on preventing money laundering and financing of terrorist activities. Also other attempts to fraud, for example, card fraud, are monitored, and a shared system for deviation reporting is in place at the Länsförsäkringar Alliance. Employees are trained and regularly informed about regulatory changes and new trends in this field.

## Global Reporting Initiative (GRI)

Länsförsäkringar AB's 2016 sustainability report, prepared annually, was prepared based on the guidelines of the Global Reporting Initiative (GRI) G4 for transparency and comparison between companies and over time. The Financial Services Sector Supplement (FSSS) is included. Länsförsäkringar AB's self-assessment is that the sustainability report meets the necessary requirements. The sustainability report has not been audited by a third party. Unless otherwise stated, the information is about Länsförsäkringar AB Group. The

sustainability report, together with the annual report, are to provide a fair indication of Länsförsäkringar AB's financial, environmental and social performance and earnings. The content has been defined based on an analysis of material sustainability issues to the operations and Länsförsäkringar AB's ability to provide disclosures. This report is also a "Communication on Progress" for the UN Global Compact. The 2015 sustainability report was prepared in accordance with GRI G4 and was published in March 2016.

### Material issues and impact

Aspects	Material impact
Responsible investments	Internal and external
Responsible offering	Internal and external
Social commitment - claims-prevention measures, health-promotion services and scientific research for people and animals	External
Long-term environmental efforts - prevention of climate change and damage to the environment	External
A responsible and attractive employer	Internal

Aspects	Material impact
High sustainability expertise among employees	Internal and external
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Sustainability requirements on suppliers	Internal and external

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# Board of Directors' Report

The Board of Directors and the President of Länsförsäkringar AB (publ), Corporate Registration Number 556549-7020, hereby submit the Annual Report and consolidated financial statements for the 2016 fiscal year.

## Ownership and Group structure

Länsförsäkringar AB is wholly owned by the 23 regional insurance companies and 16 local insurance companies.

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

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

## Focus of operations

Länsförsäkringar AB has three primary tasks: to conduct business activities in non-life insurance, life assurance and banking services; to provide business service to the regional insurance companies in areas in which economies of scale and efficiency

arise, and to conduct Länsförsäkringar's joint strategic development activities.

The business activities are carried out in the Non-life Insurance, Banking and Life Assurance business units, whose task is to conduct business and assume responsibility for direct product-related support for the regional insurance companies. The financial control is primarily based on the owners' yield requirements and risk tolerance. The business activities are conducted to generate a profit so that the company can pay competitive returns on equity. Business service and Länsförsäkringar's joint development activities are conducted in the support functions of the Business Support unit. The accounting, capital planning and Group controller functions are part of the Finance unit. The Asset Management unit manages the Parent Company's and insurance operations' investment portfolios.

## Significant events during the year

In May 2016, Länsförsäkringar AB and its insurance subsidiaries became the first Swedish insurance group to receive permission from the Swedish Financial Supervisory Authority to calculate the capital requirement for insurance operations using a partial internal model. This means that capital requirements are calculated based on a model that reflects the composition of Länsförsäkringar AB's business activities and thus the actual risk profile.

## Significant events after balance-sheet date

Johan Agerman took office as the new President of Länsförsäkringar AB on 9 January 2017. He succeeded Sten Dunér who has retired.

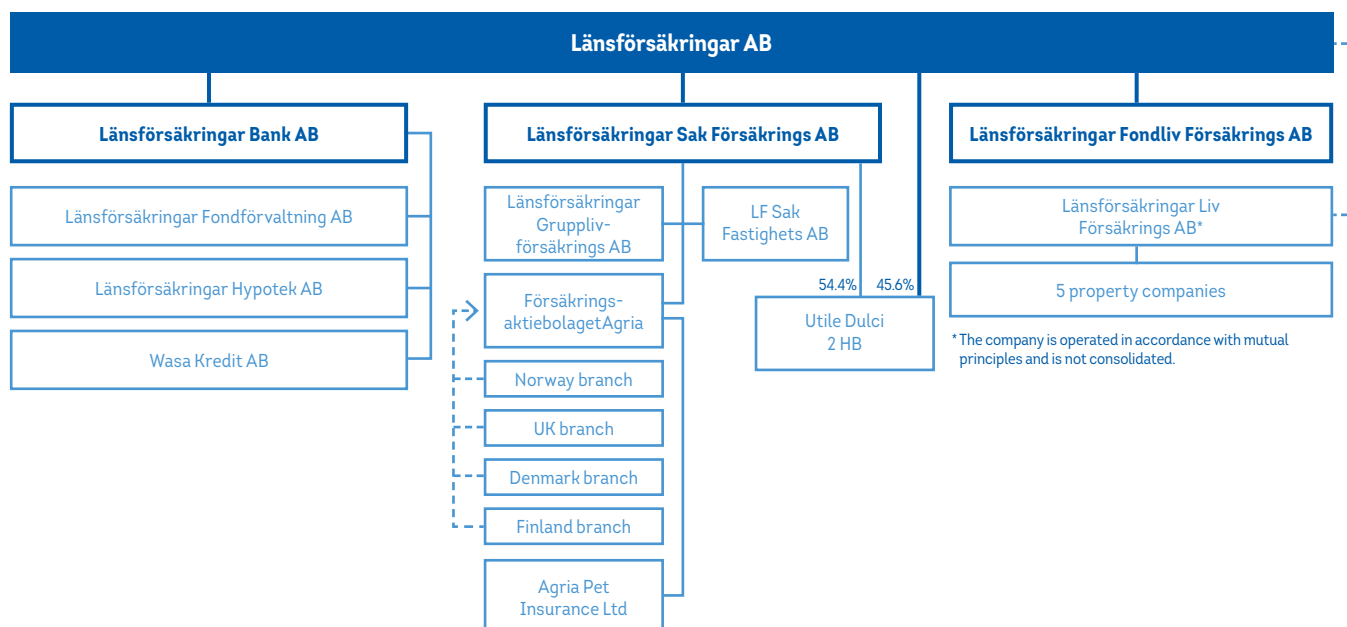
## Expectations regarding future development

Technological advances are creating new conditions, while at the same time significant changes and innovation are needed to leverage the opportunities that are emerging. Digitisation, for example, is having a profound effect on the operations. Know-how, the technical environment and organisation must be adapted to support rapid developments so as to meet customers' changing requirements.

Customers demand relevance, flexibility and availability. Accordingly, developments are best driven forward with a high level of customer involvement. Active development of internal processes and employee system support is also needed to create the types of customer meetings expected.

In the past, customers based their selection of company on price and product, but nowadays an equally important factor is, for example, a user-friendly app that makes everyday transactions easy. As digitisation increases so do opportunities for packaging the right products and services for customers – understanding the customer's situation and lifestyle choices and

## Länsförsäkringar AB Group structure, 31 December 2016



offering solutions that cater to these needs are, therefore, essential for winning customer trust and loyalty. For this reason, Länsförsäkringar is pursuing its activities towards achieving the target of being the industry leader in digital services.

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

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

## Earnings and financial position

### Group earnings

The Group's operating profit increased to SEK 2,286 M (2,155). The return on equity amounted to 10% (11).

The robust earnings were mainly attributable to the Bank Group, whose operating profit increased 25% to SEK 1,467 M (1,175), based on higher net interest income attributable to higher volumes and lower refinancing costs.

Operating profit in the non-life insurance operations amounted to SEK 644 M (908). Premiums earned after ceded reinsurance improved to SEK 5,342 M (5,074). The major difference between operating profit in 2016 and 2015 was significant run-off gains in 2015, which were almost SEK 300 M higher than in 2016, mainly related to the accident and health insurance business, following a decision to transfer a large part of this business to the regional insurance companies.

Managed assets in the unit-linked insurance operations increased to SEK 114 billion (103). Operating profit amounted to SEK 512 M (516).

The Group's investment income attributable to the insurance operations' and Parent Company's assets amounted to 4.5% (3.4). Properties, which totalled 21% of the investment assets at the end of the year, yielded the highest return contributing 2.9 percentage points (3.9) to investment income. In

addition to the ongoing direct yield, changes in the market value of the property holdings are also included in the return, which performed positively due to higher market rents and falling yield requirements in the market. The fixed-income portfolio had a positive impact of 1.3 percentage points (neg: 0.3) on investment income, mainly due to US credits and compressed credit spreads. Equities made a positive contribution of 0.6 percentage points (0.2).

### The Group's capital situation

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

The Group's equity increased SEK 1,991 M during the year to SEK 22,529 M (20,538). No shares or Tier 1 instruments were issued. The Parent Company did not pay any dividend to shareholders.

The introduction of the EU's new Solvency II rules for insurance operations on 1 January 2016 significantly changed the rules on capital requirements for insurance operations, and thus also the outcome of the solvency test for financial conglomerates. The performance for the year is described below according to the new rules. With the introduction of Solvency II, the capital requirements for groups in the insurance sector and the capital requirements for financial conglomerates are, with a few exceptions, the same. However, the rules on capital requirements for groups in the banking sector are structured in a completely different way.

In May 2016, Länsförsäkringar AB and its insurance subsidiaries became the first Swedish insurance group to receive permission from the Swedish Financial Supervisory Authority to calculate the capital requirement for insurance operations using a partial internal model. This means that capital requirements are calculated based on a model that reflects the composition of Länsförsäkringar AB's business activities and thus the actual risk profile. Capital requirements for most market risks, non-life insurance risks and health-insurance risks are calculated using an internal model, whereas other types of risk are calculated by applying the standard formula.

On 31 December 2016, regulatory surplus capital for the group under the insurance rules were SEK 10.5 billion, up SEK 1.8 billion compared with the opening balance on 1 January 2016, when surplus capital of

SEK 8.7 billion were reported. Own funds amounted to SEK 40.6 billion and the capital requirement to SEK 30.1 billion. Earnings for the Länsförsäkringar AB Group excluding Länsförsäkringar Liv were about the same as the increase in the capital requirements due to expanded operations. In addition, own funds rose primarily due to increased revaluations of technical provisions as a result of higher unit-linked insurance volumes. The capital situation under the rules on financial conglomerates on 31 December 2016 differed slightly from the capital situation for the group under the insurance rules. This difference was due to own funds being calculated differently as regards deductions for surplus capital in subsidiaries that are not transferable. The regulatory surplus capital for the financial conglomerate were SEK 10.2 billion.

The Common Equity Tier 1 capital ratio for the group encompassed by the group rules for banking operations (consolidated situation), meaning the Länsförsäkringar Bank Group consolidated with Länsförsäkringar AB, was 21.2% (21.4). Further information about the capital situation under the group rules for banking operations is provided under the section on "Bank business operation" on page 33.

### Parent Company earnings

Profit after financial items for the Parent Company amounted to SEK 453 M (438). Profit was positively impacted by dividends and Group contributions of SEK 630 M from Länsförsäkringar Sak. Income amounted to SEK 2,894 M (2,653).

### Proposed appropriation of profit

According to the statement of financial position for Länsförsäkringar AB, non-restricted equity totalling SEK 10,892,736,756 is at the disposal of the Annual General Meeting.

#### The Parent Company's non-restricted equity comprises (SEK)

Share premium reserve	5,470,917,955
Fair value reserve	-7,607,544
Retained earnings	4,982,688,208
Net profit for the year	446,738,137
<b>Non-restricted equity, 31 December 2016</b>	<b>10,892,736,756</b>

The Board of Directors proposes that SEK 10,892,736,756 of the unappropriated earnings in the Parent Company be carried forward, of which SEK 5,470,917,955 to the share premium reserve.

## Non-life insurance business operation

The Non-life Insurance business unit is responsible for the non-life insurance operations, which have been assigned to Länsförsäkringar AB by the regional insurance companies. Its role is to complement the regional insurance companies' offering with specialist products to meet customer needs, to start new business that can be channelled through the regional insurance companies and to manage the Länsförsäkringar Alliance's total reinsurance cover. Non-life insurance is divided into the following three business areas: Agria (pet insurance), Business Area Health and Business Area Reinsurance and Special Insurance, and business activities are conducted in Länsförsäkringar Sak and its subsidiaries. Länsförsäkringar Sak underwrites health care, accident and health and commercial special insurance and international reinsurance, and manages the Länsförsäkringar Alliance's overall reinsurance cover. Länsförsäkringar Sak also conducts annuities operations. Länsförsäkringar Sak's subsidiary Länsförsäkringar Gruppliv underwrites group life assurance and occupational group life assurance. The subsidiary Agria Djurförsäkring is specialised in pet and crop insurance. This specialisation involves a streamlined focus on and involvement with animals and their owners. Agria's international operations are conducted in branches in the UK, Norway, Denmark, Finland and in an administration company in the UK, Agria Pet Insurance Ltd.

### Earnings and profitability

Operating profit amounted to SEK 644 M (908). Significant run-off gains of about SEK 280 M were realised in the preceding year in connection with a review of reserves after a decision was made to transfer a large part of the accident and health insurance business for adults to the regional insurance companies. Excluding this item, operating profit for 2016 was in line with the preceding year.

The combined ratio amounted to 92% (85). The technical result amounted to SEK 435 M (821).

Premiums earned after ceded reinsurance increased 5% to SEK 5,342 M (5,074). The increase was the result of premium increases in both the health care business and Agria, as well as portfolio growth in

Agria. Claims payments after ceded reinsurance improved to SEK 3,793 M (3,242). The claims ratio increased to 71% (64) due to higher claims costs in the assumed international reinsurance business, primarily from a higher frequency of medium-sized claims and strengthened reserves for previous years' claims. The liability business also incurred higher claims costs and reserves were strengthened in the annuities operations when the yield curve for discounting was changed.

However, the earnings performance for health care insurance was positive, with the business reporting balanced earnings after premium adjustments and quality enhancements in claims adjustment. Agria posted operating profit in line with the preceding year of SEK 285 M (281). The expense ratio for the non-life insurance operations was unchanged at 21.

The Länsförsäkringar Sak Group's investment income amounted to 4.5% (5.6). Properties, which at year-end amounted to about 23% of the investment assets, contributed 3.5 percentage points to investment income. In addition to the ongoing direct yield, changes in the market value of the property holdings are also included in the return, which trended positively in 2016. The fixed-income portfolio, which has a short duration, had a positive effect of 0.9 percentage points on the return, primarily from US credits and compressed credit spreads. Investments in hedge funds and equities made up about 4% of the investment assets and thus positively impacted the total return by less than 0.1 percentage point, while currencies had a negative effect of 0.1 percentage point. The lower investment income year-on-year was mainly due to a lower share of properties in 2016.

Investment income recognised in profit and loss increased to SEK 210 M (87). The reason that the reported investment income is higher than the preceding year, even though it fell 4.5%, is that the value of owner-occupied property, which was higher in the preceding year, is recognised in other comprehensive income.

Länsförsäkringar Sak's own funds valued according to the Solvency II rules increased by SEK 123 M during the year to SEK 3,453 M. Own funds were strengthened during the year due to the high earnings,

while own funds at year-end were impacted by Group contributions and planned dividends for 2016 to the Parent Company totalling SEK 625 M, which combined led to a minor increase. The capital requirement declined slightly during the year by SEK 89 M to SEK 1,326 M, primarily driven by lower market risk as a result of reduced property holdings. The solvency ratio according to Solvency II thus strengthened from an opening balance of 235% on 1 January 2016 to 260% on 31 December 2016.

### Market

The non-life insurance market is mature and premium income increased about 4% during the year. Growth in the products offered by the Non-life Insurance business unit takes place in the Swedish market primarily in health care and pet insurance.

The high level of insurance for animals in Sweden entails limited growth potential and, accordingly, Agria Djurförsäkring has worked for several years towards establishments in other markets. Operations are currently conducted in Denmark, Norway and the UK, and operations were established in Finland during the year. Fewer and larger players are influencing the direction of animal care, and thus availability and costs in veterinary care.

The market for accident and health insurance increased about 12% during the year and Länsförsäkringar's market share was unchanged at approximately 20%. The market for personal-risk insurance was affected by greater household indebtedness and growing concern that social insurance in Sweden will be insufficient. A rising number of people are buying private insurance to increase their financial security in the event of illness, accident, unemployment, pensions and death. Company owners also want to ensure that neither they nor their employees go on long periods of sick leave and health care insurance can thus provide greater security and keep a business's employees healthier. The health care insurance market is continuing to grow and competition in the market remains fierce, particularly in the market for medium-sized and large companies. Volumes mainly rose in health insurance, which encompasses preventive and rehabilitation measures. Following several years of weak

profitability in the industry, several insurance companies have introduced deductibles, raised premiums and introduced restrictions to insurance terms.

Competition remains intense in cargo insurance and the previously falling premium levels have abated slightly. New players and a change in strategy by insurance companies that previously only targeted large companies contributed to tougher competition in liability insurance. All players in the market now see an interest in the segment of medium-sized companies. Portfolio and group procurement is increasingly common for business from insurance brokers, which in Länsförsäkringar Sak's case is evident in the cargo, motor insurance and liability businesses.

The total reinsurance capacity in the international reinsurance market remained large. Low interest rates are attracting new investors to the industry. However, earnings have declined as a result of several years of pressed prices, which has led to premium reductions stagnating slightly compared with prior years. The global insurance industry's costs for natural disasters increased year-on-year but just below the average for the past ten years.

### **Agria Djurförsäkring**

Premiums earned rose 6% to SEK 2,891 M (2,721) and the technical result was SEK 288 M (307). The decline in earnings was due to higher acquisition costs in the UK and increased operating expenses for the newly established branch in Finland. In the Swedish operations, the pet and horse-insurance businesses reported a continued stable increase in business volumes and strong earnings. Swedish pet owners are continuing to choose Agria as their insurance company. The agriculture business delivered improved earnings due to lower claims costs. The relatively few claims in crop insurance during the year was one of the reasons for the positive earnings. Digitisation activities are continuously developed and in Sweden Agria won the prize the Web Service Award for "Best Website" and "Best Responsive Website" this year.

The operations in Norway continued to display a stable trend with higher business volumes. More companies than ever before have realised that pet insurance is an

attractive niche in the insurance industry and the offering in the Norwegian market is increasing. The Danish operations also posted a stable, positive volume growth. For the UK, the year was characterised by heightened awareness of the Agria brand and significant portfolio growth. Earnings in the UK were weaker year-on-year as a result of costs for the change in handling deferred acquisition costs and higher claims costs. In June, Agria established operations in Finland, which entailed higher operating expenses.

### **Business Area Health**

Premiums earned in Business Area Health amounted to SEK 1,538 M (1,409) and profit amounted to SEK 224 M (434). The lower earnings were attributable to significant run-off gains that were realised in the preceding year in connection with a review of reserves after a decision was made to transfer a large part of the accident and health insurance business for adults to the regional insurance companies. Länsförsäkringar Sak closed underwriting new policies for its products in 2016 and the business portfolio will be transferred to the regional insurance companies during 2017. The earnings performance for health care insurance was positive, with the business reporting balanced earnings after price adjustments and quality enhancements in claims adjustment. Accident and health insurance delivered stable, positive earnings.

Sales of the Bo Kvar insurance policy, distributed in cooperation with Länsförsäkringar Bank, displayed a strong performance. This policy provides financial protection for the bank's mortgage customers in the event of death, illness or unemployment, thus creating financial security for mortgage customers. With highly satisfied health care insurance customers and a large market share in commercial insurance, Länsförsäkringar is well-positioned for growth. Trends towards increased digitisation of the operations are continuing and a large number of insurance policies are now taken out digitally.

### **Reinsurance and Special Insurance**

Länsförsäkringar Sak supplements the regional insurance companies' offering to corporate customers with specialised liability,

cargo, motor, property and credit insurance. Länsförsäkringar Sak manages the Länsförsäkringar Alliance's joint reinsurance cover and internal Alliance reinsurance with a number of pool solutions. The internal reinsurance and the reinsurance cover jointly procured for the Länsförsäkringar Alliance is a major asset for Länsförsäkringar and its customers. The system ensures a stable solution at low cost by distributing risk within the Länsförsäkringar Alliance and procuring external cover for large claims. Länsförsäkringar Sak also underwrites a highly diversified portfolio in internationally assumed reinsurance. The long established strategy is to underwrite business from mutual companies with broad geographic risk diversification.

Premiums earned in Reinsurance and Special Insurance amounted to SEK 913 M (945) and loss amounted to SEK 41 M (profit: 88). The negative earnings were primarily due to higher claims costs in assumed reinsurance and the liability business. Both the premium volumes and the number of policies in the cargo portfolio are growing and the business is continuing to deliver stable, positive earnings. The insurance portfolio in the liability business trended positively, although profit declined due to higher claims costs. Sales of seller liability insurance, which provides cover for the ten years of liability for hidden faults that sellers of private residences have under the Swedish Land Code, are increasing in line with the growth of Länsförsäkringar Fastighetsförmedling.

The Länsförsäkringar Alliance's internal reinsurance, to which Länsförsäkringar Sak contributes a 15% share of assumed reinsurance, noted few large claims during the year. Premiums earned in assumed international reinsurance fell during the year and the business experienced a relatively high frequency of medium-sized claims in 2016, mainly associated with the Asian portfolio.

# Bank business operation

The Bank Group consists of the Parent Company Länsförsäkringar Bank, and the wholly owned subsidiaries Länsförsäkringar Hypotek, Länsförsäkringar Fondförvaltning and Wasa Kredit. Länsförsäkringar Bank is the fifth largest retail bank in Sweden with business volumes of SEK 455 billion. The banking operations are conducted only in Sweden and business volumes are continuing to grow in all product segments. The strategy is to offer banking services to the Länsförsäkringar Alliance's customers and leverage Länsförsäkringar's strong brand and local presence through the customer-owned regional insurance companies. The banking operations have a large potential customer base with the Länsförsäkringar Alliance's 3.7 million customers. The main target groups are the 3 million retail customers, of whom 2.2 million are home-insurance customers. Other target groups are agricultural customers and small businesses. According to the 2016 Swedish Quality Index, Länsförsäkringar once again has Sweden's most satisfied retail bank customers, which is confirmation of the high quality of the banking operations.

## Earnings and profitability

Operating profit increased 25% to SEK 1,467 M (1,175), attributable to higher net interest income. Return on equity strengthened to 10.1% (8.9). 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 M (97). Net commission amounted to SEK -567 M (-441), due to higher remuneration to the regional insurance companies due to higher volumes and the strengthened profitability of the business. Operating expenses amounted to SEK 1,568 M (1,566).

Loan losses amounted to SEK 38 M (6), net, corresponding to a loan loss level of 0.02% (0.00). Impaired loans, gross, amounted to SEK 240 M (241), correspond-

ing to a percentage of impaired loans, gross, of 0.11% (0.12). The cost/income ratio before loan losses amounted to 0.51 (0.57).

## Market and business volumes

Business volumes rose 13%, or SEK 51 billion, to SEK 455 billion (404) and market shares continued to improve in many product areas. Deposits increased 9% or SEK 7 billion to SEK 91 billion (84) and the market share for household deposits rose to 4.8% (4.7) at 31 December 2016. Deposits from small businesses amounted to SEK 11 billion (11) and the number of deposit accounts rose 8%. The fund volume increased 15% or SEK 18 billion to SEK 138 billion (120). Lending in Wasa Kredit increased 14% to SEK 18.3 billion (16.0).

Loans to the public rose 12% to SEK 227 billion (202). All loans are granted in Sweden and in SEK and have a well-diversified geographic distribution. The credit quality of lending is high, with a loan loss level of 0.02%. On 31 December 2016, the market share of household lending strengthened to 5.8% (5.5). Retail mortgages in Länsförsäkringar Hypotek increased 15% to SEK 169 billion (147). The percentage of retail mortgages in relation to the total loan portfolio was at 74% (73). On 31 December 2016, the market share of retail mortgages strengthened to 5.8% (5.5).

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.

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. Loans to small businesses amounted to SEK 1.5 billion (1.4).

## Funding

The Group has a low refinancing risk and the maturity profile is well diversified. Debt securities in issue increased SEK 14 billion to a nominal SEK 152 billion (138), of which covered bonds amounted to SEK 122 billion (107), senior long-term funding to SEK 29 billion (29) and short-term funding to SEK 1 billion (1). 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 billion (35), repurchased covered bonds to a nominal SEK 8 billion (10) and matured covered bonds to a nominal SEK 8 billion (16). Länsförsäkringar Bank issued senior unsecured bonds in the nominal amount of SEK 8 billion (16) during the period and senior unsecured bonds of a nominal SEK 7 billion (10) fell due for payment.

## Liquidity

Effective long-term planning and low risk tolerance are the hallmarks of the bank's liquidity and financing. A satisfactory liquidity reserve is in place to ensure that sufficient liquidity is always available. The management of the liquidity reserve are conservative and take place within the limits established by the Board in the finance policy.

On 31 December 2016, the liquidity reserve totalled SEK 42 billion (43), according to the Swedish Bankers' Association's definition. 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 utilis-

## Life-assurance and pension insurance business operations

ing the liquidity reserve, contractual undertakings can be met for more than two years without needing to secure new funding in the capital market. The Bank 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.

### Capital adequacy, consolidated situation

With the CRR (575/2013) coming into effect, the consolidated situation also includes the parent mixed financial holding company Länsförsäkringar AB, in addition to the Bank Group.

### Capital ratio

Consolidated situation (SEK M)	31 Dec 2016	31 Dec 2015
IRB Approach	31,149	31,027
Retail exposures	24,110	23,735
Exposures to corporates	7,039	7,292
Standardised Approach	16,221	15,268
Operational risks	10,717	10,717
Total REA	59,513	59,170
Common Equity Tier 1 capital	12,617	12,282
Tier 1 capital	13,817	13,482
Total capital	16,409	16,038
Common Equity Tier 1 capital ratio, %	21.2	20.8
Tier 1 ratio, %	23.2	22.8
Total capital ratio, %	27.6	27.1

Länsförsäkringar offers life-assurance and pension-insurance solutions to corporate customers and private individuals. Fund management, Guarantee Management and personal-risk insurance are offered through Länsförsäkringar Fondliv. No new policies are underwritten in Länsförsäkringar Liv, but the company manages traditional life assurance that was taken out before it was closed in 2011. Länsförsäkringar Liv is operated according to mutual principles and is not consolidated in Länsförsäkringar AB.

### Länsförsäkringar Fondliv Earnings and profitability

Operating profit for Länsförsäkringar Fondliv amounted to SEK 512 M (516). The main reason for profit remaining at the same level as 2015 is that the increased income from higher managed assets was offset by increased costs, which were mainly due to IT investments in digital advances. Focus areas are the development of digital services, by expanding the range of self-service functions, and creating simplified and improved customer information. As part of the digital shift, the My Health paper form for occupational pension customers was replaced by Digital Health in 2016, which will improve service, quality and efficiency. Länsförsäkringar Fondliv will also launch a fully digital purchase service for occupational pensions at the start of 2017.

Total managed assets increased SEK 11 billion to SEK 114 billion (103) in 2016, due to both positive net inflows and a positive return. Total premium income was in line with the preceding year at SEK 8,637 M (8,645). Externally and internally capital transferred to Länsförsäkringar totalled SEK 1,321 M (1,375), while capital transferred from the company amounted to SEK 1,607 M (1,373), resulting in a net loss of SEK 285 M (profit: 2). This was lower than last year, mainly due to fewer internal transfers. Premium income for insurance risk after ceded reinsurance amounted to SEK 173 M (140). Commission income was SEK 1,412 M (1,384) due to larger managed assets. Operating expenses rose to SEK 973 M (910), pri-

marily as a result of higher IT expenses due to increased investments in digital development. The solvency ratio for Länsförsäkringar Fondliv according to Solvency II strengthened from an opening balance of 141% on 1 January 2016 to 150% on 31 December 2016. Own funds strengthened during the year due to healthy earnings, while own funds at year-end were impacted by planned dividends for 2016 to the Parent Company of SEK 750 M, which combined led to a minor increase.

### Market and business volumes

According to the 2016 Swedish Quality Index, Länsförsäkringar again has Sweden's most satisfied customers in private pension insurance. Such praise is due to the broad offering combined with Länsförsäkringar's unique closeness with its customers. For customer-owned operations, it is particularly important that customers clearly show their positivity in this way.

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

New sales in the total Swedish life-assurance market amounted to SEK 218 billion in 2016, down 7% year-on-year. Premium income also declined by 7% from SEK 231 billion to SEK 215 billion during the year. The part of the life-assurance market pertaining to new sales of unit-linked insurance declined 4% to SEK 88 billion. Premium income in the same market fell 6% to SEK 75 billion.

Länsförsäkringar's total market share of unit-linked insurance, measured in new sales, increased to 13.2% (10.0). The market share measured in premium income rose to 10.8% (10.1). Both the own sales channels and brokered channels performed positively year-on-year.

### **Occupational pensions - the largest market**

The sales value of the occupational pension market for unit-linked insurance amounted to SEK 66 billion (62) in 2016, up 6%. The occupational pension market is the largest sub-market, comprising 75% (67) of the total unit-linked insurance market. Länsförsäkringar Fondliv's sales value in unit-linked insurance in the occupational pension market was SEK 10 billion (8), up 24%. This corresponds to a market share of 14.9% (12.8).

The sales value of Länsförsäkringar's main market of individual occupational pensions amounted to SEK 9 billion (8). Länsförsäkringar Fondliv is the market leader, commanding a share of 20.4% (18.7). New sales in this sub-market totalled SEK 46 billion (41).

### **Private and savings market**

The sales value of the private pension sub-market in the unit-linked insurance market amounted to SEK 1 billion (1). Länsförsäkringar's market share amounted to 22.2% (21.9). The special tax advantages for pension savings by private individuals were completely abolished in 2016.

The savings sub-market in unit-linked insurance market fell sharply during the year and the sales value amounted to SEK 21 billion (29). However, Länsförsäkringar Fondliv's market share rose to 7.4% (3.5).

### **Business volumes**

Total premium income amounted to SEK 8,637 M (8,645), of which capital transferred to the company accounted for SEK 1,321 M (1,375). The reason for premium income being at the same level as the preceding year is that increase in ongoing premium payments was offset by lower non-recurring inward payments.

The individual occupational pension sub-market represented 78% of total premium income in the unit-linked insurance market, while collective agreement pensions represented 10% and the private and savings market 12%.

### **Guarantee Management**

Guarantee Management in unit-linked life-assurance is Länsförsäkringar's option

for customers seeking a guarantee element to their savings and wishing to know the lowest level of their future payments. The guarantee principle is that the customer recoups premiums paid in to savings, but with the possibility of additional returns. Full guarantee, meaning "at least your premium back" applies for a minimum ten-year savings period. A sliding scale is applied to shorter savings periods, with the guarantee at 80% of paid-in premiums for periods of five to ten years until retirement, and a minimum of 70% of paid-in premiums with less than five years until retirement.

Premium income for guarantee management amounted to SEK 349 M (425), due to lower capital transferred in. Managed assets amounted to SEK 2.7 billion (2.3). The return rose to 5.3% (-0.2), with the increase due to both fixed-income and equities holdings.

The assets of Guarantee Management are divided between equity and fixed-income investments, with fixed-income investments always representing at least 40% of total assets and equity investments that may be as low as zero. Both equities and the fixed-income portfolio performed positively during the year. At year-end about 65% of the portfolio was invested in fixed-income investments and about 35% in equities. The equities portion largely comprises US, Swedish and European shares, while the fixed-income portion was invested in Swedish government securities and properties and in foreign credits. At the start of the year, some 58% of the portfolio was invested in fixed-income investments and 42% in equities.

### **Fund management**

Some 88% of the 88 funds in the recommended fund range performed positively during the year and 12% negatively. Almost half of the funds increased by more than 10%, while three funds fell by more than 5%. Sustainability requirements are imposed in procurement processes of new funds and fund managers' work on responsible investment is followed up every year. At the end of 2016, 98% of all of Länsförsäkringar Fondliv's recommended funds had signed the United Nations-supported Principles

for Responsible Investment (PRI). The new sustainability fund, Länsförsäkringar Global Hållbar, was launched in October 2016.

The funds with the highest returns in 2016 were East Capital Rysslandsfonden, Alfred Berg Ryssland and BlackRock World Mining. The situation for several commodity-dependent countries, for example, Russia, is improving, driven by rising prices of commodities, which led to a strong performance for this type of funds.

Funds with very high risk often experience larger fluctuations and the total return can vary considerably from year to year. Examples of funds that performed weakly in 2016 are Macquarie Asia New Stars, JP Morgan Global Healthcare and SEB Europafond Småbolag. The lower rate of growth and weaker stock market in China had a negative impact on Chinese funds and Asian funds, with a large holding in China.

Länsförsäkringar Fondliv reduced its fund fees for equities funds in September to create even better value for customers.

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

Länsförsäkringar Liv is closed for new business, but conducts traditional life assurance that was taken out before 2011 divided into four portfolios: New Trad, Old Trad, New World and Insured Pension.

### **Earnings and profitability**

Profit for Länsförsäkringar Liv amounted to SEK 2,682 M (5,089). This result was due to positive investment income, continued transitions from Old Trad to New Trad, which reduced technical provisions, and a positive operating profit. The year-on-year decline was mainly the result of lower volumes of transitions from Old Trad to New Trad and earnings in 2015 benefiting from rising interest rates. In 2016, the company introduced a new discount curve and new operating-cost assumptions adapted to the Solvency II rules, and changed its pay-out-period assumption in accordance with company experience. However, the combined effect of these actuarial assumptions on profit was marginal. Long-term interest rates fell sharply in the first half of 2016,

leading to a negative effect on earnings, but market interest rates rose again in the autumn, positively impacting profit.

Liabilities to policyholders declined a total of SEK 1.2 billion (9.5) in 2016, primarily due to negative cash flows from payments and external transfers exceeding premium payments. Conversely, liabilities were impacted by falling interest rates, thus driving them up. Länsförsäkringar Liv could largely compensate for the increase in liabilities caused by interest rate falls with investment income, given the matching between assets and liabilities. Investment income was positive for all management portfolios and contributed SEK 6.0 billion (0.4) in earnings. Transitions from Old Trad to New Trad made a positive contribution of SEK 0.5 billion to earnings, since guaranteed commitments declined. Operating expenses totalled SEK 447 M (442).

The solvency ratio for Länsförsäkringar Liv according to Solvency II strengthened from an opening balance of 182% on 1 January 2016 to 195% on 31 December 2016. The increase was due to positive earnings that strengthened own funds and the solvency ratio.

Collective consolidation was 114% (114) for New Trad and 125% (120) for Old Trad.

#### **New Trad**

New Trad is a management form that customers with existing traditional insurance can choose. Changing insurance conditions to New Trad means lower fees and a reduction in the guaranteed bonus compared with Old Trad. The reduced guarantee allows capital to be invested in other types of assets that have higher expected returns. New Trad is expected to generate higher bonuses over time.

Managed assets in New Trad amounted to SEK 18.0 billion (15.0). Some 52% of investments were in interest-bearing assets, 34% equities, 3% properties and 11% alternative investments. The total risk in the portfolio was reduced in 2016 with a reduced proportion of equities and an increased proportion of interest-bearing investments. The proportion of equities fell 6 percentage points. The total return was

4.3% (1.4). This positive return was largely attributable to interest-bearing investments, which performed favourably due to falling interest rates. Equities made a positive contribution to total return in the second half of the year.

The bonus rate on 31 December 2016 was 4% (10). The bonus rate was lowered from 6% on 1 August 2016. The average bonus rate in 2016 was 5.5%. The average bonus rate has been 7.0% since the start in 2013.

#### **Old Trad**

In Old Trad, Länsförsäkringar Liv manages capital of SEK 84.7 billion (86.6) on behalf of its customers. The primary aim of risk-taking in the Old Trad investment portfolio is to ensure that the guaranteed bonus can be realised also in the event of a negative market trend. Accordingly, a large portion of the capital is comprised of long-term interest-bearing investments.

Investments were relatively unchanged in 2016 and allocated as follows: 86% interest-bearing securities, 8% alternative investments and the remainder was equities and property. The total return was 5.9% (0.5), mainly driven by falling interest rates.

The bonus rate for 2016 was unchanged at 2%.

#### **New World**

With the New World management form, customers are guaranteed to recoup at least the premiums paid, subject to deductions for expenses and yield tax. The percentage of equities for New World is normally 70% and the remaining 30% comprises interest-bearing investments. However, the investment mix can vary within defined intervals, with the percentage of equities comprising 60–80%. The total return was 5.1% (0.3). Managed assets amounted to SEK 11.3 billion (11.7).

#### **Capital situation**

Länsförsäkringar Liv's solvency is measured from 2016 as a solvency ratio according to Solvency II. This performance measure shows the amount of the company's own funds in relation to a risk-based capital

requirement. Länsförsäkringar Liv has worked actively since the start of 2011 on measures to strengthen the company's balance sheet. The company has followed an action plan decided by the Board. The plan contains a number of measures for enhancing the efficiency of the company's operations and balance sheet. Strengthened solvency provides the company with greater flexibility and the option of investing in asset classes with higher expected returns.

In 2016, the company pursued a strategy whereby the investment portfolio was largely matched against liabilities to protect the company's surplus against falling interest rates. Part of the matching strategy was to generate a certain surplus when interest rates rise. ALM analyses are used to optimise the investment portfolios so that the correlation between risk and return is as advantageous as possible. Transitions from Old Trad to New Trad has contributed to improved solvency during the year since, after changing conditions the insurance policies have lower guarantees and thus reduce the need for reserves in the company's balance sheet.

## Other information

### Risks and uncertainty factors of the operations

The Group's banking and insurance operations give rise to various types of risks, with credit risk in the Bank Group and market risks and insurance risks attributable to the Group's non-life insurance and unit-linked life-assurance companies comprising most of the risks.

Credit risk in Länsförsäkringar Bank is primarily affected by the macroeconomic situation in Sweden since all loans are granted locally. The Bank Group is also exposed to liquidity risk and a certain level of market risk. Loan losses remain low and the refinancing of business activities is highly satisfactory. A settlement model has been applied since 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.

Market risks primarily arise in Länsförsäkringar Fondliv on the basis of indirect exposure to market risk, since future income in the unit-linked insurance operations is dependent on trends in the financial market. Länsförsäkringar Sak's market risk is less extensive and arises from the management portfolio.

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

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

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

In May 2016, Länsförsäkringar AB and its insurance subsidiaries became the first

Swedish company to receive permission from the Swedish Financial Supervisory Authority to calculate the capital requirement for insurance operations using a partial internal model. This means that capital requirements are calculated based on a model that reflects the composition of Länsförsäkringar AB's business activities and thus the actual risk profile. Capital requirements for most market risks, non-life insurance risks and health-insurance risks are calculated using an internal model, whereas other types of risk are calculated by applying the standard formula. Länsförsäkringar Bank has also already received approval from the Financial Supervisory Authority to use the Internal Ratings Based Approach (IRB Approach) for credit risk measurement for calculating the capital requirement in accordance with the Capital Requirements Regulation.

A more detailed description of the risks to which the Group and Parent Company are exposed and how these risks are managed is presented in Group note 2 Risk and capital management.

### Employees

Länsförsäkringar AB's task requires a broad range of expertise and specialist roles. Many opportunities for development and career progression are available. The Länsförsäkringar AB Group has 1,759 employees (1,679), of whom women numbered 1,029 (975) and men 730 (704). A total of 185 (182) new employees were recruited during the year.

Länsförsäkringar AB's internal attractiveness as an employer is measured according to a Net Promotor Score (NPS). The NPS in this year's employee survey was 21, a good result compared with the benchmark of 29 for the best companies.

Performance is defined as achieving the targets of the company's business plans and embodying values. Some 83% of employees believe that they received regular performance feedback from their immediate manager in 2016. Employeeship involves actively making improvements to the operations, for example, based on Lean activities. 77% of employees believe that their skills are developed in pace with changed working requirements, as compared with the target of 75% in the business plan.

A number of e-courses were produced to strengthen a learning and innovative culture. A shared employee profile, based on Länsförsäkringar AB's values, aims to clarify employee responsibility in terms of performance, competencies and health.

### Equality and diversity

Diversity activities in the operations is based on an approach that seeks to achieve the following: create value for customers, employees and society, make a difference that impacts profitability, reflects society and the customer base and broaden the recruitment base. Working toward an equal opportunity workplace has been a priority for many years. The equality and diversity plan was revised during the year to clarify targets, action plans and monitoring activities. The revised plan also addresses the Equal Opportunity Act and discrimination legislation and their application.

Länsförsäkringar AB participates in several partnership programmes on diversity, such as the Stockholm School of Economics' Rapid Acceleration Management, Korta vägen ("fast track"), Welcome Talent, Diversity Charter Sweden and My Dream Now.

The focus of the recruitment process has been to achieve a more even gender distribution among working groups and managerial positions. According to the employee survey, 80% of women and 92% of men believe that Länsförsäkringar AB is a equal opportunity workplace.

Salary levels for men and women in equal positions at the same level are quality assured based on the ongoing salary survey. The previous survey showed no differences between gender for similar positions.

Information regarding the average number of employees, salaries and remuneration, as well as details of salaries and other remuneration of Group management and Board members and auditors' fees, is provided in notes 6 and 7 for the Parent Company and notes 13 and 14 for the Group.

### 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. Länsförsäkringar AB's employee survey said that 64% of employees believe that they have a reasonable stress level in their work and 80% think that they have a good work/life balance.

Health care insurance is offered to all employees 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.

The employer offering is continuously communicated via both social and digital media and meetings with potential candidates at career days and on campus. Länsförsäkringar won the title of "The Insurance Industry's Most Attractive Employer" for the ninth consecutive year in Universum's Career Barometer survey of young university graduates, and was the only insurance company in the top 100 most attractive employers.

### **Sustainability**

Länsförsäkringar AB takes an environmental approach through the organisation by reducing the impact of the operations on the environment and ensuring that its offering is environmentally compatible. The environmental management system has ISO 14001 certification.

In accordance with the company's environmental policy, Länsförsäkringar AB assumes its responsibility for the negative impact on the environment caused by its operations. The largest sources of carbon emissions in the operations are business travel and heating. Air travel generates the highest amount of carbon emissions in the company. Several activities and clarifications in guidelines on business travel and company cars 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 to introduce double climate compensation for Länsförsäkringar AB's total carbon emissions.

The company also has charging stations for electric cars in its own car parks to stimulate the use of cars that do not operate on fossil fuels. Opportunities to borrow bikes and public transport travel cards for journeys throughout the day also provide an incentive for environmentally friendly travel.

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. The overall assessment of identified risks may be to refuse the loan.

The development of digital services lead to reduced paper-based communication to customers, letters, paper print-outs and transportation. In addition to reducing the environmental impact of paper manufacturing and transportation of paper-based communication, this makes information more accessible to customers.

Länsförsäkringar AB has included financial, social and environmental aspects into its purchasing policy so as to manage business risk and safeguard the principles of the UN Global Compact. A Code of Conduct for Suppliers, based on the UN Global Compact, defines requirements regarding human rights, labour conditions, environment and business ethics. Suppliers, and their sub-suppliers, are expected to comply with the principles of this Code.

Länsförsäkringar AB conducts standardised claims-prevention activities throughout the Länsförsäkringar Alliance to reduce claims in the insurance operations. Each claim incurred entails some form of environmental and societal impact.

Länsförsäkringar AB's office properties are environmentally classified as energy-efficient and designed to promote health and sustainability, in line with the Sweden Green Building Council's certification scheme and

the Green Building system. The electricity used in the properties is Good Environmental Choice electricity and district heating is used.

### **Responsible investment**

Länsförsäkringar AB's ethical guidelines are based on international conventions on the areas of environment, human rights, child labour, labour law, anti-corruption and controversial weapons. No direct investments are made in companies that conduct operations in controversial weapons, such as biological and chemical weapons, cluster munitions, landmines and nuclear weapons. Länsförsäkringar AB signed the United Nations-supported Principles for Responsible Investment (PRI). All investments in equities and credit bonds for the companies in the Länsförsäkringar AB Group are analysed with the assistance of an external consultant to identify companies that breach international conventions. There are two main alternatives in the event of contraventions of guidelines – divest the asset or seek to influence the company through lobbying and dialogue. Primarily dialogue and lobbying are used to influence companies to act responsibly.

Work began in 2016 on reducing the carbon footprint of the Länsförsäkringar AB Group's investments by divesting mining and energy companies that derive more than 50% of their income from coal. At the same time, activities were started to gradually increase the percentage of investments in green bonds. Länsförsäkringar AB supports the Carbon Disclosure Project (CDP), which collates environmental data from companies that is used by investors for financial analyses, including measuring carbon footprints. In 2016, Länsförsäkringar AB held talks with several other investors to persuade more companies to report to the CDP and to encourage companies to take action to reduce their impact on the environment.

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The results of the year's operations and the financial position of the Länsförsäkringar AB Group and the Parent Company at 31 December 2016 are presented in the following financial statements with accompanying notes for the Group and Parent Company.

# Corporate Governance Report

## Introduction

Länsförsäkringar AB is wholly owned by the 23 customer-owned regional insurance companies, together with 16 local insurance companies. The Länsförsäkringar AB Group comprises the Parent Company Länsförsäkringar AB with a number of directly and indirectly owned subsidiaries. The business operations of the Länsförsäkringar AB Group are those deemed by the Länsförsäkringar Alliance as best suited to be run jointly. Most of the Länsförsäkringar Alliance's development and service activities are coordinated with Länsförsäkringar AB, with shared priorities.

Länsförsäkringar AB is a public limited liability company, whose bonds have been listed on Nasdaq Stockholm since November 2012. Länsförsäkringar AB complies, where applicable, with the Swedish Corporate Governance Code (the Code), which became effective on 1 December 2016. The main reasons for the deviations are the limitations under the rules for financial companies, the federal structure of the Länsförsäkringar Alliance and that Länsförsäkringar AB is not a stock-market company. Deviations from the provisions of the Code and explanations for such deviations are presented in the Deviations from the Code section.

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

## Description of the corporate governance system

The Länsförsäkringar AB Group has a corporate governance system that aims to ensure healthy and responsible control of the Group, risk management and a high level of internal control in the operations. Because both insurance and banking operations are conducted in the Group, the Länsförsäkringar AB Group is a financial conglomerate and the Parent Company Länsförsäkringar AB is a mixed financial holding

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

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

Länsförsäkringar AB's corporate governance model can be described as the framework upon which the Länsförsäkringar Alliance's strategies and Länsförsäkringar AB's task from the shareholders, long-term direction and governance principles are converted into business activities in the Länsförsäkringar AB Group and according to which Länsförsäkringar AB organises, governs and controls the operations, taking into account applicable internal and external regulatory frameworks. The foundations of the corporate governance system are:

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

The Länsförsäkringar Alliance's strategies comprise a number of strategy documents that describe such issues as the Alliance's core values and outline the direction and

prerequisites for both the individual regional insurance companies and for the cooperation between the companies and Länsförsäkringar AB.

The assignment from the owners comprises the regional insurance companies' request for a coherent delivery of the activities within Länsförsäkringar AB and the Länsförsäkringar Alliance's joint strategies, as determined by Länsförsäkringar AB's shareholder consortium.

Länsförsäkringar AB's long-term direction is determined by the Board of Länsförsäkringar AB by adopting a long-term plan and within the framework of the annual business planning process in accordance with the Guidelines for Financial and Capital Management and Control.

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

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

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

performance management includes the internal-control system and the systems for such matters as regulatory compliance and risk management.

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

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

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

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

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

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

The distribution of work in the Länsförsäkringar AB Group is a key tool for achieving economies of scale in terms of both finance and expertise. It is also a method of implementing effective and proactive governance within the Länsförsäkringar AB Group. The operational organisation with the business activities conducted in the business units and Group-wide functions in the Parent Company was established based on this approach. Outsourcing operations

to external parties is also a key tool for achieving economies of scale in terms of both finance and expertise. Outsourcing takes place in both Länsförsäkringar AB and in the subsidiaries. For this reason, the Board of Länsförsäkringar AB has established a Group-wide policy for outsourcing operations that stipulates the overall principles for internally and externally outsourced operations.

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

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

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

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

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

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

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

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

#### ***Suitability requirements***

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

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

In order to be surveyable and easily available, the Länsförsäkringar AB Group's inter-

nal regulatory framework is to be simple and clear. The aim is to limit the number of internal regulatory documents as far as possible. The internal regulatory framework in the Länsförsäkringar AB Group comprising the following governance documents:

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

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

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

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

defence. Compliance is responsible for independent monitoring and control to ensure that the operations are conducted in full regulatory compliance. Risk Management is responsible for independent risk control and ensuring that the operations are conducted with a high level of risk control. Internal Audit, the third line of defence, comprises the Board's support for quality assurance and evaluation of the organisation's risk management, governance and internal control.

#### **Regulatory-compliance system**

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

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

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

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

A special Regulatory Group has been established with the task of ensuring that regulatory changes and new rules are identified at an early stage so as to perform impact assessments and decide on action. The Regulatory Group includes, among others, Head of Legal Affairs at Länsförsäkringar AB, Group CFO, Group CRO and Head of Compliance.

The Regulatory Group regularly reports on new and changed regulations to Group management, Committees and the Board.

#### **Risk-management system**

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

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

An overview of the corporate governance structure in Länsförsäkringar AB is illustrated in the figure on page 41.

#### **Shareholders and General Meeting**

The shareholders exercise their influence at the General Meeting, which is the company's highest decision-making body. A General Meeting is normally held once a year, the Annual General Meeting. No shareholder is entitled to own more than 9.9% of the capital or votes in the company.

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

At General Meetings, no one may vote using their own or anyone else's shares for more than 99/1,000 votes represented at the Meeting. Motions are passed at General Meetings by a simple majority of votes unless the Swedish Companies Act prescribes another specific voting majority. Decisions are made at the Annual General Meeting pertaining to: the Annual Report, the election of members of the Board and auditors, remuneration of Board members and auditors and other important matters to be addressed in accordance with laws or the Articles of Association. The remuneration proposal for Board members is specified for the Chairman, Deputy Chairman, other Board members and fees for committee work.

The 2016 Annual General Meeting approved the principles for remuneration and other terms of employment for corporate management.

#### **Nomination Committee**

The General Meeting of Länsförsäkringar AB appoints a Nomination Committee, which is charged with the duty of presenting proposals for members of the Board of Directors and auditors of Länsförsäkringar AB and its directly owned subsidiaries and certain other companies, and fees and other remuneration of these members and auditors. The Nomination Committee follows an instruction adopted by the Annual General Meeting of Länsförsäkringar AB. The Nomination Committee is responsible for ensuring that a suitability assessment of proposed Board members is performed. New Board members are recruited in accordance with the Nomination Committee's instructions and established procedures and processes. When recruiting new Board members, the Nomination Committee is also to apply the established diversity policy, according to which as a minimum age, gender, geographic origin, educational and professional background are to be considered in order to promote independent views and a critical and questioning attitude in the Boardroom. 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 (Chairman) (Länsförsäkringar Skåne), Ulf W Eriksson (Länsförsäkringar Värmland), Per-Åke Holgersson (Länsförsäkring Kronoberg), Conny Sandström (Länsförsäkringar Västerbotten) and Örian Söderberg (Länsförsäkringar Jönköping) since the 2014 Annual General Meeting.

Prior to the 2017 Annual General Meeting, the Nomination Committee has:

- Studied the Board's evaluation of its work
- Studied the Board Chairman's, Board members' and President's views on the operations, the Board's work and requirements for knowledge and experience
- Reviewed and discussed requirements for knowledge and experience with respect to the needs of the operations and regulatory requirements

Prior to 2017 Annual General Meeting, the Nomination Committee will:

- Evaluate the independence of candidates
- Nominate Board members, including the Chairman of the Board and, in certain cases, a Deputy Chairman

- Carry out suitability assessments of Board members
- Propose fees and other remuneration of Board members, auditors and other bodies

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

#### External auditors

The Annual General Meeting appoints the external auditors. Nominations are made to the Nomination Committee. In accordance with the Articles of Association, Länsförsäkringar AB is to have between one and three auditors and between zero and three deputy auditors. The auditors are appointed for a mandate period of not more than four years. At the 2016 Annual General Meeting, Helene Willberg, KPMG AB, was appointed auditor and Anders Tagde, KPMG AB, was appointed deputy auditor, both for a mandate period of three years.

The auditors examine Länsförsäkringar AB's Annual Report and Corporate Governance Report, as well as the administration of the Board and the President. At the Annual General Meeting, the auditor presents the audit report and describe the audit process. The auditor presented her audit results and observations to the Board once during 2016. The auditors also participate in meetings of the Audit Committee.

#### Board of Directors

The Board of Directors of Länsförsäkringar AB are appointed by the Annual General Meeting and, in accordance with the Articles of Association, is to comprise between eight and twelve Board members elected by the General Meeting, with or without deputies. In accordance with the Articles of Association, Board members are elected for a mandate period of two years by the Annual General Meeting. In addition, members and deputies appointed by the trade-union organisations are members of the Board. The President is not a member of the Board. The company has no time limit for the length of time a member may sit on the Board and no upper age limit

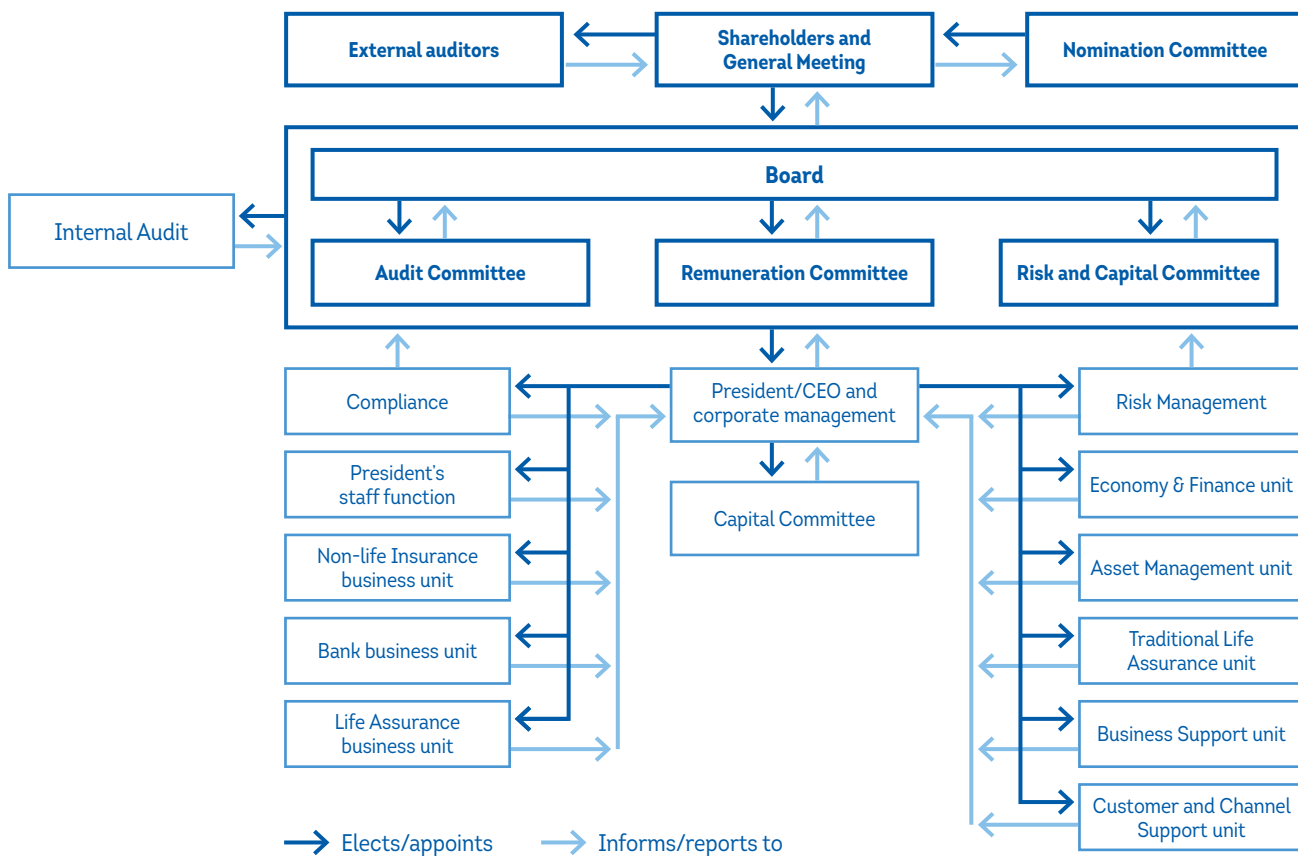
for Board members. The Chairman and Deputy Chairman of the Board are appointed by the Annual General Meeting. The President, Board Secretary, Head of Legal Affairs and Director of Corporate Communications participate in Board meetings except for matters in which there may be a conflict of interest or when it would otherwise be inappropriate for them to attend. Employees reporting on particular issues attend meetings when they make their presentations.

The Board currently comprises 11 regular members and two deputies. Eight of the members were elected by the Annual General Meeting. Three members and two deputies were appointed by the trade unions. The Board members are presented on pages 118–119.

#### Board responsibilities and allocation of duties

The Board is responsible for the organisation and administration of the company and decisions on issues of material significance and of an overall nature relating to the company's operations. The Board appoints, dismisses and the President, adopts an

### Länsförsäkringar AB's governance structure



appropriate operational organisation for Länsförsäkringar AB and the Länsförsäkringar AB Group, the goals and strategies of the operations, and ensures that efficient systems are in place for internal control and risk management.

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

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

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

#### **Chairman**

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

#### **Work of the board**

In its formal work plan, the Board has established a standard for its agenda, annually recurring items of business and a standard for information and decision-making

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

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

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

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

The Board held 14 meetings in 2016. The Board devoted particular attention to such issues as the new solvency rules for insurance companies, Solvency II, the new rules for banking operations, risk and capital issues, the financial situation in the business world and subsequent effects on the operations and IT and digitisation issues. During the year, the Board underwent several training courses in governance and regulatory issues.

The number of Board meetings and members' attendance at these meetings are presented in the table on page 43.

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

Every year, the Board Chairman initiates an evaluation of the Board's work. In 2016, this took the form of an online survey. A summary of the findings was presented to the Board for discussion.

#### **Audit Committee**

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

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

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

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

At the statutory Board meeting immediately following the 2016 Annual General Meeting, Göran Lindell (Chairman), Maria Engholm, Jan Fock and Jonas Rosman were appointed members of the Audit Committee.

The number of Audit Committee meetings and members' attendance at these meetings are presented in the table on page 43.

#### **Risk and Capital Committee**

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

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

At the statutory Board meeting immediately following the 2016 Annual General Meeting, Jan Fock (Chairman), Christer Villard and Caesar Åfors were appointed members of the Risk and Capital Committee.

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

#### Remuneration Committee

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

At the statutory Board meeting immediately following the 2016 Annual General Meeting, Jan Fock (Chairman), Göran Lindell and Jonas Rosman were appointed members of the Remuneration Committee.

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

#### President/CEO and corporate management

Johan Agerman took office as President of Länsförsäkringar AB on 9 January 2017, succeeding Sten Dunér who served as President from October 2009 and retired on 8 January 2017. Johan Agerman was born in 1962 and his experience includes holding senior positions at Trygg Hansa since 2002,

most recently as President. To ensure that the operations of each subsidiary comply with the overall objectives for the Länsförsäkringar AB, the President of Länsförsäkringar AB, as a general rule, also serves as the Chairman of the Board of each subsidiary.

In terms of the operations, the Länsförsäkringar AB Group is organised into three business units: Non-life Insurance, Banking and Life Assurance, and four support functions: Business Support, Asset Management, Economy and Finance, and Customer and Channel Support. In addition, there are the Traditional Life Assurance unit, the President's staff functions of HR, Legal Affairs, Communication, Internal Control, Company Development and Strategic Planning, and the control functions of Internal Audit, Compliance and Risk Management. To ensure the coordination of the operations in each business unit, the head of the business unit is also the President of the unit's Parent Company. Furthermore, the heads of each business unit, as a general rule, also serve as the Chairmen of the Boards of the directly owned subsidiaries.

Länsförsäkringar AB's corporate management comprises the Presidents and heads of the business units and support functions. The Head of Legal Affairs, HR Director, Director of Corporate Communications and the Head of Customer and Channel Support are co-opted members of corporate management. Corporate management comprises the management team for the entire Länsförsäkringar AB

Group. Corporate management discusses and decides on issues concerning the Group's units, Länsförsäkringar AB's President's staff functions and the Compliance and Risk Management functions.

The President established a Capital Committee to address issues regarding risk-taking, risk management and the balance between risk-taking and use of capital in the Länsförsäkringar AB Group. The members of this Committee are appointed by the President of Länsförsäkringar AB. The Committee is governed by a separate formal work plan.

#### Control functions

##### Internal Audit

Internal Audit is an independent review function that comprises the Board's support in the evaluation of the corporate governance system, including the organisation's risk management, governance and controls. Based on its reviews and advice, Internal Audit evaluates and ensure the quality of the efficient execution of the operations' overall internal governance and control systems, that the overall reporting to the Board provide a correct and comprehensive view of the operations, that the operations are conducted in accordance with applicable internal and external regulations, and compliance with the Board's decisions. Internal Audit reports to the Länsförsäkringar AB Group's Board of Directors and to the Boards of each subsidiary but is organisationally affiliated under the Chairman of the Audit Committee.

##### Compliance

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

#### 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 by each Board member:

	Board of Directors	Audit Committee	Risk and Capital Committee	Remuneration Committee
<b>Total number of meetings</b>	<b>9</b>	<b>5</b>	<b>3</b>	<b>3</b>
Maria Engholm	9	4	-	-
Jan Fock	9	5	3	3
Tomas Hansson, deputy	0	-	-	-
Susanne Lindberg	9	-	-	-
Göran Lindell	8	5	-	3
Linnéa Niklasson	9	-	-	-
Jonas Rosman	9	5	-	3
Anna Sandqvist	8	-	-	-
Mirek Swartz, deputy	0	-	-	-
Mikael Sundqvist	8	-	-	-
Christer Villard	9	-	3	-
Caesar Åfors	9	-	3	-

### **Risk Control**

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

### **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 with regard to the person's qualifications, 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 qualifications, knowledge and experience of individual members, the Board is assessed in its entirety to ensure that it possesses the competence required for leading and managing the company.

A person 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**

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

#### **Notice**

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

#### **Nomination Committee**

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

#### **Composition of Board**

A deviation from the provisions of the Code exists regarding independence of

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

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

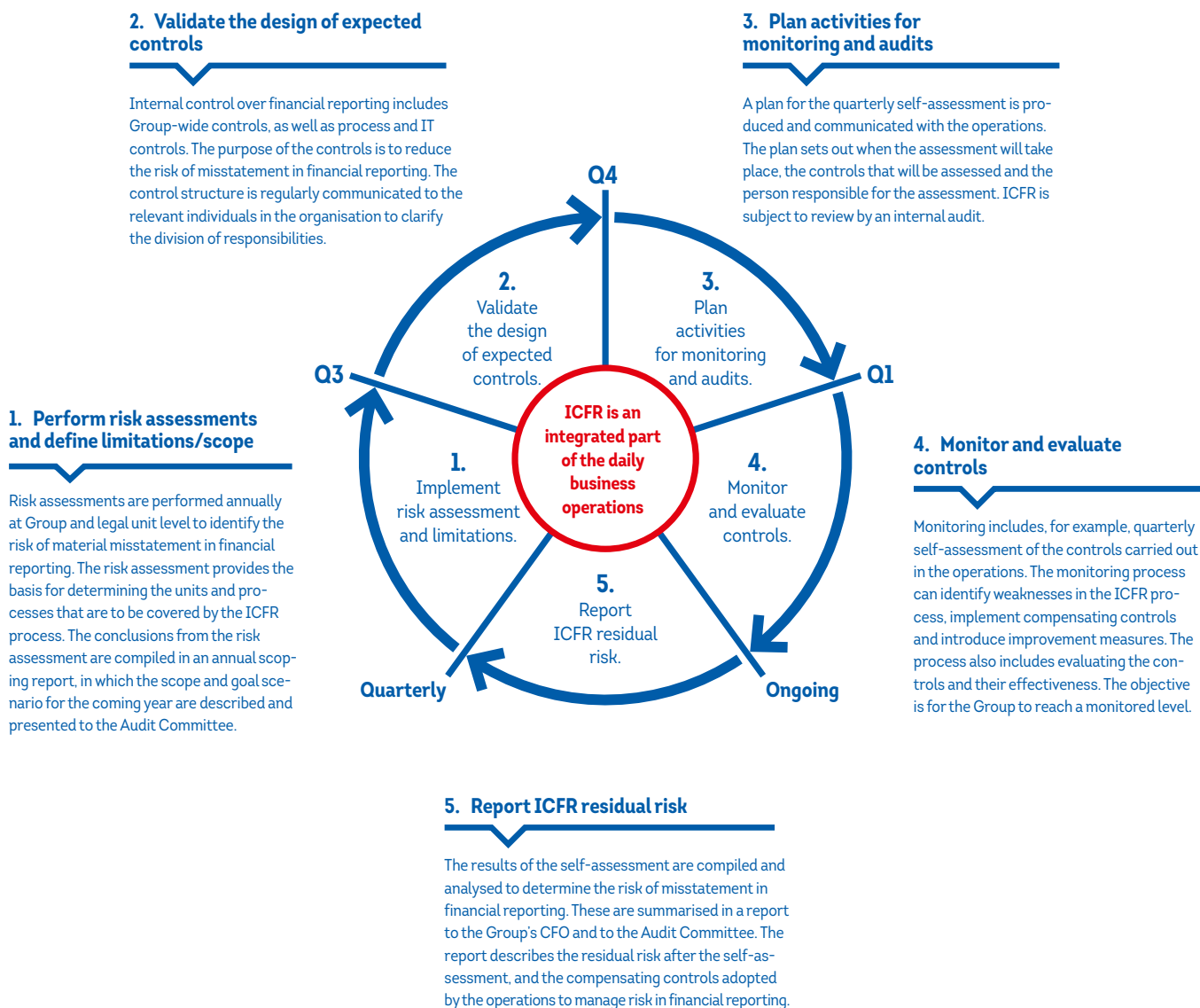
The mandate period for Board members is two years. The company deviates from the Code's provision of a maximum mandate period of one year due to the supremacy of the Annual General Meeting to dismiss and appoint a Board member irrespective of their term. A mandate period of more than one year contributes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

#### **Composition of Audit Committee**

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

# 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.



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.

## Five-year summary

Länsförsäkringar AB Group  
Amounts in SEK M unless otherwise stated.

	2016	2015	2014	2013	2012
<b>GROUP</b>					
Operating profit	2,286	2,155	1,469	923	819
Net profit for the year	1,845	1,765	1,159	682	684
Return on equity, % <sup>1)</sup>	10	11	7	5	5
Total assets, SEK billion	422	385	356	323	291
Number of shares, 000s	10,425	10,425	10,066	9,750	9,407
Equity per share, SEK	2,046	1,858	1,675	1,557	1,479
<b>Solvency capital</b>					
Equity	22,529	20,538	16,857	15,183	13,915
Tier 1 capital issued	-1,200	-1,173	-	-	-
Subordinated debt	2,595	2,300	2,000	2,000	900
Deferred tax	1,320	1,109	910	848	776
<b>Total solvency capital</b>	<b>25,244</b>	<b>22,774</b>	<b>19,767</b>	<b>18,031</b>	<b>15,590</b>
Solvency margin, % <sup>2)</sup>	452	428	455	420	388
Own funds for the group (FRL) <sup>3)</sup>	40,602	36,905	-	-	-
Solvency capital requirement for the group (FRL) <sup>3)</sup>	30,121	28,233	-	-	-
Own funds for the financial conglomerate <sup>4)</sup>	40,352	-	-	-	-
Capital requirement for the financial conglomerate <sup>4)</sup>	30,121	-	-	-	-
Own funds for the financial conglomerate <sup>5)</sup>	-	21,548	17,802	16,391	14,590
Necessary capital requirement for the financial conglomerate	-	15,897	14,988	12,754	12,661
Average number of employees	1,732	1,676	1,596	1,503	1,432
<b>INSURANCE OPERATIONS<sup>6)</sup></b>					
<i>Non-life insurance operations</i>					
Premiums earned (after ceded reinsurance)	5,090	4,836	3,880	3,905	3,795
Investment income transferred from financial operations	15	44	130	152	162
Claims payments (after ceded reinsurance) <sup>7)</sup>	-3,336	-2,776	-2,251	-2,613	-2,557
<b>Technical result for non-life insurance operations<sup>8)</sup></b>	<b>390</b>	<b>808</b>	<b>604</b>	<b>351</b>	<b>263</b>
<i>Premium income, non-life insurance</i>					
Premium income before ceded reinsurance	6,753	6,534	8,444	5,949	5,703
Premium income after ceded reinsurance	5,195	4,959	4,050	4,009	3,771
<i>Life-assurance operations</i>					
Premium income after ceded reinsurance	432	383	329	279	249
Fees pertaining to financial agreements	659	649	570	501	402
Investment income, net	144	-21	108	62	18
Claims payments (after ceded reinsurance)	-267	-262	-206	-91	-140
<b>Technical result, life-assurance operations</b>	<b>541</b>	<b>540</b>	<b>621</b>	<b>484</b>	<b>378</b>
<b>Operating profit for insurance operations<sup>9)</sup></b>	<b>1,194</b>	<b>1,424</b>	<b>1,164</b>	<b>675</b>	<b>613</b>
<i>Key figures</i>					
Cost ratio <sup>10)</sup>	27	27	29	28	30
Expense ratio <sup>11)</sup>	21	21	22	21	24
Claims ratio <sup>12)</sup>	71	63	65	73	73
Combined ratio	93	84	87	95	97
Management cost ratio, life-assurance operations <sup>13)</sup>	1	1	1	1	1
Direct yield, % <sup>14)</sup>	1.4	0.7	2.0	0.8	1.2
Total return, % <sup>15)</sup>	4.2	3.9	4.9	-0.6	3.5
<i>Financial position</i>					
Investment assets, SEK billion <sup>16)</sup>	14	12	12	17	17
Unit-linked insurance assets for which the policyholder bears the risk, SEK billion	112	100	91	76	62
Technical provisions (after ceded reinsurance), SEK billion	8	8	7	14	14
Own funds for the insurance group <sup>17)</sup>	-	9,436	7,618	-	-
Solvency margin for the insurance group <sup>17)</sup>	-	6,072	6,293	-	-

## Five-year summary, cont.

Länsförsäkringar AB Group	2016	2015	2014	2013	2012
<b>BANKING OPERATIONS</b>					
Net interest income	3,455	2,994	2,580	2,230	2,071
Operating profit	1,467	1,175	935	647	555
Net profit for the year	1,137	911	712	479	433
Return on equity, % <sup>18)</sup>	10	9	8	7	6
Total assets, SEK billion	276	251	232	214	197
Equity	13,182	12,057	9,597	8,288	7,171
Cost/income ratio before loan losses <sup>19)</sup>	0.51	0.57	0.62	0.63	0.66
Investment margin, % <sup>20)</sup>	1.28	1.22	1.15	1.06	1.11
Core Tier 1 ratio, Bank Group	24.8	23.7	16.2	14.7	13.1
Tier 1 ratio, Bank Group, % <sup>21)</sup>	27.5	26.6	16.2	14.7	13.7
Capital adequacy ratio, Bank Group, % <sup>22)</sup>	33.4	32.0	20.6	19.1	15.6
Core Tier 1 ratio, consolidated situation	21.2	21.4	13.9	-	-
Tier 1 ratio, consolidated situation <sup>21)</sup>	23.2	23.7	13.9	-	-
Capital adequacy ratio, consolidated situation <sup>22)</sup>	27.6	28.2	17.5	-	-
Loan losses in relation to loans, % <sup>23)</sup>	0.02	0.00	0.00	0.08	0.06

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

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

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

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

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

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

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

<sup>8)</sup> The Länsförsäkringar Sak Group's technical result amounted to SEK 435 M (821) in 2016. The Länsförsäkringar Sak Group includes Länsförsäkringar Gruppliv Försäkrings AB, which is recognised in the life-assurance operations. The technical result for Länsförsäkringar Gruppliv Försäkrings AB amounted to SEK 44 M (13) in 2016.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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## Consolidated income statement

SEK M	Note	2016	2015
Premiums before ceded reinsurance		7,018	6,775
Reinsurers' portion of premiums		-1,533	-1,583
<b>Premiums after ceded reinsurance</b>	5	<b>5,485</b>	<b>5,192</b>
Interest income	6	4,025	4,130
Interest expense	7	-569	-1,124
<b>Net interest income</b>		<b>3,455</b>	<b>3,006</b>
Change in unit-linked insurance assets policyholder bears the risk		7,916	5,365
Dividends in investment assets for which the policyholder bears the risk		7	8
Investment income, net	8	322	-6
Commission income	9	2,604	2,595
Other operating income	10	2,212	2,104
<b>Total operating income</b>		<b>22,002</b>	<b>18,263</b>
Claims payments before ceded reinsurance		-3,986	-3,968
Reinsurers' portion of claims payments		402	930
<b>Claims payments after ceded reinsurance</b>	11	<b>-3,584</b>	<b>-3,038</b>
Change in life-assurance reserve		-6	-5
Change in unit-linked insurance liabilities policyholder bears the risk		-8,050	-5,349
Commission expense	12	-2,738	-2,663
Staff costs	13	-1,973	-1,826
Other administration expenses	14, 15	-3,328	-3,220
Loan losses	16	-38	-6
<b>Total expenses</b>		<b>-19,716</b>	<b>-16,108</b>
<b>Operating profit</b>		<b>2,286</b>	<b>2,155</b>
Tax	17	-441	-389
<b>Net profit for the year</b>		<b>1,845</b>	<b>1,765</b>
Earnings per share before and after dilution, SEK	18	177	171

## Consolidated statement of comprehensive income

SEK M	Note	2016	2015
<b>Net profit for the year</b>		<b>1,845</b>	<b>1,765</b>
<b>Other comprehensive income</b>	36		
<b>Items that may subsequently be transferred to profit and loss</b>			
Translation differences for the year from foreign operations		-28	3
Cash-flow hedges		-81	41
Change in fair value of available-for-sale financial assets		138	-195
Tax attributable to items that may subsequently be transferred to profit and loss		-13	34
<b>Total</b>		<b>16</b>	<b>-117</b>
<b>Items that cannot be transferred to profit and loss</b>			
Revaluation of owner-occupied property		210	330
Revaluation of defined-benefit pension plans		2	2
Tax attributable to items that cannot be reversed to profit and loss		-47	-73
<b>Total</b>		<b>165</b>	<b>259</b>
<b>Total other comprehensive income for the year, net after tax</b>		<b>182</b>	<b>142</b>
<b>Comprehensive income for the year</b>		<b>2,027</b>	<b>1,907</b>

## Consolidated statement of financial position

SEK M	Note	31 Dec 2016	31 Dec 2015
<b>ASSETS</b>			
Goodwill	19	720	738
Other intangible assets	20	4,005	3,672
Deferred tax assets	40	19	34
Property and equipment	21	55	53
Owner-occupied property	22	2,721	2,545
Shares in Länsförsäkringar Liv Försäkrings AB	23	8	8
Shares and participations in associated companies	24	82	74
Reinsurers' portion of technical provisions	38	10,413	10,845
Loans to the public	25, 27	226,705	201,959
Unit-linked insurance assets for which the policyholder bears the risk	26	111,799	100,497
Shares and participations	28	2,024	1,832
Bonds and other interest-bearing securities	29	41,371	40,061
Treasury bills and other eligible bills	30	7,794	8,824
Derivatives	31	5,597	4,479
Change in value of hedge portfolios	32	636	815
Other receivables	33	3,674	3,672
Prepaid expenses and accrued income	34	2,956	3,111
Cash and cash equivalents	35	1,171	1,374
<b>Total assets</b>		<b>421,750</b>	<b>384,595</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	36		
Share capital		1,042	1,042
Other capital contributed		10,272	10,272
Additional Tier 1 instrument		1,200	1,200
Reserves		835	653
Retained earnings, including net profit for the year		9,179	7,370
<b>Total equity</b>		<b>22,529</b>	<b>20,538</b>
Subordinated liabilities	37	2,595	2,300
Technical provisions	38	18,757	18,376
Unit-linked insurance liabilities policyholder bears the risk	39	112,225	101,002
Deferred tax liabilities	40	1,339	1,139
Other provisions	41	137	257
Debt securities in issue	42	157,440	141,269
Deposits from the public	43	89,946	82,702
Due to credit institutions	44	3,873	2,954
Derivatives	31	1,680	2,455
Change in value of hedge portfolios	32	3,191	2,899
Other liabilities	45	3,304	3,955
Accrued expenses and deferred income	46	4,734	4,749
<b>Total equity and liabilities</b>		<b>421,750</b>	<b>384,595</b>

For information about pledged assets and contingent liabilities, see note 47.

## Consolidated statement of changes in shareholders' equity

SEK M	Share capital	Other capital contributed	Tier 1 capital	Translation reserve	Revaluation reserve	Fair value reserve	Hedging reserve	Retained earnings including net profit for the year	Total equity
Opening equity, 1 January 2015	1,007	9,708	–	–36	394	138	15	5,631	16,857
<b>Comprehensive income for the year</b>									
Net profit for the year	–	–	–	–	–	–	–	1,765	1,765
Other comprehensive income	–	–	–	3	259	–152	32	–	142
<b>Comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>3</b>	<b>259</b>	<b>–152</b>	<b>32</b>	<b>1,765</b>	<b>1,907</b>
Tier 1 capital issued	–	–	1,200	–	–	–	–	–27	1,173
<b>Shareholders' contribution</b>									
New share issue	36	564	–	–	–	–	–	–	600
<b>Closing equity, 31 December 2015</b>	<b>1,042</b>	<b>10,272</b>	<b>1,200</b>	<b>–32</b>	<b>653</b>	<b>–14</b>	<b>47</b>	<b>7,370</b>	<b>20,538</b>
Opening equity, <b>1 January 2016</b>	1,042	10,272	1,200	–32	653	–14	47	7,370	20,538
<b>Comprehensive income for the year</b>									
Net profit for the year	–	–	–	–	–	–	–	1,845	1,845
Other comprehensive income	–	–	–	–28	165	108	–63	–	181
<b>Comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–28</b>	<b>165</b>	<b>108</b>	<b>–63</b>	<b>–</b>	<b>181</b>
Tier 1 capital issued	–	–	–	–	–	–	–	–36	–36
<b>Closing equity, 31 December 2016</b>	<b>1,042</b>	<b>10,272</b>	<b>1,200</b>	<b>–60</b>	<b>818</b>	<b>94</b>	<b>–16</b>	<b>9,179</b>	<b>22,529</b>

## Consolidated statement of cash flows

SEK M	Note	2016	2015
<b>Operating activities</b>			
Profit before tax		2,286	2,155
Adjustment for non-cash items	54	4,260	4,617
Tax paid		-565	-279
<b>Cash flow from operating activities before changes in working capital</b>		<b>5,981</b>	<b>6,493</b>
<b>Cash flow from changes in working capital</b>			
Change in shares and participations, bonds and other interest-bearing securities and derivatives		-5,424	-3,446
Increase (-)/Decrease (+) in operating receivables		-24,040	-22,198
Increase (+)/Decrease (-) in operating liabilities		7,583	6,465
<b>Cash flow from operating activities</b>		<b>-15,899</b>	<b>-12,686</b>
<b>Investing activities</b>			
Acquisitions of associated companies		-	-3
Purchase of intangible assets		-596	-372
Purchase of property and equipment		-91	-39
Investment in property and equipment		-38	-23
Divestment of property and equipment		-	10
<b>Cash flow from investing activities</b>		<b>-724</b>	<b>-426</b>
<b>Financing activities</b>			
New share issue		-	600
Change in debt securities in issue		16,467	11,055
Additional Tier 1 Capital instruments		-	1,200
Distributions in Tier 1 Capital instruments		-36	-27
<b>Cash flow from financing activities</b>		<b>16,431</b>	<b>12,828</b>
Net cash flow for the year		-192	-284
Cash and cash equivalents, 1 January		1,374	1,657
Exchange-rate differences in cash and cash equivalents		-11	1
<b>Cash and cash equivalents, 31 December</b>		<b>1,171</b>	<b>1,374</b>

# Notes to the consolidated financial statements

Amounts are stated in SEK M unless specified otherwise.

## Note 1 Accounting policies

### Compliance with standards and legislation

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

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

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

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

The statement of financial position has been presented based on liquidity. Assets and liabilities are recognised at cost, with the exception of owner-occupied property and the major portion of the Group's holding of financial instruments that are either measured at fair value or at amortised cost.

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

### Judgements and estimates in the financial statements

The preparation of the financial statements IFRS requires that Group management makes judgements and estimates, and make assumptions that affect the application of the accounting policies and the carrying amounts of income, expenses, assets, liabilities and contingent liabilities presented in the financial statements. These judgements and estimates, as made by management, 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.

Estimates and assumptions 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 the actual and future periods.

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

Länsförsäkringar AB's holding in Länsförsäkringar Liv Försäkringsaktiebolag (publ) (referred to below as "Länsförsäkringar Liv") is not classified as a holding in a subsidiary in accordance with the definition in IFRS 10 Consolidated Financial Statements and thus is not consolidated. The company is wholly owned by the Länsförsäkringar AB. The life-assurance operations, which are conducted according to mutual principles through Länsförsäkringar Liv and whose earnings accrue in their entirety to the policyholders, are not recognised in accordance with the purchase method since Länsförsäkringar AB does not have control of the company or the right to variable returns and can not influence returns. Instead, Länsförsäkringar Liv is recognised and valued as unlisted shares in accordance with IAS 39 Financial Instruments: Recognition and Measurement. The types of category and valuation techniques selected and applied to financial instruments affect recognition in the accounts and are described below.

### 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.

When calculating technical provisions, an actuarial estimate of anticipated additional costs for claims incurred and expenses for claims that may be incurred during the remaining term of the insurance policy is made. Another area that involves uncertainty in estimates is the depreciation period for prepaid acquisition costs for unit-linked insurance contracts. The assumption for the depreciation period is based on statistics relating to the terms of the insurance contracts.

### Amended accounting policies

The Group has not applied any other new or amended accounting regulations from 1 January 2016. Other amendments to IFRS applicable from 2016 did not have any significant effect on 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 fiscal years beginning after 1 January 2017, 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 IASB has finalised IFRS 9, which contains new requirements for the classification and measurement of financial instruments, a forward-looking impairment model for debt instruments based on expected rather than incurred credit losses and simplified conditions for hedge accounting. The EU has approved the standard with application from 1 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
Treasury bills and other eligible bills	X		X
Cash and cash equivalents		X	
Loans to the public		X	
Unit-linked insurance assets – policyholder bears the risk	X		
Bonds and other interest-bearing securities	X		X
Shares and participations	X		X
Shares in Länsförsäkringar Liv Försäkrings AB			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 and liabilities 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 rules 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

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 essentially 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 Group currently has a project in progress to analyse the effects of IFRS 16, but the impact of the rules has not yet been determined.

### IFRS 17 Insurance contracts

The IASB is working on a new version of IFRS 4 Insurance Contracts that will replace the existing standard. The new standard is called IFRS 17. The standard will eliminate contradictions and flaws in the existing method by providing a principle-based set of rules for recognising insurance contracts. The updated standard will also impose new disclosure requirements to enhance comparability of financial reporting among entities.

The final standard is expected to be issued in the first half of 2017 and is expected to take effect for fiscal years beginning on or after 1 January 2021. Länsförsäkringar is currently running a project in the Group to analyse the effects of the new standard. The project is in the pilot study stage.

In September 2016, the IASB issued amendments to IFRS 4 allowing insurance companies an optional temporary exemption from applying IFRS 9 which is to be applied for fiscal years beginning on or after 1 January 2018. This exemption means that insurance companies can instead choose to start applying IFRS 9 at the same time as the future standard IFRS 17, that is from

the 2021 fiscal year. The standard has not yet been approved by the EU. The Länsförsäkringar AB Group cannot apply the exemption in the consolidated financial statements based on the criteria stipulated in the amendment to IFRS 4.

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.

## **Consolidated financial statements**

### **Consolidation principles**

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

In the consolidated financial statements, untaxed reserves are divided into deferred tax liabilities and equity.

### **Subsidiaries**

Subsidiaries are recognised in accordance with the purchase method. This method entails that the acquisition of a subsidiary is considered to be a transaction whereby the Group indirectly acquires the subsidiary's assets and assumes its liabilities.

The acquisition analysis determines the fair value of the acquired identifiable assets and assumed liabilities, as well as any non-controlling interests, on the acquisition date. Transaction costs incurred, except for transaction costs attributable to the issue of equity instruments or debt instruments, are recognised directly in profit and loss.

For business combinations whereby consideration transferred, any non-controlling interests and the fair value of previously owned participations (for step acquisitions) exceeds the fair value of acquired assets and assumed liabilities that are recognised separately, the difference is recognised as goodwill. A negative difference is recognised directly in profit and loss.

Consideration transferred in conjunction with the acquisition does not include payments pertaining to settlement of previous business relationships. This type of settlement is recognised in profit and loss.

Contingent consideration is measured at fair value on the acquisition date. If the contingent consideration is classified as an equity instrument, no remeasurement takes place and settlement takes place in equity. Other contingent consideration is remeasured at each reporting date and the change is recognised in profit and loss.

### **Acquisitions between 1 January 2006 and 31 December 2009**

For acquisitions that took place between 1 January 2006 and 31 December 2009, where the cost exceeds the fair value of acquired assets and assumed liabilities and contingent liabilities that are recognised separately, the difference is recognised as goodwill. A negative difference is recognised directly in profit and loss. Transaction costs incurred, except for transaction costs attributable to the issue of equity instruments or debt instruments, are included in cost.

### **Acquisitions prior to 1 January 2006**

For acquisitions that took place prior to 1 January 2006 (the date of the transition to IFRS), goodwill, after impairment testing, was recognised at a cost corresponding to the carrying amount in accordance with previously applied accounting policies. The classification and accounting treatment of business combinations occurring prior to 1 January 2006 were not restated in accordance with IFRS 3 when the Group's opening IFRS balance sheet was prepared at 1 January 2006.

### **Financial statements of subsidiaries in the consolidated financial statements**

The financial statements of subsidiaries are included in the consolidated financial statements from the acquisition date until the date on which the

controlling influence ceases. If the subsidiary's accounting policies were not the same as the Group's accounting policies, they were adjusted to the Group's accounting policies.

### **Accounting of associated companies**

Associated companies are companies in which the Group has a significant, but not a controlling, influence over operational and financial control, usually through holdings of participations of between 20-50% of the number of votes. Participations in associated companies are recognised in the consolidated financial statements in accordance with the equity method from the date on which the significant influence was obtained. The equity method entails that the carrying amount of the shares in the associated companies recognised in the Group corresponds to the Group's participations in the associated companies' equity and consolidated goodwill as well as any other remaining values of consolidated surpluses or deficits. Dividends received from associated companies reduce the carrying amount of the investment. The Group's participations in associated companies' net profit after tax and non-controlling interests adjusted for any depreciation/amortisation, impairment or dissolution of acquired surpluses or deficits are recognised in profit and loss. A difference arising from the acquisition between the cost of the holding and the owner company's share of the net fair value of the associated company's identifiable assets, liabilities and contingent liabilities is recognised in accordance with IFRS 3 Business Combinations. Transaction costs incurred are included in cost.

When the Group's share of recognised losses in the associated company exceeds the carrying amount of the participations in the Group, the value of the participations is reduced to zero. Losses are also deducted against long-term financial balances without collateral, which in their financial significance comprise the portion of the owner company's net investment in the associated company. Continued losses are not recognised unless a company in the Group has provided guarantees to cover losses arising in the associated company. The equity method is applied until the date on which the significant influence ceases. Unrealised gains arising from transactions with associated companies are eliminated to the extent corresponding to the participation in the company owned by the Group. Unrealised losses are eliminated in the same manner as unrealised gains, but only to the extent that no impairment requirement exists.

The reporting dates and accounting policies for associated companies are the same as those applied in the Group.

### **Related parties**

Legal entities closely related to the Länsförsäkringar AB Group include associated companies, companies within the Länsförsäkringar Liv Group, the regional insurance companies and other related parties. Legal entities closely related to the Parent Company Länsförsäkringar AB also include its subsidiaries. Related key persons are Board members, senior executives and their close family members.

Associated companies include all associated companies owned by the Länsförsäkringar AB Group and the Länsförsäkringar Liv Group. Other related parties comprise Länsförsäkringar Mäklarservice AB, Länsförsäkringar Fastighetsförmedling AB and Humlegården Fastigheter AB. These companies are wholly owned within the Länsförsäkringar Alliance.

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

### **Operating segments**

The Group's division of operating segments corresponds to the structure of the internal reports that the company's chief operating decision maker uses

to monitor the operations and allocate resources between operating segments. The Group identified Group management as the company's chief operating decision maker. Accordingly, for the Länsförsäkringar AB Group, the reports on the earnings of the various segments of the operations that are received by Group management form the basis of segment reporting. This led to accounting policies in the operating segments deviating from policies applied in the consolidated financial statements. Changes in the fair value of owner-occupied property in segments in the Länsförsäkringar AB Group are recognised in operating profit instead of in other comprehensive income.

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

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

## Foreign currency

### *Transactions in foreign currency*

The Parent Company'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. Transactions in foreign currency are translated to the functional currency at the exchange rate that applies on the date of the transaction.

Monetary assets and liabilities in foreign currency are translated at 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 translations in the statement of financial position in foreign currency to the functional currency are recognised in profit and loss as Investment income, net.

## Translation of the financial statements of foreign operations

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

## Impairment

The carrying amounts of the Group's assets are assessed at the end of every accounting period to determine whether there are any indications of impairment.

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

If there is an indication of an impairment requirement, the recoverable amount of the asset is calculated. The recoverable amounts of goodwill and intangible assets that are not finished for use are calculated annually. If it is not possible to determine the significantly independent cash flows for an individual asset, the assets are to be grouped when testing for impairment at the

lowest value where it is possible to identify the significantly independent cash flows, known as a cash-generating unit. A cash-generating unit is the smallest group of assets that generates cash inflows that are independent of the cash inflows from other assets or groups of assets.

An impairment loss is recognised when the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount. Impairment losses are recognised in profit and loss. The impairment of assets attributable to a cash-generating unit is initially distributed to goodwill. Proportional impairment losses on the other assets included in the unit are subsequently recognised.

The recoverable amount is the higher of fair value less selling expenses and value in use. In the calculation of the value in use, future cash flows are discounted at a discount factor that takes into consideration risk-free interest and the risk associated with the specific asset.

### *Impairment tests for financial assets*

On each reporting occasion, the company assesses whether a financial asset is in need of impairment by evaluating objective evidence of impairment of a financial asset. Objective evidence comprises observable circumstances that have occurred and have a negative effect on the possibility to recover the cost. For equity instruments classified as available-for-sale financial assets, objective evidence constitutes a significant or prolonged decline in the fair value of the investment.

The recoverable amount for assets belonging to the category of loans and receivables, which are recognised at amortised cost, is calculated as the present value of future cash flows discounted by the effective interest rate that applied when the asset was initially recognised. Assets with a duration of less than one year are not discounted. Impairment losses are recognised in profit and loss.

## Reversal of impairment losses

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

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

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

### *Reversal of impairment on financial assets*

Impairment losses on loans and receivables recognised at amortised cost are reversed if a subsequent increase in the recoverable amount can objectively be attributed to an event occurring after the impairment loss was recognised.

Impairment of equity instruments classified as available-for-sale financial assets are not reversed through profit and loss. The impaired value is the value from which subsequent revaluations are made, which are recognised in other comprehensive income.

Impairment of interest-bearing instruments, classified as available-for-sale financial assets, are reversed through profit and loss if the fair value increases and the increase can objectively be attributed to an event occurring after the impairment loss was recognised.

Impairment of financial assets is recognised as Investment income, net.

## 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 company the degree of completion on the balance-sheet date can be measured reliably
- 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. Income is recognised in accordance with the percentage of completion method, meaning that income is recognised on the basis of the degree of completion of the assignment or the service on the balance-sheet date.

#### **Other income**

Income from assignments is recognised when the financial outcome of performed assignments can be measured reliably and the economic benefits flow to the company (primarily on a current account basis). Income is recognised in profit and loss according to the percentage of completion method.

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

#### **Premiums**

##### **Premium income**

Premium income in the non-life insurance operations is recognised as the total gross premium for direct insurance and assumed reinsurance deposited or can be credited to the company for insurance contracts for which the insurance period commenced prior to the end of the fiscal year. Gross premium is the contractual premium for the entire insurance period after deductions for standard customer discounts. Renewal premiums that are not confirmed by the policyholder and premiums for new insurance contracts are included at the amounts at which they are expected to be received. Cancellations reduce the premium income as soon as the amount is known. Additional premiums are included at the amounts at which they are expected to be received. Premiums for insurance periods commencing after the end of the fiscal year are also recognised as premium income, if according to contract they fall due for payment during the fiscal year. Premium income is recognised excluding tax and other public fees charged to the insurance premium.

The insurance component in the life-assurance operations is classified in the financial agreements as insurance contracts.

##### **Premiums earned**

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

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

Interest income and interest expense presented in the income statement comprise interest in the Bank Group on financial assets and liabilities that is valued at amortised cost, including interest on impaired loans and interest from financial assets classified as available-for-sale financial assets. For interest-rate derivatives that hedge financial assets, paid and accrued interest is recognised as interest income, and for interest-rate derivatives that hedge financial liabilities, these are recognised as part of interest expense. Interest income on assets and interest expense on liabilities are calculated and recognised through application of the effective interest method or by calculating a reasonable estimated based on a calculation under the effective interest method. Interest income and interest expense include, where appropriate, allocated fees received, which are included in the calculation of effective interest rate, transaction costs and any discounts and other differences between the original value of the asset or liability and the amount settled at maturity. Allocated issue expenses and direct transaction costs paid when loans are raised are included in interest expense.

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

The following items are recognised under Investment income, net: realised and unrealised gains/losses from investing activities, the Bank Group's net

gains from financial items and effect of interest-rate revaluations on annuities in insurance operations. Realised profit and loss is calculated as the difference between the purchase consideration received and the cost of the asset. Unrealised profit and loss comprises changes for the year in the difference between cost and fair value. In the event of a sale, the accumulated unrealised changes in value is reversed as unrealised gain and loss. Gains/losses from investing activities include interest income, interest expense, exchange-rate gains and exchange-rate losses on investment assets, derivatives not included in hedge accounting, cash and cash equivalents and loans. Realised and unrealised gains/losses on investment assets and derivatives not included in hedge accounting are included in the item, as well as dividends, impairment of financial assets and external costs for asset management. Net gains from financial items from the Bank Group includes interest compensation, realised and unrealised changes in value of derivatives that are financial hedging instruments, but to which hedge accounting is not applied. Furthermore, unrealised changes in fair value of derivatives to which fair value hedge accounting is applied and unrealised changes in fair value of hedged items with regard to hedged risk in the hedging of fair value are included. The ineffective portion of hedging instruments in cash-flow hedging and exchange-rate changes is also included. In the insurance operations, provision for claims outstanding is discounted on annuities; the effect of interest-rate revaluations on annuities is recognised as Investment income, net.

#### **Commission income and commission expense**

Commission income is derived from 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. Fees from financial agreements and commission income in the unit-linked insurance operations are recognised as commission income.

Commission expense is dependent on the transaction and is recognised in the period in which the services are received. Commission expense includes remuneration to the regional insurance companies for their work with the Group's customer-related issues in unit-linked insurance and in the banking operations. Commission expense deriving from financial assets or financial liabilities not measured at fair value through profit and loss comprises commission to the regional insurance companies.

#### **Claims payments**

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

#### **Remuneration of employees**

##### **Current remuneration**

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

##### **Remuneration after termination of employment**

###### **Pension plans**

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

#### *Defined-benefit pension plans*

The Group's net commitments for defined-benefit 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 high-quality corporate bonds with a term corresponding to that of the Group's pension commitments. When there is no longer an active 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. Furthermore, the fair value of the plan assets is calculated as per the reporting date.

Actuarial gains and losses may arise in conjunction with the determination of the commitment's present value and fair value of the plan assets. These gains and losses arise either because the actual outcome deviates from the earlier assumption or because the assumptions are changed.

Net interest expense/income on the defined-benefit commitments is recognised in profit and loss. Net interest income is based on the interest rate arising when discounting the commitment, meaning the interest on the commitment, plan assets and interest on the effect of asset limitations.

Revaluation effects comprise actuarial gains and losses, the difference between the actual return on plan assets and the total included in net interest income, and changes in the effects of asset limitations. Revaluation effects are recognised in other comprehensive income.

The carrying amount of pensions and similar commitments recognised in the statement of financial position corresponds to the present value of the commitments at year-end, less the fair value of plan assets.

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.

Yield tax recognised is continuously recognised in the period to which the tax pertains and is thus not included in the liability reporting. 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 the necessary information, which is why the pension plan above is recognised as a defined-contribution plan. Nor is any information available on future surpluses and deficits in the plan, and whether these surpluses and deficits would then affect the contributions for 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.

#### **Loan losses**

Loan losses comprises confirmed and probable loan losses. 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 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.

#### **Taxes**

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 or against equity with the related tax effect recognised in other comprehensive income or in equity. Additional income tax arising on dividends is recognised at the same time as when the dividend is recognised as a liability.

#### **Current tax**

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

#### **Deferred tax**

Deferred tax is calculated based on temporary differences between carrying amounts and tax bases of assets and liabilities. Temporary differences are not taken into account in consolidated goodwill or in differences arising on first recognition of assets and liabilities that are not business combinations and, at the time of the transaction, do not affect recognised or taxable earnings. Nor are temporary differences attributable to participations in subsidiaries and associated companies not expected to be reversed in the foreseeable future taken into consideration. The valuation of deferred tax is based on how the carrying amounts of assets and liabilities are expected to be realised or settled. Deferred tax is calculated with application of the tax rates and tax rules established or decided in practice on the balance-sheet date.

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

#### **Yield tax**

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

#### **Intangible assets**

##### **Goodwill**

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

Goodwill is measured at cost less any accumulated impairment. Goodwill is distributed to cash-generating units and is tested for impairment at least once annually. Goodwill that has arisen in conjunction with the acquisition of associated companies is included in the carrying amount of participations in associated companies.

#### **Other intangible assets**

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

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

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

The period of amortisation is determined based on useful lives. Amortisation takes place through profit and loss according to the straight-line method. Impairment requirements are tested annually as described in the section on Impairment above.

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

#### **Property and equipment**

##### **Equipment**

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

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

##### **Owner-occupied property**

Owner-occupied property is recognised in accordance with the revaluation technique.

Land and buildings owned by the Länsförsäkringar AB Group and that are used for administrative purposes are recognised at their revalued amounts, which corresponds to fair value less accumulated depreciation and adjustments due to revaluations on the date of revaluation. Fair value is based on the prevailing prices in an active market for similar properties in the same location and of the same standard, supplemented by a cash-flow statement. The valuation is performed twice a year by an external independent appraiser. Increases in value are recognised in other comprehensive income and accumulated after tax in the revaluation reserve in equity. If the increase comprises a reversal of a previously recognised decrease in value of the same asset, the increase is recognised as a reduced cost in profit and loss. If revaluation results in a reduction in the carrying amount, the reduction is recognised in profit and loss. However, the reduction is recognised in other comprehensive income to the extent that a revaluation reserve is attributable to the asset.

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

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

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

Additional expenses are added to the cost only if it is probable that the future economic benefits associated with the asset will flow to the company and the cost can be measured reliably. All other additional expenses are recognised as an expense in the period in which they arise.

The key factor in the assessment of whether an additional expense is to be added to the cost is whether the expense pertains to the replacement of identified components, or parts thereof, in which case such expenses are capitalised. The expense is also added to the cost when a new component is created.

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

#### **Financial assets and liabilities**

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

A financial asset or financial liability is recognised in the statement of financial position when the company becomes party to the agreement in accordance with the conditions of the instrument. A financial asset is derecognised from the statement of financial position when the right to receive cash flows from the instrument has expired or been transferred, and the Group has essentially transferred all risks and rewards associated with ownership. A financial liability is derecognised from the statement of financial position when the obligation in the contract is met or extinguished in another manner. Business transactions in the monetary, bond and equities markets are recognised in the statement of financial position on the transaction date, which is the time when the significant risks and rights are transferred between the parties. Deposits and lending transactions are recognised on the settlement date.

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

##### **Offsetting financial assets and liabilities**

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

##### **Recognition of repurchase transactions**

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

##### **Classification and measurement**

Financial instruments measured at fair value upon initial recognition in the statement of financial position. A financial instrument is classified on initial recognition based on the purpose for which it was acquired, and determined upon initial recognition. After initial recognition, the classification determines

how the financial instrument is measured. Financial instruments are initially measured at fair value plus transaction costs, which applies to all financial assets not measured at fair value through profit and loss. Financial assets measured at fair value through profit and loss are initially measured at fair value, while the attributable transaction costs are recognised in profit and loss.

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

This category comprises two sub-groups: Held for trading and Financial assets measured according to fair value option. The "Held for trading" category comprises derivatives that are not included in a hedge relationship and that have a positive market value. The "Financial assets measured according to fair value option" category includes assets that are managed and valued based on the fair values of the assets. The fair value which also forms the basis of internal monitoring and reporting to senior executives. Since these assets are managed and valued at fair value, the Group has chosen to classify these instruments as financial assets measured at fair value through profit and loss. In the statement of financial position, Financial assets measured according to fair value option comprises the items of Unit-linked insurance assets policyholder bears the risk, Shares and participations and Bonds and other interest-bearing securities. Changes in fair value of these assets are recognised in profit and loss as Investment income, net

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

The Group's derivatives, which comprise interest-rate and cross-currency swaps and purchased interest caps, have been acquired in their entirety to hedge the risks of interest and exchange-rate exposure arising during the course of operations. All derivatives are measured at fair value in the statement of financial position. Changes in value are recognised depending on whether the derivative is designated as a hedging instrument and the type of 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 has been prepared and that the effectiveness can be measured reliably. Hedge accounting may only be applied if the hedge relationship can be expected to be highly effective. In the event that the conditions for hedge accounting are no longer met, the derivative instrument is measured at fair value with the change in value in profit and loss. Hedge relationships are evaluated monthly. Each identified hedge relationship is expected to be effective over the entire lifetime of the relationship. Effectiveness is tested by applying a forward-looking (prospective) assessment and a retrospective evaluation. Ineffectiveness is recognised in profit and loss.

#### **Cash-flow hedges**

Cash-flow hedging means a hedge of the risk of changed cash flows, for example, the risk of changed interest expenses from a loan bearing variable interest. When cash-flow hedges are applied, the effective portion of the derivative's (the hedging instrument's) changes in value are recognised in Other comprehensive income and accumulated in Equity. Changes in value recognised in Equity impact profit and loss at the same time as the hedged item impacts profit and loss. The Group applies cash-flow hedges for hedging interest-rate risk in Länsförsäkringar AB's debt securities in issue bearing variable interest and for hedging currency risk in Länsförsäkringar Bank's debt securities in issue in foreign currency.

#### **Fair-value hedges**

Fair-value hedges entail hedging the risk of changes in fair value of a financial asset or a financial liability. When applying fair-value hedges, the hedged item is measured at fair value regarding its hedged risk. The changes in value that arise are recognised in profit and loss and are counterbalanced by the changes in value arising on the derivative (the hedging instrument). Länsförsäkringar Bank applies the fair-value hedge method to specific portfolios of funding, deposits and loans bearing fixed interest rates. Länsförsäkringar Bank also applies the fair-value hedge method to assets in the liquidity portfolio that are

classified in the category of Available-for-sale financial assets. The portfolio method that is applied implies that the hedged item and the hedging instruments are distributed to various time pockets based on the contractual timing of interest renegotiation or maturity. 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 in Investment income, net. Unrealised changes in the value of hedging instruments are also recognised in the item Investment income, net. Interest coupons, both unrealised and realised, are recognised as interest income if the hedged item is an asset or portfolio of assets, or as interest expense if the hedged item is a liability or portfolio of liabilities.

#### **Available-for-sale financial assets**

Available-for-sale financial assets are assets that have been designated in this category or not classified in any of the other categories. The Group has chosen to classify the Bank Group's liquidity surplus and holdings in Länsförsäkringar Liv Försäkrings AB in this category. Assets in the Available-for-sale financial assets category are continuously measured at fair value. Unrealised changes in value are recognised in other comprehensive income and accumulated in the fair value reserve in equity. Assets are recognised in profit and loss once the changes in value have been realised and when any impairment losses arise. The shares in Länsförsäkringar Liv Försäkrings AB are measured at fair value corresponding to cost adjusted for impairment since the shares cannot be reliably measured at fair value. An assessment of whether the shares of Länsförsäkringar Liv Försäkrings AB require impairment takes place prior to the end of each reporting period.

#### **Loans and receivables**

Loans and receivables are financial assets that have fixed or fixable payments and that are not derivatives or quoted in an active market. Assets in this category are measured at amortised cost. Loans and receivables in the statement of financial position comprise the items of Loans to the public, Other receivables, Prepaid expenses and accrued income and Cash and cash equivalents.

#### **Equity instruments**

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

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

This category comprises two sub-groups: Held for trading and Financial liabilities measured according to fair value option. A financial liability held for trading is classified in this category if acquired principally for the purpose of selling in the short term. The Group has chosen to classify derivatives not used for hedge accounting and that have a negative market value in the category of Held for trading. Changes in fair value of financial liabilities measured at fair value through profit and loss are recognised as Investment income, net.

#### **Other financial liabilities**

Other financial liabilities in the statement of financial position comprise Subordinated liabilities, Debt securities in issue, Deposits from the public, due to credit institutions, Other liabilities and Accrued expenses and deferred income. Liabilities in this category are measured at amortised cost according to the effective interest method. When hedge accounting is applied, the value is adjusted for changes regarding the hedged risk.

#### **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, meaning after deductions for impairment of impaired loans.

### **Impaired loans**

A loan or account receivable is considered impaired if a payment is more than 60 days overdue or if there is reason to expect that the counterparty cannot meet its undertaking. The portion covered by collateral is not deemed to be an impaired loan.

### **Impairment of loan losses**

#### **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 rate 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, but 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.

#### **Confirmed losses**

Confirmed loan losses are those losses whose amount is finally established through acceptance of a composition proposal, through other claim remissions or through bankruptcy and after all of the collateral has been realised and where the assessment is that the possibility of receiving additional payments is very small. The receivable is then derecognised from the statement of financial position 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 lease exists if the financial risks and rewards of ownership have substantially been transferred to the lessee. All other leases are operating leases.

The Bank Group's assets that are leased under finance leases are 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 leases are recognised in part as repayment of lease receivables and in part as interest income.

The Group is a lessor and to a slight extent also lessee in the form of external lease contracts classified as operating lease and where expenses are recognised as rents.

### **Prepaid acquisition costs**

Selling expenses that have a distinct link to signed insurance contracts are recognised as assets, prepaid acquisition costs, and are depreciated over

their useful lives. A condition for capitalisation is that the acquisition costs are attributable to a certain insurance contract, or homogeneous groups of contracts that can be followed up, and are deemed to generate a margin that covers at least the acquisition costs intended to be capitalised. The selling expenses capitalised in the non-life insurance operations are commission expense. Commission and administration expenses are capitalised in the unit-linked insurance operations.

In the non-life insurance operations, the capitalised cost is allocated in a manner corresponding to the allocation of unearned premiums. The depreciation period does not exceed 12 months.

In the unit-linked insurance operations, the capitalised cost is allocated in accordance with the same pattern as the recognition of income, meaning in line with the service being provided. The depreciation period is 20 years.

### **Insurance contracts**

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

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

### **Financial agreements**

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

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

### **Reinsurance**

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

For ceded reinsurance, the benefits to which the company is entitled under the reinsurance contract are recognised as the reinsurers' portion of technical provisions and deposits with companies that have ceded reinsurance. Receivables from and liabilities to reinsurers are valued in the same

manner as the amounts linked to the reinsurance contract and in accordance with the conditions of each reinsurance contract. Liabilities in reinsurance primarily comprise settlements against regional insurance companies and premiums to be paid for reinsurance contracts.

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

### Technical provisions

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

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

### Unearned premiums

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

Normally, the provision is strictly proportional to time, referred to as a pro rata temporis calculation. For some products with small volumes, unearned premiums are calculated as a percentage of the premium income.

The cost estimate is based on experience, but consideration is also given to both the observed and forecast trend in relevant costs.

### Unexpired risks

Unexpired risks refers to the risk that the payment requirements of the insurance contracts and the costs will not be covered by unearned premiums and expected premiums after the end of the fiscal year. If the premium level of insurance contracts already entered into is deemed to be insufficient, a provision is made for unexpired risks.

### Claims outstanding

The provision for claims outstanding in the unit-linked insurance operations comprises provision for annuities and disability annuities, established claims and non-established claims. The provision for annuities and disability annuities corresponds to the discounted capital value of commitments in accordance with the insurance contract. The provision for established claims corresponds to the discounted, expected capital value of future expenses due to the incurred health claim. This includes reported and approved claims that have not yet been paid, future operating expenses as well as the fixed-income operations. The discount rate is determined based on current market interest rates in accordance with satisfactory practice.

The provision for non-established claims pertains to claims that have not yet been reported but which have been made using statistical methods based on previous experience for the respective products. For disability annuities at fixed amounts, the nominal interest-rate assumption was determined based on the yield curve used for the life-assurance reserves.

In the non-life insurance operations, these provisions should cover anticipated costs for claims for which final settlement has not been completed, including claims that have occurred but have not yet been reported to the company. The provision includes anticipated future cost increases plus all expenses for claims adjustment and is based on statistical methods for most claims. An individual assessment is made in the case of major claims and claims involving complex liability conditions. With the exception of annuities, the provision for claims outstanding is not discounted. The provision for annuities is estimated in line with customary life-assurance methods and discounted to market interest rates. The effect of interest-rate revaluations is recognised as a financial expense or income.

For motor third-party liability insurance, provisions are made for claims adjustment costs according to the unit cost principle. Provisions for claims adjustment costs for other insurance classes are made proportionally against the provision for claims incurred.

The provision for claims incurred but not reported (IBNR) encompasses costs for claims that have been incurred but are unknown to the company. The amount is an estimate based on historical experience and claims outcomes.

The change in claims outstanding for the period is recognised in profit and loss. Changes attributable to the translation of the provisions to the exchange rate on the balance-sheet date are recognised as exchange-rate gains or exchange-rate losses under Investment income, net.

### Life-assurance reserve

The life-assurance reserve, pertaining to contracted benefits for guarantee management in the unit-linked insurance operations, corresponds to the anticipated capital value of the company's guaranteed commitments. The life-assurance reserve is calculated per insurance policy in accordance with standard actuarial principles based on assumptions regarding interest rates, mortality, cancellations, expenses and yield tax. The discount rate is based on market rates on the measurement date and any future transaction is measured with consideration for the interest rate that corresponds to the duration of the transaction in relation to the calculation date. Mortality assumptions are based on statistical data representing the target group for which Länsförsäkringar Fondliv offers insurance solutions. The statistical data is based on Länsförsäkringar's insurance portfolio, but generally available information has been taken into account for comparison with observations in Länsförsäkringar's portfolio. Cancellation assumptions are based on the historical outcome in Länsförsäkringar.

### Provisions for which the policyholder bears the risk

Financial liabilities in the unit-linked insurance operations whereby the liability has a direct link to the value of a financial assets for which the company does not have any risk in the change in value of the fair value of the asset. Provisions for life assurance for which the policyholder bears the investment risk correspond to the redemption value of the fund units held on the policyholders' behalf.

The unit-linked insurance operations have chosen to attribute unit-linked insurance commitments to the measurement category of Financial liabilities measured at fair value in profit and loss. This means that the provision matches the linked assets measured at fair value.

### Other provisions

A provision is recognised in the statement of financial position when the Group has an existing legal or informal obligation as a result of a past event and it is probable that an outflow of financial resources will be required to settle the obligation and a reliable estimate of the amount can be made. Where the effect of when a payment is made is significant, provisions are calculated by discounting the expected future cash flow at a pre-tax interest rate that reflects current market assessments of the time value of money and, where appropriate, the risks associated with the liability.

### Contingent liabilities

A contingent liability is recognised when there is a possible commitment originating from past events and whose existence is confirmed only by one or more uncertain future events, or when there is a commitment that is not recognised as a liability or provision because it is probable that an outflow of resources will be required, or cannot be measured with sufficient reliability. Contingent liabilities are measured at the amount corresponding to the best estimate of the amount required to settle the commitment on the balance-sheet date. The measurement accounts for the expected future date of settlement.

### Loan commitments

A loan commitment can be:

- a unilateral commitment by a company to issue a loan with predetermined terms and conditions in which the borrower can choose whether he/she wants to accept the loan or not

- a loan agreement in which both the company and the borrower are subject to terms and conditions for a loan that begins at a certain point in the future.

Loan commitments are not recognised in the statement of financial position. Issued irrevocable loan commitments are valid for three months and are recognised as a commitment under the note entitled Pledged assets and contingent liabilities.

### Financial guarantees

Guarantee agreements issued by the Group mainly comprise leasing and credit guarantees. These entail a commitment to compensate the holder when the holder incurs a loss due to a specific debtor not making due payments to the holder in accordance with applicable contractual 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. In the subsequent measurement, the liability for the financial guarantee is recognised at the higher of the allocated premium, and the amount representing the expected cost of settling the commitment incurred by the guarantee.

### Statement of cash flows

The statement of cash flows was prepared in accordance with the indirect method. The reported cash flow only includes transactions generating cash inflows and outflows.

## Note 2 Risk and capital management

Conducting insurance and banking operations involves risk-taking. Knowledge about risks is a core area of expertise in the banking and insurance industries. A volatile financial market, and more detailed regulations, impose more rigorous demands on financial companies and their risk management in particular. The ultimate owners of the Länsförsäkringar Alliance are also its customers and, accordingly, efforts to govern, manage and control risks are of immediate importance to customers and provide unequivocal customer value.

### RISKS AND RISK MANAGEMENT

The Länsförsäkringar AB Group's operations include non-life insurance, life assurance and pension insurance and banking activities. The traditional life-assurance operations are found in a wholly owned subsidiary, Länsförsäkringar Liv Försäkrings AB (referred to below as "Länsförsäkringar Liv"), which is operated according to mutual principles. The company is not consolidated in the consolidated financial statements and thus the company's risks are not included in the description provided in this note. For more information, see Länsförsäkringar Liv's Annual Report. The Länsförsäkringar AB Group's business activities involve risk-taking through an extensive range of banking and insurance products. The management of risk-taking is to contribute to ensuring that financial products can be provided at a favourable return with a controlled risk level. Risk management contains strategies, processes and reporting procedures necessary for continuously identifying, measuring, monitoring, managing and reporting the risks associated with the business activities.

Confidence in the Group's ability to fulfil its commitments is of central importance. This applies generally and specifically to ensuring the Bank Group's and the Parent Company's funding and Länsförsäkringar Sak's position as an insurer for both direct transactions and as a receiver of reinsurance, and ability to fulfil its commitments with Länsförsäkringar Fondliv Försäkrings AB ("Länsförsäkringar Fondliv") and Länsförsäkringar Grupplivförsäkrings AB ("Länsförsäkringar Gruppliv"). The Länsförsäkringar AB Group's risk work is based on the Group instruction and risk policy decided by the Board, which stipulates the company's risk strategy and overall risk appetite. Furthermore, the Board decides on additional governance documents, such as the finance plan, guidelines on financial and capital control and investment guidelines.

### Risk management organisation

The Board of Directors of Länsförsäkringar AB, in its capacity as the Board of the Group's Parent Company, assumes overall responsibility for the management and follow-up of risk in the Group. Correspondingly, the Boards of the subsidiary Groups are responsible for the risks in these business operations.

Following applicable regulations, the Board establishes the frameworks for the companies' risk management and risk control based on internal rules in various governance documents. The President of each Group company is responsible for incorporating all governance documents into the operations and for establishing more detailed regulations for risk management within the framework determined by the Board. The governance documents are updated and approved annually.

The Board's Risk and Capital Committee serves as a forum for analysing and holding in-depth discussions on the Group's risk-taking and supports the Board's work on examining and assessing risk-taking and capital requirements.

The Board's Audit Committee monitors the quality of the financial reporting, including the effectiveness of the internal control over the financial reporting. The Audit Committee also monitors operational risks and the corporate governance system, including the systems for internal governance and control.

There is an Investment Committee at management level that is responsible for preparing proposals regarding the management of the company's investment assets prior to Board decisions, and for following up on asset management issues for the Parent Company.

The Chief Risks Officer (CRO) Group is responsible for the Länsförsäkringar AB Group's risk-management system at Group level. The CRO Group is also the Head of the Risk Management function that has the operational responsibility for the independent risk control, which includes identifying, measuring, monitoring and reporting risks. This function is centrally located in the organisation and can access the information required for performing its duties, as well as the controls and monitoring, needed to ensure that the operations are conducted with a high level of risk management and risk control. The Risk Management function reports directly to the President, management, the Risk and Capital Committee, the Audit Committee and the Board.

The Actuarial Function of the insurance companies helps ensure the efficient operation of the risk-management system, for example, by ensuring that calculations of capital requirements for insurance risks correctly reflect the operations' insurance risks. The Compliance function provides support for ensuring that the operations maintain a full regulatory compliance. The function identifies and reports on risks that may arise as a result of non-compliance with regulatory requirements.

Internal Audit is an independent review function that comprises the Board's support in quality assurance of the organisation's risk management, governance and controls.

The risk-management process comprises continuous work and annual activities. Continuous risk-management work includes handling known risks and also identifying new risks. An Own Risk and Solvency Assessment (ORSA) is performed every year and in conjunction with major changes in the operations or economic environment.

The management and monitoring of different risks takes place in the operating activities within the frameworks established by the Board of each company. For a more detailed description of the risk governance model of each subsidiary, see the annual report of the relevant subsidiary.

### Solvency II

Solvency II came into effect on 1 January 2016 and the insurance companies in the Group have adapted their operations to these new regulations. Länsförsäkringar AB Group, together with Länsförsäkringar Liv, has been granted approval by the Swedish Financial Supervisory Authority to use a partial internal model to calculate the solvency capital requirements for both market risk and insurance risk from non-life insurance operations. Capital requirements for other types of risk are calculated by applying the standard model of the rules. Länsförsäkringar AB provides a detailed description of the company's risk management, risk profile and capital requirements under Solvency II in its 2016 Solvency and Operations Report.

### Risk profile

The Länsförsäkringar AB Group's risk profile is dominated by the major risks of each company, meaning the bank's credit risk, the market and long-life expectancy risk of the traditional life-assurance operations, the unit-linked life-assurance company's market and cancellation risk, and the non-life insurance companies' market and insurance risk.

The following factors characterise the Group's risk-taking:

- The operations are conducted in Sweden. An exception is made for pet insurance where the Group strives to utilise its experience and strong position in the Swedish market to successively develop profitable operations in certain other countries in northern Europe.
- All 23 regional insurance companies broker the Group's products, which thereby creates a geographic distribution throughout Sweden.
- The operations primarily focus on private individuals and small and medium-sized businesses, directly or mediated by the regional insurance companies, and have few major commitments entailing risk with large companies.
- For the unit-linked insurance operations, future earnings are affected by the trend in insurance capital, and an unfavourable trend in cancellations, repurchases and transfers can adversely impact long-term profitability.
- The risks taken in non-life insurance are reinsured to a relatively high extent; retention levels are relatively low.
- Internal and external reinsurance is also conducted on behalf of the Länsförsäkringar Alliance, and assumed international reinsurance is taken out.
- The risks in the investment assets managed by the Group for own account are held at a relatively low level.
- The management of insurance capital in the traditional life-assurance operations gives rise to market risks, primarily equities, interest-rate and credit-spread risk. Most capital is invested in bonds and other interest-bearing assets, and the low market interest rates have a negative effect on future returns.
- Loans in the Group's banking operations primarily pertain to households and to a smaller extent to agricultural customers and businesses.

Länsförsäkringar AB applies a joint risk division and definitions of risks to which the operations are exposed. An outline is provided below:

### Classification of risk in the Länsförsäkringar AB Group including Länsförsäkringar Liv

The following section describes the Länsförsäkringar AB Group's total risks and how they are controlled and managed. Information is provided on the size of the exposure for specific risks. The disclosures in this note refer to the Länsförsäkringar AB Group. The Parent Company has a separate note on risk and risk management found under the Parent Company's financial statements.

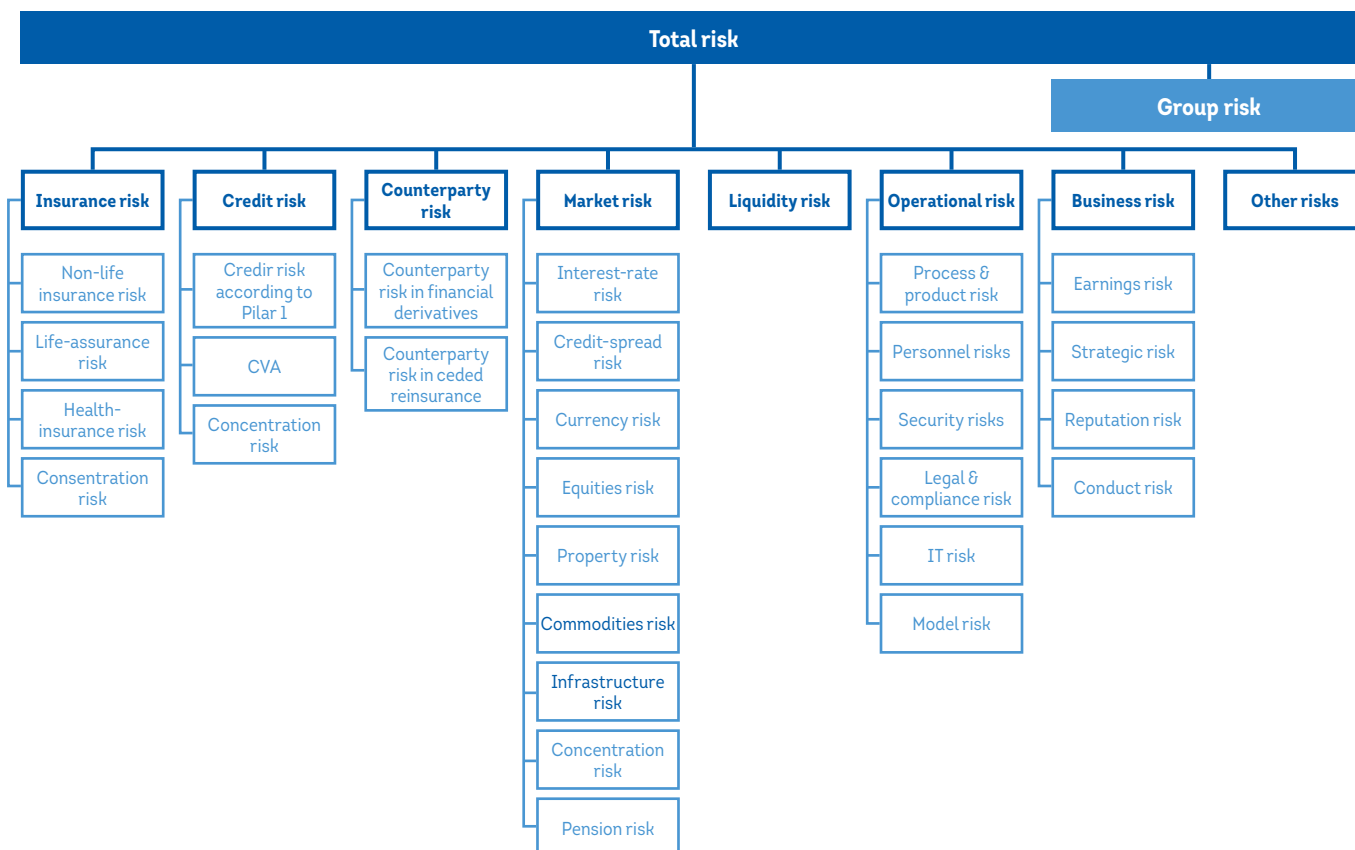
#### Non-life insurance risk

Non-life insurance risk is the risk of losses arising due to claims costs being higher than expected. This includes premium risks, reserve risks and catastrophe risk. Non-life insurance risk in the Länsförsäkringar AB Group arises in the Länsförsäkringar Sak Group. Premium risk is the largest risk in non-life insurance risk, followed by reserve risk. Catastrophe risk comprises minor exposure since the low retention of the reinsurance cover limits catastrophe exposure.

The Länsförsäkringar Sak Group conducts highly diverse business operations ranging from pet insurance to cargo insurance and reinsurance. The non-life insurance operations of the Länsförsäkringar Sak Group comprise the insurance classes of accident and health insurance, commercial, motor, motor third-party liability, marine, air and cargo, pet insurance and assumed reinsurance. The business is divided into 25 reporting classes that make the operations highly diverse with few or minor elements of risk concentration inherent in non-life insurance risk.

Table 1 shows how changed premiums earned, increased claims costs and higher claims inflation impact the Länsförsäkringar AB Group's earnings and table 2 shows the Group's reinsurance cover and retention per claim incident.

#### Classification of risk in the Länsförsäkringar AB Group including Länsförsäkringar Liv



**Table 1. Sensitivity analysis, non-life insurance risk**

SEK M	Impact on profit before tax		Impact on equity	
	2016	2015	2016	2015
10% lower premium level	-220	-212	-172	-165
10% increased claims frequency or higher average claim	-167	-120	-130	-94
1% higher annual claims inflation	-186	-207	-145	-162

**Table 2. Reinsurance per claim incident**

SEK M	2016		2015	
	Retention	Cover	Retention	Cover
Motor third-party liability insurance	40	300	40	300
Liability insurance	20	300	20	300
Cargo insurance	5	1,000	5	1,000
Accident insurance	20	750	20	600

Reinsurance cover pertains to external counterparties. The external retention for motor third-party liability amounts to SEK 40 M, although the retention is reduced to SEK 2 M on the basis of reinsurance of SEK 38 M in the Länsförsäkringar Alliance.

### Premium risk

Premium risk is the risk of losses arising due to the coming year's claims being greater than expected. In the insurance classes of motor third-party liability, accident and pet insurance, a large number of independent risks are added, resulting in a favourable risk balance, provided that the premium tariffs reflect the actual risk differences among the various groups in the insurance collective. Tariffs and insurance terms are monitored regularly and adjusted

when required. In other lines of business, risk selection rules and risk inspection are the key instruments for controlling premium risk, alongside premium calculation. The Group also follows detailed internal underwriting guidelines (risk selection rules) to ensure correct assessment and quantification of the risk that is being underwritten. An important element in this regard is the inspection of new and existing risks. In conjunction with inspection, claims-prevention measures are also implemented in the form of advisory services and the installation of preventive products, thereby further reducing the company's risk. In an effort to limit the risk in insurance operations, the Group has insured itself against the risk of very large claims through ceded reinsurance. The Group's own costs per claim incident, retention, and the limit up to which the reinsurance covers the costs per claim incident – or cover – vary from product to product. In the case of individual risks with a risk amount exceeding the reinsurance cover, reinsurance is purchased on an individual risk basis. Most reinsurance contracts extend for one calendar year.

### Reserve risk

Reserve risk is the risk of losses arising due to a negative outcome in the settlement of provisions for claims outstanding. The total undertaking for current insurance policies and for claims outstanding amounts to approximately SEK 14.5 billion (14.8), gross. An estimate of the cost of claims outstanding – about SEK 13.9 billion (14.7) – is associated with uncertainty as to how much claims, perhaps many years ahead, may cost. The trend in reserves is tracked continuously by means of various key figures and using comparisons with other insurance companies. The actuarial reserve calculation is developed continuously so that the methods applied are well adapted to the conditions for each line of business or part thereof. A significant element in the follow-up work is also the regular reviews of individual claims outstanding that are performed. The average duration of the Group's insurance portfolio is 2.8 years (2.6). Table 13 shows the distribution of terms of the technical provisions.

**Table 3. Estimated claims costs before reinsurance for the Länsförsäkringar Sak Group, per claim year**

SEK M	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
At end of claim year	1,514	1,709	1,799	2,123	2,424	2,476	2,415	2,457	2,634	2,834	3,065	-
One year later	1,606	1,658	1,783	2,135	2,564	2,505	2,420	2,324	2,443	2,651	-	-
Two years later	1,579	1,563	1,781	2,098	2,521	2,440	2,457	2,333	2,526	-	-	-
Three years later	1,534	1,552	1,770	2,095	2,473	2,440	2,411	2,351	-	-	-	-
Four years later	1,520	1,545	1,777	2,099	2,454	2,395	2,425	-	-	-	-	-
Five years later	1,519	1,546	1,788	2,104	2,436	2,396	-	-	-	-	-	-
Six years later	1,507	1,554	1,773	2,077	2,411	-	-	-	-	-	-	-
Seven years later	1,512	1,547	1,738	2,085	-	-	-	-	-	-	-	-
Eight years later	1,504	1,522	1,740	-	-	-	-	-	-	-	-	-
Nine years later	1,468	1,528	-	-	-	-	-	-	-	-	-	-
Ten years later	1,466	-	-	-	-	-	-	-	-	-	-	-
Estimated claims costs	1,466	1,528	1,739	2,084	2,409	2,395	2,423	2,351	2,526	2,651	3,065	-
Accumulated claims payments	1,398	1,448	1,657	1,976	2,263	2,279	2,282	2,186	2,268	2,357	2,168	-
Provision for claims payments	68	79	82	108	146	116	142	165	257	294	896	2,478
Provision for claims payments, older year classes	-	-	-	-	-	-	-	-	-	-	-	610
Provision for claims payments for assumed reinsurance	-	-	-	-	-	-	-	-	-	-	-	9,234
Provision for claims payments for group life assurance	-	-	-	-	-	-	-	-	-	-	-	85
<b>Total provision for claims payments, gross</b>	-	-	-	-	-	-	-	-	-	-	-	<b>12,406</b>
Annuity reserve, gross	-	-	-	-	-	-	-	-	-	-	-	1,662
Claims adjustment reserve, gross	-	-	-	-	-	-	-	-	-	-	-	242
<b>Provision for claims outstanding, gross</b>	-	-	-	-	-	-	-	-	-	-	-	<b>14,310</b>
Provision for claims payments, reinsurers' portion	-	-	-	-	-	-	-	-	-	-	-	8,919
Annuity reserve, reinsurers' portion	-	-	-	-	-	-	-	-	-	-	-	1,419
<b>Provision for claims outstanding, reinsurers' portion</b>	-	-	-	-	-	-	-	-	-	-	-	<b>10,338</b>
<b>Provision for claims outstanding, for own account</b>	-	-	-	-	-	-	-	-	-	-	-	<b>3,972</b>

### Catastrophe risk

Catastrophe risk refers to the risk of losses arising due to natural disasters, epidemics or disasters caused by human activities leading to large claims payments. The Group has low exposure to CAT risk for own account. The Group manages common reinsurance cover for the Länsförsäkringar Alliance with respect to storms and natural disasters where Länsförsäkringar Sak assumes a certain level of risk for own account. The other operational area where Länsförsäkringar Sak, for own account, is exposed to a certain level of CAT risk is in the internationally assumed reinsurance.

### Life-assurance and health-insurance risks

The Group's life-assurance risks comprise longevity risk, mortality risk, disability and morbidity risk, cancellation risk, expenses risk and catastrophe risk. Life-assurance risks derive from the operations of Länsförsäkringar Fondliv and Länsförsäkringar Gruppliv. The Group's exposure to health-insurance risk arises in Länsförsäkringar Fondliv's health and premium exemption insurance and in Länsförsäkringar Sak's health insurance products.

Longevity risk is the risk of losses arising due to the insured living longer than assumed. This risk can mainly be limited by making a variety of changes, for example, by reducing the payment period, making payment at an earlier date, repurchases or transfers. To reduce this risk, a change rule framework is in place that describes all permitted changes. Rules may also require medical examinations, for example, when external transfers are requested. The future exposure to longevity risk increases as volumes rise. Life expectancy in Sweden is successively increasing over time, entailing a growing need for provisions for those policyholders where longevity risk is dominant. However, longevity risk reduces when policyholders select products with temporary payments at the expense of life annuities products. The company can correct risk premiums, and thus limit both mortality risks and longevity risks, by monitoring developments.

In unit-linked insurance operations, risk pertaining to the uncertainty of mortality and morbidity are assessed less significant, while expenses risk and cancellation risk may hold more significance. Cancellation risk the risk of losses arising due to a change in the premium payments, repurchases or transfers deviating from that which has been assumed. Increased cancellations lead to lower income and, accordingly, to fewer opportunities for covering the company's actual operating expenses. Since trends indicate more or less full transfer options, both inward and outward transfers can be expected to increase in the future. Expenses risk is the risk of losses arising due to the estimated costs for conducting the company's operations not covering the company's actual costs. The actual costs in relation to the assumed costs are continuously followed up.

Länsförsäkringar Fondliv's fund range has two different investment orientations for customers to choose between: unit-linked insurance, where customers themselves choose the investment orientation and risk level and thus assume the financial risk, and guarantee management, where customers have a guaranteed component of their savings. Provisions for the company's guaranteed commitments are calculated following current regulations which are intended to ensure that the company is always able to meet its undertakings. The provision for guarantee management and claims outstanding on 31 December 2016 amounted to SEK 2,242 M (1,775) and SEK 229 M (163), respectively. For guarantee management, a provision is made for conditional bonus, SEK 424 M (506), which comprises the overall level difference between insurance capital and the technical provisions.

Mortality risk and morbidity risk arise in Länsförsäkringar Gruppliv, which entails the risk of losses arising due to the mortality of the insured and the morbidity of the insured being higher than assumed. The provision for group life assurance on 31 December 2016 amounted to SEK 110 M (95).

Table 4. Sensitivity analysis, life-assurance risk

Effect on equity, SEK M		2016	2015
Mortality	The most unfavourable outcome if mortality were to increase or decrease by 20% per year.	-35	-24
Morbidity	A 50% increase in morbidity and 20% slower run-off of health-insurance claims.	-89	-73
Operating expenses	10% increase in fixed annual costs.	-58	-54
Cancellation	Instantaneous 20% impairment of prepaid acquisition costs. Expenses for cancellations corresponding to 0.15% of total repurchasable or transferable capital.	-321	-302

### Market risk

Market risk is the risk of losses arising due to changes in the market value of financial assets and liabilities. Market risk has the following subcategories: equities risk, property risk, interest-rate risk, credit-spread risk, currency risk, concentration risk and pension risk.

Market risk arises in the Länsförsäkringar AB Group due to investment decisions made concerning management of the non-life insurance companies' and the Parent Company's investment assets. Market risk also arises in the Bank Group's operations to a certain extent in the form of differences in fixed-interest periods between assets and liabilities and in the form of pension risk, which is the risk of fluctuations in the market value of defined-benefit pension plans. This risk comprises a small portion of the Länsförsäkringar AB Group's total market risks. Market risk in Länsförsäkringar Fondliv's investment assets is currently limited. There is also an indirect sensitivity to market risks in the Group's operations due to income in the unit-linked insurance operations, as in Länsförsäkringar Fondförvaltning AB's operations being affected by, for example, the level of the stock index. However, in the following, only the market risk that occurs through direct exposures in the Group's assets and liabilities is quantified.

The Länsförsäkringar AB Group's investment operations are conducted in the best interests of the owners, who are ultimately the customers of the local regional insurance companies. In turn, this imposes demands on ensuring adequate expertise and following clear, structured and documented processes that take into account prudence, risk diversification and the situation in the financial markets.

Investments are made only in assets that can be fairly valued and whose risks can be identified, measured, managed, monitored and reported. The main asset classes are interest-bearing securities, equities, alternative investments and property. Derivative instruments are utilised in the management of investment assets in order to reduce risks or enhance management efficiency. Forecasts of the insurance operations' performance are taken into account and assets are invested with respect to the nature and term of the commitments.

Financial instruments are kept at prudent levels if they are not traded on a regulated market and contain a significant element of model valuation or whose valuation is not based on observable market data, have a lack of liquidity or transparency. Unquoted shares, securitisation, private equity, private debt, infrastructure and forests are examples of investment assets that are kept at prudent levels.

**Table 5. Sensitivity analysis, market risks**

Impact on profit before tax, SEK M	2016	2015
1% higher interest rate <sup>1)</sup>	-93	-91
10% low share prices <sup>2)</sup>	-202	-182
1% higher credit spread <sup>3)</sup>	-222	-182
10% lower property prices	272	-193

<sup>1)</sup> Interest-rate sensitivity of a 1% higher interest-rate level in assets and liabilities in the Länsförsäkringar AB Group. Bond holdings are stressed including accrued interest. The calculation for 2016 was made largely using transparent fund holdings. Interest-rate sensitivity for the insurance companies was calculated in 2015 according to the Swedish Financial Supervisory Authority's traffic-light model.

<sup>2)</sup> Includes 10% lower prices on hedge funds.

<sup>3)</sup> The calculation for 2016 was made largely using transparent fund holdings.

### Interest-rate risk

Interest-rate risk is the risk that the net value of assets, liabilities and insurance undertakings may decline due to changed market interest rates.

The interest-bearing asset portfolio includes interest-rate risk from government bonds, corporate bonds and derivative instruments. Interest-rate risk is also inherent in insurance liabilities through the discounting of provisions for annuities, disability annuities and life-assurance reserves. The Parent Company Länsförsäkringar AB is also exposed to interest-rate risk from issued bonds.

The Länsförsäkringar AB Group's insurance companies govern their own risk-taking by taking into account the sensitivity of the insurance undertakings to changes in interest rates. Conscious decisions are made regarding the extent to which undertakings are matched to assets with corresponding properties. Fixed-income futures and forwards and interest-rate swaps are used in management to reduce interest-rate risk. By using these instruments, interest-rate sensitivity can be effectively reduced without needing to sell the underlying bonds.

The Bank Group has established a limit for the highest permissible interest-rate risk, which is relatively low compared with the normal total interest-rate risk in the entire Group. Whenever possible, fixed lending should be matched by means of corresponding funding or through interest-rate swaps. In principle, this means that no time differences should exist, although this is impossible in practice. However, the Bank Group's limits are so conservative that the basic principle for matching still applies.

### Equities risk

Equities risk is the risk of losses arising due to changes in the level or volatility of share prices or prices of alternative assets.

The Group's primary equities exposure is to Swedish, European and US equities but also Japanese equities and equities in emerging markets in Länsförsäkringar Sak's asset portfolio. Länsförsäkringar Fondliv's exposure derives from guarantee management and from indirect exposure arising since future income in the unit-linked insurance operations is dependent on trends in the financial market and from fund units in the trading book.

### Property risk

Property risk is the risk of losses arising due to changes in the level or volatility of property prices.

The Group's property risk is mainly from the ownership of the office properties in Stockholm that the Group utilises for its operations. The Parent Company owns 50% of the properties and Länsförsäkringar Sak the other 50% and the market value is SEK 2.7 (2.6) billion.

### Credit-spread risk

Credit-spread risk is the risk of losses arising due to changes in the level or volatility of the difference between market interest rates on bonds with credit risks and government securities' rates.

The Group has spread-risk exposure in Swedish mortgage bond and based on its holdings in mainly global and US Investment Grade and High Yield funds.

Decisions on the size of the portion of the bond portfolio that is to comprise bonds with credit risk are made in light of prevailing market conditions and the desired level of risk-taking in the investment portfolio. Table 7 below shows that most of the interest-bearing investments have an AAA rating.

### Currency risk

Currency risk is the risk of losses arising due to changes in the level or volatility of exchange rates. The currency exposure that exists is due to insurance liabilities and investment assets in other currencies and the risk being limited by the use of currency derivatives.

The Bank Group is exposed to currency risk through funding. All funding, when it takes place, is swapped in foreign currency to SEK.

**Table 6. Impact on earnings of a 10% increase in the exchange rate with SEK at year-end**

Currency	Impact on earnings before tax, SEK M	
	2016	2015
CHF	2	0
DKK	0	-1
EUR	3	1
GBP	2	10
HKD	-1	0
KRW	-2	-1
NOK	6	-6
NZD	0	-2
USD	12	9

### Counterparty risk

Counterparty risk pertains to the risk of losses arising due to counterparties being unable to fulfil their undertaking and that any collateral provided not covering the receivable, except regarding the Bank Group's lending operations.

Länsförsäkringar AB's exposure to counterparty-related credit risk primarily arises through the use of financial derivatives. Derivatives are purchased to enhance the efficiency of management and protect the balance sheet against, for example, interest-rate risk, equities risk and currency risk and entail that the counterparty undertakes, through derivative contracts, to compensate for negative results arising from changes in, for example, market interest rates, share prices or exchange rates. As a result, a receivable from the counterparty may arise in the event of market changes. Credit risk pertains to the risk of losses arising due to counterparties being unable to fulfil their undertakings and that part of the receivable can thus not be paid.

Table 7. Credit quality of fully functioning financial assets

SEK M	31 Dec 2016	31 Dec 2015
<b>Cash and balances with the Riksbank<sup>1)</sup></b>	<b>22</b>	<b>22</b>
<b>Treasury bills and other eligible bills, etc.<sup>1)</sup></b>		
AAA	7,215	8,248
AA	579	576
<b>Total</b>	<b>7,794</b>	<b>8,824</b>
<b>Loans to credit institutions<sup>1)</sup></b>		
AA	5	46
A	275	457
<b>Total</b>	<b>280</b>	<b>503</b>
<b>Loans to the public<sup>1)</sup></b>		
AAA to BBB	174,275	151,004
BB+ to BB-	38,134	36,075
B+ to B-	7,199	7,194
C	2,482	2,563
No indicative rating available <sup>2)</sup>	4,138	4,412
<b>Total</b>	<b>226,228</b>	<b>201,248</b>
<b>Cash and bank balances<sup>3)</sup></b>	<b>2,014</b>	<b>2,084</b>
<b>Bonds and other interest-bearing securities - Insurance<sup>4)</sup> (market values including accrued interest)</b>		
AAA - Swedish Government	1,313	1,429
AA - Other	6,006	4,289
AA	130	165
A	291	295
BBB or lower	1,080	1,378
No rating available	347	499
<b>Total</b>	<b>9,168</b>	<b>8,056</b>
<b>Bonds and other interest-bearing securities - Bank</b>		
AAA - Swedish Government	-	-
AA - Other	32,422	31,991
<b>Total</b>	<b>32,422</b>	<b>31,991</b>
<b>Financial derivatives<sup>5)</sup> (exposure according to market values) Insurance<sup>4)</sup></b>		
AA	-18	12
A	18	-3
<b>Total</b>	<b>-1</b>	<b>9</b>
<b>Financial derivatives (exposure according to market values<sup>6)</sup>) Bank</b>		
AA	1,243	901
A	238	100
<b>Total</b>	<b>1,481</b>	<b>1,001</b>

<sup>1)</sup> Only the Bank Group.

<sup>2)</sup> Refers to the business lending through Wasa Kredit since the segment has no IRB classification.

<sup>3)</sup> The insurance companies and the Parent Company Länsförsäkringar AB.

<sup>4)</sup> Including the Parent Company Länsförsäkringar AB.

<sup>5)</sup> Included non-exchange cleared derivatives.

<sup>6)</sup> Refers to derivatives and pledged assets per counterparty and legal entity in the Bank Group that result in positive exposure.

The credit risk that arises through counterparties in financial derivatives is primarily reduced by diversifying the counterparties used for trading in financial derivatives. Concentration risk in loans is limited by applying exposure limits for each issuer or group of issuers that have a mutual connection and for the exposure for credit instruments per rating level. Credit risk is managed by limits for derivative exposures per counterparty, and by agreements signed with all counterparties regarding OTC derivatives. These agreements regulate receivables in derivatives contracts between the contract parties, for example, the amount of receivables permitted, how they are to be paid and

at what frequency. In practice, this means that for the majority of cases the collection and provision of collateral takes place on a daily basis. The size of the permitted exposure depends on the rating of the counterparty.

The Group is also exposed to counterparty risk from the reinsurers. Länsförsäkringar Sak and Länsförsäkringar Fondliv take out reinsurance to avoid assuming greater individual liability than that stated in the insurance guidelines and reinsurance policy of each subsidiary. Reinsured risks instead become the responsibility of the reinsurers. However, there is the risk that the reinsurer is unable to fulfil its obligations, which in such a case revert to become a liability for the respective company to meet. For this reason, reinsurers are chosen from among reputable companies with high credit ratings.

Counterparty risk arising in connection with reinsurance are primarily reduced by taking proactive measures, by carefully selecting potential reinsurance counterparties. For business with long settlement periods, reinsurers are to have a minimum A rating from the S&P Global Ratings' agency and a minimum BBB rating for other types of business. In addition, efforts are made for the Länsförsäkringar Sak Group to ensure a spread of ceded reinsurance between many reinsurers and the creditworthiness of counterparties is constantly monitored. A specification of the expected loss on reinsurer default per credit quality level is shown in table 8.

Table 8. Loss per credit quality level on reinsurer default

Credit quality according to S&P Global Ratings	2016	2015
Regional insurance companies, %	60	53
AA, %	22	24
A, %	15	21
Alternative rating <sup>1)</sup> , %	3	1

<sup>1)</sup> A M Best, Fitch.

### Credit risk in the lending operations

Credit risk is defined as the risk of losses arising due to a counterparty not being able to fulfil its commitments to entities in the consolidated situation and the risk that the counterparty's collateral provided will not cover the company's receivables. Credit risk in the lending operations pertains only to the Bank Group. The lending operations of the Bank Group are conducted only with borrowers in Sweden and mainly comprise mortgages, loans to agricultural customers, hire purchase and leasing operations. The vast majority of the Bank Group's loan portfolio comprises loans for residential properties in the form of single-family homes and tenant-owned apartments. First-lien mortgages with loan-to-value ratios amounting to less than 75% of the market value at the time the mortgage is granted account for the largest percentage of retail mortgages. Lending takes place through the 23 regional insurance companies, which provides a local presence and close customer relationships. Low loan-to-value ratios, combined with a well-diversified geographic spread and local presence, are the core pillars in ensuring that the loan portfolio maintains high credit quality.

The banking operations carry out balanced and consistent loan origination, with advanced system support. The banking operations' loan origination is to achieve favourable and homogeneous credit quality. The maximum lending levels for various types of loans and limits for the local regional insurance companies' loan origination are stipulated in the guidelines of the bank's Board of Directors. The banking operations impose strict requirements in terms of customer selection and customers' repayment capacity.

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.

The Bank Group calculates all retail exposures in accordance with the advanced Internal Ratings-based Approach (IRB), which corresponds to predominant proportion of the Bank Group's loan portfolio. This means that a considerable portion of its credit-risk exposure is calculated using a method that aims to identify and classify risk for each individual counterparty. The distribution of the Bank Group's loans is shown in table 9.

Table 9. Bank group's credit-risk exposure

Maximum credit-risk exposure not taking into consideration collateral or any other credit enhancement received, SEK M	31 Dec 2016	31 Dec 2015
<i>Credit risk exposure for items recognised in the balance sheet</i>		
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
<i>Credit risk exposure for memorandum items</i>		
Guarantees	39	28
Loan commitments and other credit commitments	19,366	16,732
<b>Total</b>	<b>292,687</b>	<b>264,991</b>

Collateral is provided for the loan receivables reported in table 10 in the form of mortgage deeds for mortgages, agricultural lending, multi-family housing and industrial properties, and collateral in assets for leasing and hire purchase. The item other represents around half of overnight deposits with the Swedish National Debt Office.

Table 10. Bank Group loans by segment

Loan receivables, SEK M	31 Dec 2016	31 Dec 2015
Retail mortgages	168,928	147,022
Agricultural loans	25,261	23,995
Unsecured loans	7,937	7,642
Leasing	6,727	6,464
Hire purchase	7,582	6,348
Multi-family housing	7,897	7,849
Industrial properties	712	607
Other	1,911	2,318
Loans to the public, gross	226,955	202,245
Provisions	-250	-281
<b>Total</b>	<b>226,705</b>	<b>201,964</b>

The average mortgage commitment amounted to SEK 1.2 M (1.1). Only 15% (13) of customers had a commitment of more than SEK 3 M.

Essentially all lending that occurs in Länsförsäkringar Hypotek qualifies for inclusion in the covered-bond operations, which are regulated by the Swedish Covered Bonds (Issuance) Act (2003:1223).

Table 11. Bank Group's impaired loans

	Group	
Impaired loans by product, SEK M	31 Dec 2016	31 Dec 2015
Retail mortgages	0	3
Agricultural loans	17	8
Unsecured loans	132	124
Leasing	58	71
Hire purchase	32	30
Other	1	5
<b>Total</b>	<b>240</b>	<b>241</b>

Table 12. Bank Group's non-performing loan receivables not included in impaired loans

	Bank Group		Länsförsäkringar Bank AB	
SEK M	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Receivables overdue by 10–19 days <sup>1)</sup>	0	1	0	0
Receivables overdue by 20–39 days	276	276	15	27
Receivables overdue by 40–60 days	4	2	0	0
<b>Total</b>	<b>280</b>	<b>279</b>	<b>15</b>	<b>27</b>

<sup>1)</sup> Excluding Wasa Kredit.

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. This analysis pertains exclusively to loans to the public. The Bank Group's 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, a corresponding separate impairment of the full amount of the confirmed loss is made for the loan/borrower. The principle for individual impairments is based on an individual assessment decided by the Central Credit Committee, the Head of Workout at Credit and/or the Credit Manager.

### Concentration risk

Concentration risk is the risk of losses arising due to assets and undertakings vis-à-vis policyholders not being well-diversified.

Concentration risk is primarily counterbalanced by decisions determining the maximum exposure per reinsurer, per counterparty in financial derivatives and per counterparty in the Bank Group's liquidity management, by discretionary reinsurance of the insured, very large individual risks and by the diversification of the Group's investment assets. The Group's management and Board frequently study reports on the Group's major areas of exposure and risk concentrations.

The Bank Group's loan portfolio largely comprises mortgages to private individuals and in other respects primarily comprises other loans to private individuals and agricultural customers, and is not considered to contain any significant concentration risk.

The Group's investment assets in the non-life insurance companies, the unit-linked life assurance company and the Parent Company are well-diversified. At 31 December 2016, the office property utilised by the Group in Stockholm comprised a major investment asset. The value of this property amounted to SEK 2.7 billion (2.6).

### Liquidity risk including financing risk

Liquidity risk, including financing risk, is the risk that the company's undertakings cannot be fulfilled due to a shortage of cash and cash equivalents or that these undertakings can only be fulfilled by raising funding at significantly higher costs than usual or by divesting assets at a loss. For the Group's insurance companies, a lack of liquidity could lead to the companies not being able to fulfil its commitments to customers. The business activities of the insurance companies are based on premiums being received in advance and being managed until insurance compensation is to be paid out.

Management of the Group's liquidity risk is based on management taking place in each subsidiary group and in the Parent Company, rather than at Group level. The nature of the operations differs between the banking and insurance operations and there are legal restrictions on for the scope of internal loans. In practice, liquidity risk for the Länsförsäkringar AB Group is primarily an issue for the Bank Group and the Parent Company.

Länsförsäkringar Sak's liquidity risks are low since premiums are received in advance and payments are known well in advance of their maturity dates.

Länsförsäkringar Fondliv's liquidity is relatively stable, since fund units are divested in line with payments being made to policyholders. The company's liquidity was primarily affected by fund changes and costs for sale. Liquidity risk is managed by continuously adjusting the need for cash and surplus liquidity based on established liquidity forecasts for the payment of securities transactions and claims payments and, where necessary, other inward and outward payments, such as premiums and operating expenses. The majority of the funds in the trading book are liquid in the short term and purchases on behalf of the insured are not performed until payment has been received for the sales transaction.

The Bank Group has low risk tolerance for liquidity risk and conducts active liquidity risk management to ensure that the Group's commitments can be fulfilled under both normal and stressed market conditions. The aim is to attain a favourable spread of financing sources. Liquidity is continuously planned and a satisfactory liquidity reserve ensures that sufficient liquidity is always available. The liquidity reserve is invested in securities with very high credit quality, the vast majority of which are eligible for transactions with the Riksbank and, where appropriate, with the ECB or the Federal Reserve. All in all, this means that the reserve can be quickly converted to cash and cash equivalents. On 31 December 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 comprises Swedish covered bonds.

Funding takes place in a manner that creates a sound maturity profile and avoids maturity concentrations. The refinancing activities are based on broad diversification in terms of a variety of investors and markets. Diversification is achieved, for example, through proactive work on creating long-term investor relations. Funding takes place primarily through covered bonds since the majority of the Bank Group's assets comprise Swedish mortgages, although senior liabilities and short-term commercial paper programmes are also used. Refinancing primarily takes place in the market for SEK, EUR, CHF and NOK. The Bank Group endeavours to regularly launch issuances in these markets to create long-term confidence in the international capital markets.

The Parent Company's liquidity is mainly affected by dividends and Group contributions from subsidiaries, any requirements for contributions to be made to subsidiaries, dividends to owners and interest payments on issued bonds. To meet liquidity requirements, the Parent Company's maintained cash and cash equivalents, which at year-end amounted to SEK 251 M (243).

Länsförsäkringar AB established a Swedish MTN programme with a loan framework of SEK 2.5 billion in 2012. The MTN programme gives the company the option of issuing bonds in EUR and SEK with accruing and fixed interest in the capital market. On 31 December 2016, SEK 1.7 billion (1.7) had been subscribed for by various players. The 2012 issue took place in SEK and SEK 500 M was issued at a fixed interest rate and SEK 1,200 M at a variable rate.

### 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. Work on operational risk is based on Group-wide methods that encompass business-critical processes and key controls as well as reported incidents and the operations' self-assessment of operational risk.

Länsförsäkringar AB divides its operational risk into Product and Process Risks, Personnel Risks, Legal Risks, IT Risks, Model Risks and Security Risks. Product and Process Risks refers to the risk of losses arising due to established work procedures not functioning well, being unknown to employees or not being appropriate. This type of risk could result in, for example, the incorrect management of products, transactions and reporting. Personnel Risk refers to the risk of losses arising due to unclear areas of responsibility, inadequate know-how needed for work duties, or a shortage of personnel in relation to work duties. Other risks could entail a conflict of interests for personnel and deviations from statutory confidentiality. This type of risk could result in, for example, work duties not being performed correctly or on time. Security Risks are the risk of losses arising due to the company being exposed to external crimes or internal fraud. This type of risk could result in, for example, financial losses or brand risks. IT Risks are the risk of losses arising due to IT systems not being available to the extent decided or not being sufficiently secure. This type of risk could result in, for example, customer assignments not being performed or information being available to unauthorised users. Model Risk refers to the risk of losses arising due to decisions that are largely based on the results of models caused by errors in the production, implementation or use of models. Legal Risks and Compliance Risks pertain to the risk that Group does not comply with legislation, regulations and instructions, the general guidelines of the Swedish Financial Supervisory Authority and European authorities or other relevant regulations and recommendations for the

**Table 13. Maturity analysis for financial assets and liabilities and insurance undertakings**

The table shows the actual cash flows that will occur in each period, based on the remaining contractual maturities. The amounts presented in maturities are undiscounted cash flows.

SEK M	2016					2015				
	<3 months	3 months-1 year	1-5 years	>5 years	Total	<3 months	3 months-1 year	1-5 years	>5 years	Total
<b>Assets</b>										
Loans to the public	2,558	5,539	12,406	206,773	227,275	2,907	5,407	12,136	183,796	204,246
Bonds and other interest-bearing securities <sup>1)</sup>	2,053	7,109	28,521	618	38,302	1,526	5,715	28,484	320	36,045
Treasury bills and other eligible bills	1,700	2,475	2,005	1,100	7,279	3,600	2,100	2,732	200	8,632
Other assets	9,518	-	-	-	9,518	14,819	-	-	-	14,819
<b>Liabilities</b>										
Subordinated liabilities	-	-	2,600	-	2,600	-	1,200	1,100	-	2,300
Technical provisions <sup>2)</sup>	1,444	2,799	4,523	9,990	18,757	1,487	2,786	4,567	8,022	16,862
Debt securities in issue	3,173	16,045	107,985	27,959	155,162	10,825	5,704	100,300	22,762	139,591
Deposits from the public	82,341	8,223	643	1	91,207	75,154	7,923	848	-	83,925
Due to credit institutions	3,925	-	-	-	3,925	2,914	-	-	-	2,914
Other liabilities	1,949	296	71	-	2,316	10,889	6	-	-	10,895
<b>Total cash flows, net</b>	<b>-77,003</b>	<b>-12,240</b>	<b>-72,892</b>	<b>170,542</b>	<b>8,408</b>	<b>-78,417</b>	<b>-4,397</b>	<b>-63,463</b>	<b>153,532</b>	<b>7,255</b>
Loans approved but not disbursed	4,706	-	-	-	4,706	3,500	-	-	-	3,500
Derivatives, in and outflows, net	22	-26	14	20	30	159	462	2,709	734	4,064
<b>Total cash flows for financial assets and liabilities and insurance undertakings</b>	<b>-72,275</b>	<b>12,266</b>	<b>-72,878</b>	<b>170,562</b>	<b>13,143</b>	<b>-74,758</b>	<b>-3,935</b>	<b>-60,754</b>	<b>154,266</b>	<b>14,819</b>

<sup>1)</sup> Bonds and other interest-bearing securities in the statement of financial position include fixed-income funds. These have no contractual maturities and have been excluded from the table.

<sup>2)</sup> Technical provisions are recognised gross, before ceded reinsurance.

licensable operations, and does not comply with internal rules, good practice or good standards for the licensable operations, and is thus exposed to the risk of incurring sanctions or other remarks from authorities, negative publicity in the media and/or a decline in confidence among customers or other stakeholders.

All employees are responsible for actively managing operational risk within their individual operations and the daily management of operational risk mainly takes place in the business operations. Risks are minimised by proactive preventive measures and awareness of operational risk in every decision-making situation.

The process of managing and controlling operational risk includes identifying, measuring, monitoring, managing and reporting. Operational risk analyses are performed annually. Operational risks are identified, the potential consequences evaluated and probability of the risk occurring assessed. Action plans are prepared for material risks, which are followed up every quarter.

The operations has analysed and documented business-critical processes and their associated risks to strengthen the internal control. Controls, known as key controls, have also been introduced for process risks that have been identified. The operations performs key controls in its critical processes and the outcome of Risk Management is reported to each company Board every quarter.

The Group has a process (GOP) for approving new or significantly changed products, services, markets, processes, IT systems and for major changes to the operations and organisation. The purpose of the approval process is to achieve efficient and appropriate management of the risks that may arise in connection with change work, to ensure compliance with applicable regulations and to create customer value. Furthermore, the organisation applies a special process for the approval of new investment assets (GNP) that aims to highlight and manage potential risks prior to investments in new classes of assets, type of instruments and funds.

The Länsförsäkringar AB Group's continuity management involves preparing business contingency and continuity plans to manage incidents before, during and after a crisis has occurred. The Group regularly carries out exercises to ensure that every company is highly capable of managing crisis situations.

The companies in the Länsförsäkringar AB Group may, from time to time, outsource parts of the operations to external contractors, for example, to enhance the efficiency of operations. In order to maintain a high level of control, the companies' guidelines address issues including the procurement skills of the companies, suitability assessment, impact analysis and business contingency plans.

### Business risk

Business risk is the risk of losses arising due to business strategies and business decisions proving to be misdirected, actions by competitors, changes in the external environment, negative rumours about the company and an unexpected downturn in income, for example, from volume decreases. Business risk also includes Conduct Risk, meaning the risk of improper conduct and reputation risk, that is the risk that income reduces due to negative rumours about either Länsförsäkringar or the industry in general.

Business risks are managed at Board and management level through analyses and decisions prior to making strategic choices on the direction of the operations, and in the annual business planning process and also when trends in the Group's markets require management actions. The specific business risks that are deemed to be the most important at any given time are continuously monitored at management level.

### Group risk

Group risk refers to the risks associated with the complexity of conducting both banking operations and life-assurance and non-life insurance operations in the same group. Group risk also arises in the consolidated situation between Länsförsäkringar AB and Länsförsäkringar Bank. Group risks are identified and managed as part of the continuous risk-management activities and in the Group's and insurance subsidiaries' Own Risk and Solvency Assessment.

### Other risks

Other risks that may arise as a result of, for example, an altered risk profile or changed market conditions are identified and managed as part of the continuous risk-management activities and in the Group's and insurance subsidiaries' Own Risk and Solvency Assessment and in the Länsförsäkringar Bank Group's internal capital and internal liquidity adequacy assessment processes.

### CAPITAL MANAGEMENT

It is of central importance that the Länsförsäkringar AB Group and its separate licensable operations have a sufficient amount of capital in relation to the level of the Group's risks, regulatory capital requirements and stakeholder expectations.

### Targets and guidelines

The business activities of the companies consolidated in the Länsförsäkringar AB Group are conducted for profit-making purposes to enable Länsförsäkringar AB to pay returns through value growth and dividends to the owners. All capital that is not required for operations that the Group is commissioned to conduct by the regional insurance companies is to be paid as a dividend over time, on the condition that a credit rating of A for the Group's credit-rated units can be justified.

The Länsförsäkringar AB Group has worked with a capital adequacy target for the Group's overall capital strength for several years, which is formulated on the risk-based capital requirements for the Group's units. Capital is allocated internally based on plans for the business activities and forecasts for risk-based capital requirements, and risk-adjusted returns are forecast and followed up as part of the governance of the business activities. With the introduction of the EU's Solvency II rules, the regulatory capital requirements for insurance operations have been risk-based since the start of 2016. These requirements are calculated using a partial internal model approved by the Swedish Financial Supervisory Authority. For the banking operations, the Länsförsäkringar Bank Group works on a large number of the Group's credit portfolios using internal risk models for measuring risk and calculating capital requirements, as approved by the Financial Supervisory Authority.

The results of such calculations, supplemented by capital requirements under the Standardised Approach for risks not calculated using the internal model and by a measure of available capital, are used to design an internal measure of capital strength in the Länsförsäkringar AB Group. The Board sets targets for the Länsförsäkringar AB Group's capitalisation level as measured in this way. The Board also defines the lowest acceptable capitalisation, a risk appetite, that is established as a minimum level for the ratio between own funds and capital requirement for the Länsförsäkringar AB Group as a financial conglomerate.

### Process

Capital planning is conducted annually and is integrated into the business planning. These plans include the current year and three years in the future. The process analyses the level of the capital requirement and the access to capital based on sales and profitability forecasts.

The purpose of the capital planning is to ensure that own funds are sufficient for bearing the risks associated with realising the business plan. The analysis is based on the business plan activities and its fundamental scenario, but also includes a demanding but realistic negative scenario and stress tests. The capital situation of the entire Länsförsäkringar AB Group can be highlighted by performing analyses of shared scenarios and stress tests. In addition, unit-specific stress tests are performed in the insurance companies and in the banking operations to provide supplementary data on the capital situation of each subsidiary.

Capital planning results in a finance plan for the Länsförsäkringar AB Group and contains, for example, forecasts for the income statement and balance sheets at Group and subsidiary level, and the capital situation in relation to regulatory requirements. The finance plan also stipulates a plan for internal dividends and contributions, and a plan for capital transactions

between the Parent Company and its owners and issues of capital instruments to external investors.

The Länsförsäkringar AB Group's finance plan comprises a consolidated report as required under the Swedish Insurance Business Act's rules on Own Risk and Solvency Assessment (ORSA). The insurance companies have prepared separate ORSAs based on Group-wide conditions. An internal capital and liquidity adequacy assessment process (ICAAP and ILAAP) is performed by Länsförsäkringar Bank and its subsidiaries under the rules for banks.

After the finance plan for the Länsförsäkringar AB Group is decided by the Board, it is continuously followed up during the year in the quarterly reports to the Board. The plan is updated during the fiscal year as required.

### Capital requirements and capital situation

The Länsförsäkringar AB Group and its units are subject to regulatory requirements for the minimum permitted amount of capital in accordance with rules for banks, rules for insurance companies and rules for financial conglomerates. Länsförsäkringar AB, as the holding company for operations in both the banking sector and the insurance sector – known as a mixed financial holding company – is, along with its licensable subsidiaries, encompassed by the abovementioned rules on minimum permitted capital in groups.

The capital requirement rules for financial conglomerates and the rules on capital requirements for groups in the insurance sector are based on a joint approach that can be said to be adapted to a financial group with both banking and insurance operations. Both of these sets of rules entail that combined own funds in the group are to cover the total of the capital requirement for the banking operations and the capital requirement for the insurance operations. All companies in the Länsförsäkringar AB Group are included in the group defined by these regulations.

The rules of capital requirements for groups in the banking sector primarily entails that the value of shares in companies in the insurance sector are to be deducted from own funds and the remaining net amount is to cover the capital requirements for the banking operations. These rules can be said to disregard the profits found in the group's insurance companies. The group formed under the rules for groups in the banking sector includes Länsförsäkringar Bank and its subsidiaries together with the Parent Company Länsförsäkringar AB, but does not include the insurance companies in the Länsförsäkringar AB Group.

### Capital situation under rules on financial conglomerates and rules on groups in insurance sector

The rules on capital requirements for financial conglomerates have been applied for the Länsförsäkringar AB Group since they were introduced in 2006. Under these rules, the insurance sector is considered to be the largest sector in the Länsförsäkringar AB Group. A measure is calculated using information on total assets and capital requirements that shows that the insurance sector is larger than the banking sector by a certain margin, which is important to the calculation of the capital requirements on a consolidated basis for the Parent Company's operations.

The rules on capital requirements for groups in the insurance sector were fundamentally changed with the introduction of the EU's Solvency II regulations in 2016, which resulted in relatively minor differences compared with the rules on capital requirements for financial conglomerates.

Own funds and capital requirements are calculated for both financial conglomerates and for groups in the insurance sector by using the rules of each sector (banking and insurance).

In calculating capital requirements, an aggregate capital requirement is calculated for the parts of the Länsförsäkringar AB Group's insurance operations that are consolidated, meaning the Länsförsäkringar Sak Group's companies, Länsförsäkringar Fondliv and Länsförsäkringar AB. The capital requirement for the companies in the Länsförsäkringar Bank Group is added. For the banking sector, the most rigorous of the capital requirement rules based on Basel III and the transition rules under Basel I are applied. The capital requirement for Länsförsäkringar Liv is also added. Länsförsäkringar Liv, which is operated according to mutual principles, is included in the calculations in accordance with the deduction and aggregation method, with the consent of the Financial Supervisory Authority. Länsförsäkringar Liv's profits is not included in the capital surplus on a consolidated basis; only the amount of the company's own funds that corresponds to its capital requirement is included in the calculation of own funds on a consolidated basis.

The rules on own funds in financial conglomerates and on groups in the insurance sector state that an assessment is to be made as to whether there is any practical or legal impediment to transferring the profits in one unit to another unit within the same group. If such an impediment exists, a deduction is to be made from the group own funds so that the profits cannot be transferred. For groups in the insurance sector, this assessment is limited to encompassing only the transferability from the group's insurance companies.

The result of the calculations according to the rules on financial conglomerates and rules on groups in the insurance sector are presented in table 14. The calculations show the own funds and capital requirements at the start and end of the year after applying the rules for the insurance sector that were introduced on the basis of the EU's Solvency II rules.

**Table 14. Financial conglomerate and group according to insurance rules: solvency situation 2016**

SEK M	2016	2015
Own funds before deductions for non-transferable profits	40,880	37,172
<i>of which own funds included from Länsförsäkringar Liv</i>	<i>11,433</i>	<i>11,345</i>
Deductions, non-transferable profits in other insurance subsidiaries than Länsförsäkringar Liv	-278	-267
Own funds, group according to insurance rules	40,602	36,905
Deductions, non-transferable surpluses in other companies than insurance subsidiaries	-249	-177
Own funds, financial conglomerate	40,352	36,728
Capital requirement	30,121	28,233
<i>of which capital requirement Länsförsäkringar Liv</i>	<i>11,433</i>	<i>11,345</i>
Profits, group according to insurance rules	10,480	8,673
Profits, financial conglomerate	10,231	8,495

Deductions for non-transferable profits mostly refer to the existence of relatively large contingency reserves in Länsförsäkringar Sak and Agria preventing all of the profits in the companies from being transferred.

The capital situation strengthened during the year. Earnings and larger contributions to own funds from the revaluation of technical provisions in unit-linked insurance more than compensated for the higher capital requirement from increased business volumes.

### Capital situation under Bank Group rules

The rules on reporting capital situations in bank groups entail that the Länsförsäkringar Bank Group is to be consolidated with Länsförsäkringar AB and the capital situation is to be tested for the combined financial group (named "consolidated situation" in table 15).

The capital requirements on a consolidated basis are to be fulfilled both under the EU rules as introduced in Basel III and under the Basel I transition rules. Table 15 shows the capital adequacy on a consolidated basis for the Länsförsäkringar Bank Group consolidated with Länsförsäkringar AB. In addition, capital adequacy for the Länsförsäkringar Bank Group is also presented as a separate group.

**Table 15. Länsförsäkringar Bank consolidated situation: capital adequacy 31 December**

SEK M	Consolidated situation 2016	Consolidated situation 2015	Länsförsä- kringar Bank Group 2016	Länsförsä- kringar Bank Group 2015
Common Equity Tier 1 capital	12,617	11,064	11,054	10,019
Tier 1 capital	13,817	12,264	12,254	11,219
Own funds	16,409	14,561	14,846	13,516
Risk Exposure Amount	59,513	51,724	44,498	42,239
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
Capital adequacy ratio	27.6	28.2	33.4	32.0
<i>Transition rules from Basel I</i>				
Own funds according to transition rules	16,802	14,968	15,239	13,924
Capital requirement according to transition rules	11,254	9,847	10,911	9,678
Profits according to transition rules	5,548	5,121	4,328	4,246

The capital situation for Länsförsäkringar Bank in the consolidated situation was stable throughout the year.

**Note 3 Earnings per operating segment**

<b>2016</b>	<b>Non-life insurance</b>	<b>Unit-linked insurance</b>	<b>Bank</b>	<b>Parent company</b>	<b>Eliminations and adjustments</b>	<b>Total</b>
Premiums after ceded reinsurance	5,342	173	-	-	-30	5,485
Net interest income	-	-	3,455	-	1	3,455
Change in unit-linked insurance assets, policyholder bears the risk	-	7,916	-	-	-	7,916
Dividends in unit-linked insurance assets, policyholder bears the risk	-	7	-	-	-	7
Investment income, net	15	54	69	603	-419	322
Commission income	15	1,412	1,523	-	-346	2,604
Other operating income	389	265	117	2,891	-1,449	2,212
<b>Total operating income</b>	<b>5,760</b>	<b>9,828</b>	<b>5,163</b>	<b>3,494</b>	<b>-2,243</b>	<b>22,002</b>
Claims payments after ceded reinsurance	-3,793	-104	-	-	314	-3,584
Change in life assurance provision	-	-	-	-	-6	-6
Change in unit-linked insurance liabilities, policyholder bears the risk	-	-8,050	-	-	-	-8,050
Commission expense	-430	-575	-2,090	-	357	-2,738
Staff costs	-422	-167	-470	-927	13	-1,973
Other administration expenses	-680	-435	-1,098	-2,114	998	-3,328
Loan losses	-	-	-38	-	-	-38
<b>Total expenses</b>	<b>-5,326</b>	<b>-9,331</b>	<b>-3,696</b>	<b>-3,040</b>	<b>1,676</b>	<b>-19,716</b>
<b>Technical result</b>	<b>435</b>	<b>497</b>	<b>-</b>	<b>-</b>	<b>-932</b>	<b>-</b>
Non-technical income/expenses	210	15	-	-	-224	-
<b>Operating profit</b>	<b>644</b>	<b>512</b>	<b>1,467</b>	<b>453</b>	<b>-791</b>	<b>2,286</b>
Tax	-	-	-	-	-	-441
<b>Net profit for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,845</b>
<b>Income distribution</b>						
External income	5,524	9,474	5,170	1,687	147	22,002
Internal income	236	353	-7	1,807	-2,390	-
<b>Total operating income</b>	<b>5,760</b>	<b>9,828</b>	<b>5,163</b>	<b>3,494</b>	<b>-2,243</b>	<b>22,002</b>
<b>2015</b>	<b>Non-life insurance</b>	<b>Unit-linked insurance</b>	<b>Bank</b>	<b>Parent company</b>	<b>Eliminations and adjustments</b>	<b>Total</b>
Premiums after ceded reinsurance	5,074	140	-	-	-22	5,192
Net interest income	-	-	2,994	-	12	3,006
Change in unit-linked insurance assets, policyholder bears the risk	-	5,365	-	-	-	5,365
Dividends in unit-linked insurance assets, policyholder bears the risk	-	8	-	-	-	8
Investment income, net	45	-9	97	660	-800	-6
Commission income	31	1,384	1,522	-	-342	2,595
Other operating income	388	272	97	2,653	-1,305	2,104
<b>Total operating income</b>	<b>5,537</b>	<b>7,160</b>	<b>4,710</b>	<b>3,313</b>	<b>-2,457</b>	<b>18,263</b>
Claims payments after ceded reinsurance	-3,242	-98	-	-	302	-3,038
Change in life assurance provision	-	-	-	-	-5	-5
Change in unit-linked insurance liabilities, policyholder bears the risk	-	-5,349	-	-	-	-5,349
Commission expense	-458	-578	-1,963	-	336	-2,663
Staff costs	-388	-163	-462	-837	24	-1,826
Other administration expenses	-628	-443	-1,104	-2,037	993	-3,220
Loan losses	-	-	-6	-	-	-6
<b>Total expenses</b>	<b>-4,716</b>	<b>-6,632</b>	<b>-3,535</b>	<b>-2,874</b>	<b>1,650</b>	<b>-16,108</b>
<b>Technical result</b>	<b>821</b>	<b>528</b>	<b>-</b>	<b>-</b>	<b>-1,349</b>	<b>-</b>
Non-technical income/expenses	87	-11	-	-	-76	-
<b>Operating profit</b>	<b>908</b>	<b>516</b>	<b>1,175</b>	<b>438</b>	<b>-883</b>	<b>2,155</b>
Tax	-	-	-	-	-	-389
<b>Net profit for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,765</b>
<b>Income distribution</b>						
External income	5,321	6,812	4,721	1,421	-12	18,263
Internal income	216	348	-10	1,892	-2,445	-
<b>Total operating income</b>	<b>5,537</b>	<b>7,160</b>	<b>4,710</b>	<b>3,313</b>	<b>-2,457</b>	<b>18,263</b>

### Note 3 Earnings per operating segment, cont.

The distribution into operating segments matches how the Group is organised and is monitored by Group management. The technical result is presented for Non-life Insurance and Unit-linked Life Assurance since the result is followed up by Group management.

Income is primarily attributable to Sweden, with a small portion from Denmark, Finland, Norway and the UK.

The Non-life Insurance operating segment pertains to non-life and group life assurance; group life assurance comprises a minor portion only. The Länsförsäkringar Alliance's internal and external reinsurance are also included. The Non-life Insurance operating segment comprises non-life insurance with income from external customers totalling SEK 5,508 M (5,082) and group life assurance with income from external customers totalling SEK 252 M (239).

The Unit-linked Life Assurance operating segment pertains to life assurance with links to mutual funds. The Unit-linked Life Assurance operating segment comprises life assurance linked to mutual funds with income from external customers totalling SEK 9,474 M (6,812).

### Note 4 Acquisitions of operations

#### Acquisitions of operations 2016

During 2016, the Länsförsäkringar AB Group did not acquire any operations.

#### Change in additional purchase price 2016

In 2011, Länsförsäkringar AB acquired Länsförsäkringar Fondliv Försäkrings AB from Länsförsäkringar Liv Försäkrings AB. The acquisition agreement states that an additional purchase price of SEK 950 M is to be paid in seven annual part payments to Länsförsäkringar Liv Försäkrings AB. The adopted acquisition analysis was recognised in the 2012 Annual Report.

In 2016, an installment of the additional purchase price was paid to Länsförsäkringar Liv Försäkrings AB. The installment totalled SEK 136 M (136). The value of the additional purchase price was SEK 255 M (373) on 31 December 2016.

### Note 5 Premiums after ceded reinsurance

	2016	2015
<b>Non-life insurance</b>		
Premium income, direct insurance, Sweden	4,744	4,460
Premium income, direct insurance, other EEA	5	6
Premium income, received reinsurance	1,965	2,042
Change in provision for unearned premiums	-150	-136
Change in provision for unexpired risks	3	5
<b>Total premiums earned before ceded reinsurance</b>	<b>6,566</b>	<b>6,377</b>
Premiums for ceded reinsurance	-1,559	-1,575
Reinsurers' portion of change in provision for unearned premiums and unexpired risks	42	7
<b>Total reinsurers' portion of premiums earned</b>	<b>-1,516</b>	<b>-1,568</b>
<b>Total premiums earned after ceded reinsurance</b>	<b>5,050</b>	<b>4,809</b>
<b>Life assurance</b>		
Premium income, group insurance, direct life assurance in Sweden	448	400
<b>Total premium income before ceded reinsurance</b>	<b>448</b>	<b>400</b>
Premiums for ceded reinsurance	-13	-17
<b>Total premiums after ceded reinsurance</b>	<b>435</b>	<b>383</b>
<b>Total premiums after ceded reinsurance</b>	<b>5,485</b>	<b>5,192</b>

The Banking operating segment pertains to deposits and lending operations. For the Banking operating segment, the product offering to external customers is in line with the legal structure within the Länsförsäkringar Bank Group. Income from external customers pertains to bank products totalling SEK 1,752 M (1,643), for mortgage products totalling SEK 1,253 M (930), for leasing and installment totalling SEK 1,063 M (1,033) and for fund products totalling SEK 1,101 M (1,116).

The Parent Company operating segment pertains to service, IT and development for the Länsförsäkringar Alliance, administration of mutual funds and costs for shared functions.

Depreciation of property and equipment and amortisation of intangible assets in Non-Life Insurance is included in Other administration expenses. Amortisation pertaining to acquired intangible assets under Unit-linked Life Assurance is included in eliminations and adjustments of administration expenses.

### Note 6 Interest income

	2016	2015
Loans to credit institutions	-4 <sup>1)</sup>	3
Loans to the public	4,918	4,978
Interest-bearing securities	331 <sup>1)</sup>	464
Derivatives	-1,220	-1,316
Other interest income	0	0
<b>Total interest income</b>	<b>4,025</b>	<b>4,130</b>
of which interest income on impaired loans	15	17
of which interest income from financial items not measured at fair value	4,914	4,982
Average interest rate on loans to the public during the year, %	2.3	2.6

### Note 7 Interest expense

	2016	2015
Due to credit institutions	20 <sup>1)</sup>	-1
Deposits and borrowing from the public	-186	-309
Interest-bearing securities	-2,010 <sup>1)</sup>	-2,335
Subordinated liabilities	-72	-81
Derivatives	1,780	-1,729
Other interest expense	-103	-127
<b>Total interest expense</b>	<b>-569</b>	<b>-1,124</b>
of which interest expense from financial items not measured at fair value	-2,349	-2,853
Average interest rate on deposits from the public during the year, %	0.2	0.4

<sup>1)</sup> Of which negative interest on Loans to credit institutions of SEK 20 M (12) and Interest-bearing securities of SEK 31 M (13), and also Liabilities to credit institutions of SEK 38 M (-) and Other interest-bearing securities of SEK 8 M (-).

Note 8	Investment income, net	
	2016	2015
Interest income	46 <sup>1)</sup>	58 <sup>1)</sup>
Dividends	4	5
<sup>1)</sup> Of which negative interest on Cash and Bank of SEK 4 M (0) and also Interest-bearing securities of SEK 7 M (6).		
<b>Realised profit, net</b>		
Interest compensation	45	65
Shares and participations	-2	180
Interest-bearing securities	-90	128
Derivatives	149	-27
Change in claims annuities reserve	-4	-1
Other financial assets	3	-58
<b>Total realised profit, net</b>	<b>101</b>	<b>288</b>
<b>Unrealised profit, net</b>		
Shares and participations	191	-25
Interest-bearing securities	-474	140
Derivatives	634	-308
Other financial assets	-5	-11
<b>Total unrealised profit, net</b>	<b>346</b>	<b>-204</b>
Exchange-rate gains/losses, net	-48	-29
Interest expense	-109	-106
Participations in associated companies	9	6
Asset management expenses	-26	-23
<b>Investment income, net</b>	<b>322</b>	<b>-6</b>
<b>Investment income, net, by valuation category</b>		
Financial assets held for trading	-138	-62
Financial assets measured according to fair value option	383	-48
Financial liabilities measured according to fair value option	-24	-
Available-for-sale financial assets	21	24
Loan receivables and accounts receivable	40	64
Other financial liabilities	-95	-55
Change in fair value of derivatives that are hedging instruments in a hedge of fair value	782	-299
Change in fair value of hedged items with regard to the hedged risk in hedges of fair value	-736	362
<b>Non-financial items included in investment income, net</b>		
Translation, non-life annuity reserve	-2	0
Value-preserving interest rates claims annuities reserve	-4	-1
Dividends from group and associated companies	1	0
Asset management expenses	-26	-23
Other non-financial items	120	31
<b>Total investment income, net</b>	<b>322</b>	<b>-6</b>

Note 9	Commission income	
	2016	2015
Payment mediation commission	84	73
Lending commission	118	112
Deposit commission	11	12
Financial guarantees	1	-
Securities commission	1,134	1,160
Card operations	174	163
Commission and profit shares in ceded reinsurance	15	31
Fees pertaining to financial agreements unit-linked insurance	659	649
Other commission	408	394
<b>Total commission income</b>	<b>2,604</b>	<b>2,595</b>

Note 10	Other operating income	
	2016	2015
Service income, regional insurance companies	1,366	1,333
Other service income	489	401
Other income	357	370
<b>Total other operating income</b>	<b>2,212</b>	<b>2,104</b>

<b>Note 11</b> Claims payments		<b>2016</b>			<b>2015</b>		
		Before ceded reinsurance	Ceded reinsurance	After ceded reinsurance	Before ceded reinsurance	Ceded reinsurance	After ceded reinsurance
<b>Non-life insurance</b>							
Claims paid		-4,070	886	-3,184	-4,543	1,612	-2,931
Claims annuities paid		-29	-	-29	-57	-	-57
Change in provision for claims incurred and reported		415	-460	-45	843	-666	177
Change in provision for claims incurred but not reported		-53	-26	-80	53	-19	34
<b>Total</b>		<b>-3,735</b>	<b>399</b>	<b>-3,336</b>	<b>-3,704</b>	<b>927</b>	<b>-2,776</b>
<b>Life assurance</b>							
Claims paid		-186	2	-184	-204	1	-203
Change in provision for claims outstanding		-65	1	-64	-60	1	-59
<b>Total</b>		<b>-251</b>	<b>3</b>	<b>-248</b>	<b>-264</b>	<b>2</b>	<b>-262</b>
<b>Total non-life insurance and life assurance</b>		<b>-3,986</b>	<b>402</b>	<b>-3,584</b>	<b>-3,968</b>	<b>930</b>	<b>-3,038</b>

<b>Note 12</b> Commission expense		<b>2016</b>	<b>2015</b>
Payment mediation commission		-93	-88
Securities commission		-269	-256
Card operations		-107	-94
Compensation to the regional insurance companies		-1,830	-1,746
Commission, direct insurance		-297	-284
Commission, received reinsurance		-81	-100
Other commission		-61	-96
<b>Total commission expense</b>		<b>-2,738</b>	<b>-2,663</b>

<b>Note 13</b> Employees, staff costs and remuneration to senior executives					
<b>Average number of employees</b>		<b>2016</b>	<b>2015</b>	<b>Salaries, other remuneration and social security expenses</b>	
<b>Sweden</b>				<b>Other employees</b>	<b>2016</b> <b>2015</b>
Men		684	680	Salaries and remuneration	1,116 1,038
Women		903	871	of which variable remuneration	1 8
<b>Total Sweden</b>		<b>1,587</b>	<b>1,551</b>	Social security expenses	664 625
<b>Denmark</b>				of which pension costs	264 253
Men		1	1	<b>Total</b>	<b>1,780 1,663</b>
Women		9	7	<b>Board of Directors and senior executives, 30 (32)</b>	
<b>Total Denmark</b>		<b>10</b>	<b>8</b>	Salaries and remuneration	58 56
<b>Finland</b>				of which variable remuneration	- -
Men		-	-	Social security expenses	45 44
Women		4	-	of which pension costs	21 21
<b>Total Finland</b>		<b>4</b>	<b>-</b>	<b>Total</b>	<b>103 100</b>
<b>Norway</b>				<b>Total salaries, other remuneration and social security expenses</b>	
Men		2	1	<b>2016</b> <b>2015</b>	
Women		23	20	Salaries and remuneration	1,174 1,095
<b>Total Norway</b>		<b>25</b>	<b>21</b>	of which variable remuneration	1 8
<b>UK</b>				Social security expenses	709 669
Men		39	32	of which pension costs	286 274
Women		67	64	<b>Total</b>	<b>1,883 1,763</b>
<b>Total UK</b>		<b>106</b>	<b>96</b>	Länsförsäkringar Bank has about 1,300 individuals who are also employed at Länsförsäkringar Bank and the regional insurance companies. The regional insurance companies pay the entire remuneration of their respective employees.	
<b>Total number of employees</b>					
Men		726	714		
Women		1,006	962		
<b>Total</b>		<b>1,732</b>	<b>1,676</b>		

## Note 13 Employees, staff costs and remuneration to senior executives, cont.

### Variable remuneration

Variable remuneration is a rarely utilised form of remuneration at the Länsförsäkringar AB Group and, accordingly, comprises an extremely minor part of total salaries. Commission-based remuneration is used for some functions. Commission-based remuneration is proportionate to sales effort and is regulated by local collective agreements.

The variable remuneration above pertains to the recognised expense for the year. The amount includes estimated variable remuneration for 2016, and deviations pertaining to estimated costs for 2015.

Of the above amount pertaining to variable remuneration, SEK 0.5 M (0.5) is attributable to the insurance operations and the remaining SEK 0.5 M (7.1) is attributable to the other operations.

### 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 for the President and other senior executives. If termination of employment is issued by the company, severance pay corresponding to 18 monthly salaries will be paid, in addition to the period of notice. Alternatively, a mutual period of notice of three months is applied for other senior executives, and if termination of employment is issued by the company, severance pay corresponding to 24 monthly salaries will be paid in addition to the period of notice.

### Pensions

The retirement age for the President is 65 years. The pension is a defined-contribution plan and the pension premium is to amount to 35% of the monthly salary. The retirement age for one Executive Vice President is 60 years. The pension between the age of 60 and 65 is a defined-contribution plan. The pension premium is to amount to 18% of pensionable salary. Pensionable salary refers to fixed salary. Pension from the age of 65 is subject to the terms of the pension agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (FTF) and the Swedish Confederation of Professional Associations (SACO). The retirement age for one Executive Vice President is 65 years. The pension is a defined-contribution plan and the pension premium is to amount to 35% of the monthly salary.

The retirement age for other senior executives is 60, 62 or 65 years. If the retirement age is 65, the pension is a defined-contribution plan and the pension premium is to amount to 35% of the monthly salary. If the retirement age is 60 or 62, the pensions between 60 or 62 and 65 are defined-contribution pensions and are expected to be paid at approximately 70% of the pensionable salary. Pension from the age of 65 is subject to the terms of the pension agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (FTF) and the Swedish Confederation of Professional Associations (SACO).

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

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

### Composition and mandate of Remuneration Committee

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

### Policies for remuneration of corporate management

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

### Fixed remuneration

Fixed remuneration is paid according to the general policy above.

### Pensions

The pension solution for senior executives shall be solely premium-based with a premium provision of 35% of the monthly salary. A transition to this policy is to be carried out successively and in conjunction with the signing of new agreements.

### Other benefits

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

Loans to the Board of Directors, Presidents/Executive Vice Presidents and other senior executives	31 Dec 2016	31 Dec 2015
Board members	73	45
President and Executive Vice President	16	13
Other senior executives	69	62
<b>Total loans to the Board of Directors, Presidents/Executive Vice Presidents and other senior executives</b>	<b>159</b>	<b>119</b>

Loans granted comprise personnel loans and other loans. Personnel loans are maximised at SEK 500,000 and carry loan terms comparable to what applies to other employees in the Group. The interest rate for employees is the repo rate less 0.5 percentage points, but can never be lower than 0.5%. The interest benefit is calculated in accordance with the Swedish Tax Agency's rules and is included in the amount for other benefits as above. The terms and conditions of other loans are market-based.

Number of women among senior executives, %	31 Dec 2016	31 Dec 2015
Board members	42	42
Other senior executives	44	42

## Note 14 Fees and remuneration to auditors

	2016	2015
<b>KPMG AB</b>		
- Audit assignments	-10	-11
- audit operations in addition to the audit assignment	-3	-4
- tax consulting	-1	-1
- other assignments	-1	-3
<b>Total fees and cost reimbursements to auditors</b>	<b>-14</b>	<b>-19</b>

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

## Note 15 Other administration expenses

	2016	2015
<b>Other administration expenses</b>		
Costs for premises	21	-103
Depreciation/amortisation and impairment	-330	-489
IT costs	-1,769	-1,368
Consultant costs	-224	-387
Marketing	-252	-205
Telephone and postage	-99	-98
Other administration expenses	-675	-570
<b>Total other administration expenses</b>	<b>-3,328</b>	<b>-3,220</b>

Note 16	Loan losses, net	
	2016	2015
<b>Specific reserve for individually assessed loan receivables</b>		
Write-off of confirmed loan losses during the year	-135	-111
Reversed earlier impairment of loan losses recognised in the year-end accounts as confirmed losses	133	111
Impairment of loan losses during the year	-141	-121
Payment received for prior confirmed loan losses	67	41
Reversed impairment of loan losses no longer required	67	66
<b>Net expense for the year for individually assessed receivables</b>	<b>-9</b>	<b>-14</b>
<b>Collectively assessed homogenous groups of loan receivables with limited value and similar credit risk</b>		
Provision/reversal of impairment for loan losses	-29	7
<b>Net expense for the year for collectively assessed receivables</b>	<b>-29</b>	<b>7</b>
Net expense for the year for fulfilment of guarantees	0	0
<b>Net expense of loan losses for the year</b>	<b>-38</b>	<b>-6</b>

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 an off-set against accrued commissions. On 31 December 2016, the total credit reserve requirement amounted to SEK 380 M (388), of which the Bank Group's recognised credit reserve amounted to SEK 250 M (281) and the remainder amounting to SEK 130 M (107) was offset against the regional insurance companies' held funds, according to the model described above. The transition to the 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. SEK 23 M (60) was reversed during 2016.

Note 17	Tax	
	2016	2015
<b>Current tax</b>		
Tax expenses for the period	-271	-265
Adjustment of tax expense pertaining to prior years	-8	4
<b>Total current tax</b>	<b>-279</b>	<b>-261</b>
<b>Deferred tax</b>		
Deferred tax pertaining to temporary differences	-165	-116
Deferred tax pertaining to capitalised tax value in loss carryforwards	4	-12
<b>Total deferred tax</b>	<b>-162</b>	<b>-128</b>
<b>Total recognised tax expense</b>	<b>-441</b>	<b>-389</b>
<b>Reconciliation of effective tax rate</b>		
Profit before tax	2,286	2,155
Tax in accordance with applicable tax rate for Parent Company	-503	-474
Effect of other tax rates for foreign companies	-2	1
Tax on non-deductible costs	-63	-75
Tax on non-taxable income	137	155
Tax attributable to earlier years	-8	4
<b>Recognised effective tax on profit for the year</b>	<b>-441</b>	<b>-389</b>
Applicable tax rate	22.0%	22.0%
Effective tax rate	19.3%	18.1%
<b>Tax attributable to other comprehensive income</b>		
Cash-flow hedges	-18	-9
Available-for-sale financial assets	-30	43
Revaluation of owner-occupied property	-46	-73
Revaluation of defined-benefit pension plans	-0	-0
<b>Total tax attributable to other comprehensive income</b>	<b>-59</b>	<b>-39</b>

Note 18	Earnings per share	
	2016	2015
Net profit/loss attributable to Parent Company's shareholders, SEK M	1,845	1,765
Number of shares with a quotient value of SEK 100	10,424,582	10,424,582
<b>Earnings per share before and after dilution, SEK</b>	<b>177</b>	<b>171</b>

Earnings per share has been calculated as net profit for the year attributable to the Parent Company's shareholders divided by the average number of shares. No previous or future dilution exists since potential ordinary shares did not occur in reported periods nor were in existence on the balance-sheet date.

Note 19	Goodwill	
	2016	2015
<b>Cost</b>		
Opening cost, 1 January	738	735
Exchange-rate differences	-18	3
<b>Closing cost, 31 December</b>	<b>720</b>	<b>738</b>
<b>Assumptions for testing of value</b>		
Long-term growth, %	2.0	2.0-2.5
Discount rate, %	7.9	7.2-7.5
Exchange rate SEK/GBP	11.2	12.4

Testing of value is based on the value in use. The value of the business is based on discounting the future cash flows from the operations on the basis of expected profits less deductions for capital requirements. The long-term growth assumption was set on a level with long-term inflation expectations and the discount rate corresponds to the yield requirement for equity. A market value for Länsförsäkringar Fondliv is calculated according to market consistent embedded value (MCEV). The calculation is performed based on the present value of future gains in the insurance portfolio. These future gains are measured and discounted using a market-based, risk-free yield curve.

**Note 20 Other intangible assets**
**Capitalised expenditure for development and acquired intangible assets**

Capitalised expenses	Internally developed IT systems	Acquired IT systems	Acquired customer-based assets	Total
<b>Cost</b>				
Opening cost, 1 January 2015	1,502	249	4,147	5,898
Acquisitions	322	-	50	372
Divestments/disposals	-5	-	-	-5
Exchange-rate differences	0	-	-	0
<b>Closing cost, 31 December 2015</b>	<b>1,819</b>	<b>249</b>	<b>4,197</b>	<b>6,265</b>
Opening cost, 1 January 2016	1,819	249	4,197	6,265
Acquisitions	566	29	-	595
Divestments/disposals	-4	-	-	-4
Exchange-rate differences	-3	-	-	-3
<b>Closing cost, 31 December 2016</b>	<b>2,379</b>	<b>278</b>	<b>4,197</b>	<b>6,854</b>
<b>Amortisation</b>				
Opening accumulated amortisation, 1 January 2015	-870	-85	-1,048	-2,004
Reclassification	1	-	-	1
Amortisation	-86	-12	-153	-251
Divestments/disposals	2	-	-	2
Exchange-rate differences	-0	-	1	1
<b>Closing accumulated amortisation, 31 December 2015</b>	<b>-953</b>	<b>-97</b>	<b>-1,201</b>	<b>-2,252</b>
Opening accumulated amortisation, 1 January 2016	-953	-97	-1,201	-2,252
Amortisation	-91	-16	-153	-259
Divestments/disposals	3	-	-	3
Exchange-rate differences	2	-	-1	1
<b>Closing accumulated amortisation, 31 December 2016</b>	<b>-1,039</b>	<b>-113</b>	<b>-1,355</b>	<b>-2,507</b>
<b>Impairment</b>				
Opening accumulated impairment, 1 January 2015	-242	-42	-	-284
Impairment	-55	-3	-	-58
<b>Closing accumulated impairment, 31 December 2015</b>	<b>-297</b>	<b>-45</b>	<b>-</b>	<b>-342</b>
Opening accumulated impairment, 1 January 2016	-297	-45	-	-342
Impairment	-	-	-	-
<b>Closing accumulated impairment, 31 December 2016</b>	<b>-297</b>	<b>-45</b>	<b>-</b>	<b>-342</b>
<b>Carrying amount, 31 December</b>				
<b>2015</b>	<b>569</b>	<b>106</b>	<b>2,997</b>	<b>3,672</b>
<b>2016</b>	<b>1,042</b>	<b>120</b>	<b>2,843</b>	<b>4,005</b>

The periods of amortisation for internally developed and acquired IT systems are determined based on a useful life that varies between 3 and 15 years. Acquired customer-based assets are depreciated over a period of 8 or 25 years. Straight-line depreciation is applied consistently and all amortisation and impairment losses are recognised in profit and loss as Other administration expenses.

During the year, impairment of other intangible assets amounting to SEK 0 M (58) has been made. This is mostly attributable to the Bank Group.

Note 21	Property and equipment	
	2016	2015
<b>Cost</b>		
Opening cost, 1 January	259	259
Reclassification	6	12
Acquisitions	20	39
Divestments/disposals	-63	-52
Exchange-rate differences	-3	0
<b>Closing cost, 31 December</b>	<b>219</b>	<b>259</b>
<b>Depreciation</b>		
Opening accumulated depreciation, 1 January	-206	-208
Reclassification	-	-4
Depreciation	-16	-20
Divestments/disposals	56	26
Exchange-rate differences	2	0
<b>Closing accumulated depreciation, 31 December</b>	<b>-164</b>	<b>-206</b>
<b>Carrying amount, 31 December</b>	<b>55</b>	<b>53</b>

Note 22	Owner-occupied property			
	After revaluation 31 Dec 2016	Before revaluation 31 Dec 2016	After omvärdering 31 Dec 2015	Before revaluation 31 Dec 2015
Cost, reclassified	3,487	3,291	3,274	2,923
Accumulated amortisation	-766	-723	-730	-651
Carrying amount	2,721	2,568	2,545	2,272
<b>Fair value</b>		<b>2,721</b>		<b>2,545</b>
<b>Revalued depreciated cost</b>			<b>2016</b>	<b>2015</b>
Opening balance, 1 January			2,545	2,265
Capitalised improvements			38	22
Depreciation for the year according to plan before revaluation			-72	-72
Scrapping			-	-1
Revaluation of owner-occupied property			210	330
<b>Closing balance, 31 December</b>			<b>2,721</b>	<b>2,545</b>
Historical cost reduced by depreciation according to plan			1,700	1,735
Revaluation effect against revaluation reserve			164	258
<b>Assumption on valuation at fair value</b>			<b>2016</b>	<b>2015</b>
Current rental income/market rent, SEK M			149/156	148/155
Computed interest in discounting, %			6.8	7.3
Direct yield requirement, %			4.8	5.2

The Group applies the revaluation technique to the Group's owner-occupied property. The properties were assessed externally by valuation company CB Richard Ellis. Fair value was calculated by applying the location-price method, based on reported purchases of comparable properties, and a return-based cash flow method. The cash-flow method is based on 10 year calculation of the present value of future cash flows in the form of operating net, which has been successively adjusted to market. A residual value was estimated by performing a constant capitalisation of an estimated market-adjusted operating net year 11. The Group has no borrowing costs for owner-occupied property. For information on valuation method for fair value, see Note 50.

Note 23	Shares in Länsförsäkringar Liv Försäkringsaktiebolag (publ)							
	Corporate Registration Number	Registered office	Number of shares	Share of equity %	Equity	Earnings	Carrying amount 31 Dec 2016	Carrying amount 31 Dec 2015
Länsförsäkringar Liv Försäkringsaktiebolag (publ)	516401-6627	Stockholm	8,000	100	23,050	2,682	8	8

Länsförsäkringar AB owns 100% of the shares in Länsförsäkringar Liv Försäkrings AB (publ) but it is not consolidated in the Group. Subsidiaries are companies subject to a controlling influence from Länsförsäkringar AB. A controlling influence means the direct or indirect right to formulate a company's financial and operational strategies in order to receive financial benefits. The life-assurance operations, which are conducted according to mutual principles through Länsförsäkringar Liv Försäkrings AB and whose earnings accrue in their entirety to the policyholders, are not recognised in accordance with the purchase method since it is not possible to exercise control in order to receive financial benefits from such a life-assurance company.

Shares in Länsförsäkringar Liv Försäkrings AB are classified as holdings available for sale. Since there is no active market for these shares, the fair value cannot be calculated reliably based on such a listing. The holding is thus measured at cost. The value is tested annually to determine whether impairment is required.

Equity and earnings pertain to the Länsförsäkringar Liv Group.

Note 24	Shares and participations in associated companies	
	31 Dec 2016	31 Dec 2015
Carrying amount at beginning of the year	74	66
Profit shares in the associated company	4	3
Other changes in the associated company's equity	2	5
Reclassification	2	-
<b>Total shares and participations in associated companies</b>	<b>82</b>	<b>74</b>

Accumulated impairment losses amounted to SEK 4 M (4).

## Note 24 Shares and participations in associated companies, cont.

	Corporate Registration Number	Registered office	Number of shares	Share of equity %	Carrying amount 31 Dec 2016	Carrying amount 31 Dec 2015
CAB Group AB	556131-2223	Örebro	1,582	28.8	39	30
European Alliance Partners Company AG	CH-0203026423-1	Zürich, Schweiz	10,570	14.3	10	11
FörsäkringsGiro Sverige AB	556482-4471	Solna	5,000	25.0	29	29
Länsförsäkringsbolagens Fastighets HB Humlegården	916604-6459	Stockholm	188,722	29.1	0	0
Svenska Andelshästar AB	556536-9633	Uppsala	400	40.0	2	1
Trofast Veterinärt IT-stöd AB	556598-0983	Hallstahammar	5,000	44.6	3	3
<b>Total</b>					<b>82</b>	<b>74</b>

	2016	2015
Group's share of:		
Results	4	3
<b>Total profit shares in associated companies</b>	<b>4</b>	<b>3</b>

The amounts presented above refer only to the Group's participating interests in associated companies. The shares and participations are unlisted. All associated companies apply the calendar year as the fiscal year. The share of profit in all associated companies is included in the Non-life insurance and in the Unit-linked insurance operating segments. Länsförsäkringar Sak Försäkrings AB (publ) is considered to have a significant influence in the European Alliance Partners Company AG despite owning a participating interest of less than 20%. The reason is because Länsförsäkringar Sak Försäkrings AB (publ) is represented in the company's Board and, thereby, has the right (but not a duty) to participate in all decisions made in the company, including strategic issues and issues regarding guidelines, budget, business plans and similar matters. Furthermore, a large amount of information is exchanged with the company.

<b>Note 25 Loans to the public</b>		
	31 Dec 2016	31 Dec 2015
Loan receivables, gross	226,955	202,240
Impairment	-250	-281
<b>Loan receivables, net</b>	<b>226,705</b>	<b>201,959</b>
Impaired loans	226	241
<b>Reconciliation of impairment of loan losses</b>	<b>2016</b>	<b>2015</b>
Opening balance, 1 January	-281	-344
Reversed earlier impairment of loan losses recognised in the year-end accounts as confirmed losses	134	114
Reversed impairment of loan losses no longer required		
Impairment of loan losses during the year	69	103
Closing balance, 31 December	-173	-153
<b>Closing balance, 31 December</b>	<b>-250</b>	<b>-281</b>

Loan receivables are geographically attributable in their entirety to Sweden.

<b>Note 26 Unit-linked insurance assets, policyholder bears the risk</b>		
	31 Dec 2016	31 Dec 2015
Equity funds	93,500	89,744
Fixed-income funds	18,299	10,753
<b>Total unit-linked insurance assets</b>	<b>111,799</b>	<b>100,497</b>
Amortised cost	88,722	83,785

<b>Note 27 Financial leasing</b>				
	Up to 1 year	1-5 years	More than 5 years	Total
<b>31 Dec 2016</b>				
Present value of future minimum lease fees	2,315	3,740	630	6,685
Unearned financial income <sup>1)</sup>	417	530	53	999
<b>Gross investment</b>	<b>2,732</b>	<b>4,270</b>	<b>683</b>	<b>7,684</b>
<b>31 Dec 2015</b>				
Present value of future minimum lease fees	2,247	3,558	584	6,389
Unearned financial income <sup>1)</sup>	387	477	44	908
<b>Gross investment</b>	<b>2,634</b>	<b>4,035</b>	<b>628</b>	<b>7,297</b>

<sup>1)</sup> Attributable to present value calculation.

	2016	2015
Provision for impaired loans pertaining to minimum lease fees	42	70
Variable portion of leasing fees included in net profit for the year	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.

<b>Note 28 Shares and participations</b>		
	31 Dec 2016	31 Dec 2015
<b>Carrying amount</b>		
Listed shares and participations	1,218	1,168
Unlisted shares and participations	806	664
<b>Total shares and participations</b>	<b>2,024</b>	<b>1,832</b>
<b>31 Dec 2016</b>		
Fair value	2,024	1,832
Cost	1,491	1,352

<b>Note 29 Bonds and other interest-bearing securities</b>			
Carrying amount	31 Dec 2016	31 Dec 2015	
Swedish government	1,292	1,424	
Swedish mortgage institutions	29,385	28,254	
Other Swedish issuers	6,004	6,061	
Foreign states	1,073	997	
Other issuers	3,616	3,324	
<b>Total bonds and other interest-bearing securities</b>	<b>41,371</b>	<b>40,061</b>	
Fair value	41,371	40,061	
Amortised cost	40,580	39,244	
Nominal value	37,781	35,748	
Listed securities	41,371	39,961	
Unlisted securities	-	100	
<b>Carrying amounts of the securities compared with their nominal amounts</b>			
Total fixed income funds	1,591	2,262	
Total surplus	1,997	2,058	
Total deficit	-1	-7	

<b>Note 30 Treasury bills and other eligible bills</b>			
Carrying amount	31 Dec 2016	31 Dec 2015	
Swedish government	7,215	8,248	
Finnish government	579	576	
<b>Total treasury bills and other eligible bills</b>	<b>7,794</b>	<b>8,824</b>	
Fair value	7,794	8,824	
Amortised cost	7,637	8,715	
Nominal value	7,279	8,632	

<b>Note 31 Derivatives</b>				
	Carrying amounts		Nominal amounts	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
<b>Derivative instruments with positive values or valued at zero</b>				
<i>Derivatives in hedge accounting</i>				
Interest	2,418	2,365	99,641	82,801
Currency	3,098	2,049	26,514	15,182
<i>Derivatives not in hedge accounting</i>				
Interest	8	1	2,333	925
Currency	73	65	2,740	2,989
Equity-related		0	-	0
<b>Total derivatives with positive values</b>	<b>5,597</b>	<b>4,479</b>	<b>131,229</b>	<b>101,897</b>
<b>Derivatives with negative values</b>				
<i>Derivatives in hedge accounting</i>				
Interest	1,249	1,645	97,435	101,774
Currency	403	778	4,936	11,674
<i>Derivatives not in hedge accounting</i>				
Interest	0	4	14	50
Currency	27	29	1,356	1,457
Equity-related	0	0	0	1
<b>Total derivatives with negative values</b>	<b>1,680</b>	<b>2,455</b>	<b>103,740</b>	<b>114,955</b>

<b>Note 32 Fair value adjustment of interest-rate-risk hedged items in portfolio hedge</b>		
	2016	2015
<b>Assets</b>		
Carrying amount, 1 January	815	1,147
Changes during the year pertaining to lending	-179	-331
<b>Carrying amount, 31 December</b>	<b>636</b>	<b>815</b>
<b>Liabilities</b>		
Carrying amount, 1 January	2,899	3,824
Changes during the year pertaining to lending	-3	-11
Changes during the year pertaining to borrowing	296	-914
<b>Carrying amount, 31 December</b>	<b>3,191</b>	<b>2,899</b>

<b>Note 33 Other receivables</b>		
	31 Dec 2016	31 Dec 2015
Receivables pertaining to reverse repurchase agreements	-	105
Receivables pertaining to direct insurance	1,502	1,400
Accounts receivable	329	326
Receivables pertaining to reinsurance	165	272
Deposits with companies that have ceded reinsurance	40	34
Other receivables	1,639	1,537
<b>Total other receivables</b>	<b>3,674</b>	<b>3,672</b>

<b>Note 34 Prepaid expenses and accrued income</b>		
	31 Dec 2016	31 Dec 2015
Accrued interest and rental income	1,310	1,513
Prepaid acquisition costs	1,246	1,234
Other accrued income	176	205
Other prepaid expenses	223	160
<b>Total prepaid expenses and accrued income</b>	<b>2,956</b>	<b>3,111</b>

<b>Note 35 Cash and cash equivalents</b>		
	31 Dec 2016	31 Dec 2015
Cash and balances with central banks	21	21
Balances with other banks	1,150	1,353
<b>Total cash and cash equivalents</b>	<b>1,171</b>	<b>1,374</b>

	Restricted equity		Non-restricted equity including comprehensive income for the year	Total equity
	Share capital	Restricted reserves		
Opening equity, 1 January 2015	1,007	4,796	11,054	16,857
Net profit for the year	-	-	1,765	1,765
Change in translation reserve	-	4	-1	3
Change in revaluation reserve	-	-	332	332
Change in fair value reserve	-	-	-195	-195
Change in hedging reserve	-	-	41	41
Tax on items recognised in other comprehensive income	-	-	-39	-39
<b>Total other comprehensive income</b>	-	<b>4</b>	<b>138</b>	<b>142</b>
<b>Comprehensive income for the year</b>	-	<b>4</b>	<b>1,903</b>	<b>1,907</b>
Tier 1 capital issued	-	1,200	-27	1,173
Transfer between restricted and non-restricted equity	-	-4	4	-
New share issue	36	564	-	600
<b>Closing equity, 31 December 2015</b>	<b>1,042</b>	<b>6,560</b>	<b>12,935</b>	<b>20,538</b>
Opening equity, <b>1 January 2016</b>	1,042	6,560	12,935	20,538
Net profit for the year	-	-	1,845	1,845
Change in translation reserve	-	-22	-6	-28
Change in revaluation reserve	-	-	212	212
Change in fair value reserve	-	-	138	138
Change in hedging reserve	-	-	-81	-81
Tax on items recognised in other comprehensive income	-	-	-59	-59
<b>Total other comprehensive income</b>	-	<b>-22</b>	<b>204</b>	<b>182</b>
<b>Comprehensive income for the year</b>	-	<b>-22</b>	<b>2,049</b>	<b>2,027</b>
Tier 1 capital issued	-	-	-36	-36
Transfer between restricted and non-restricted equity	-	22	-22	-
<b>Closing equity, 31 December 2016</b>	<b>1,042</b>	<b>6,560</b>	<b>14,926</b>	<b>22,529</b>

Number of shares	2016	2015
Issued 1 January	10,424,582	10,066,372
Cash issue, Series B shares	-	358,004
Cash issue, Series C shares	-	206
<b>Issued 31 December</b>	<b>10,424,582</b>	<b>10,424,582</b>

The quotient value per share is SEK 100. All shares are ordinary shares. Of the shares issued on 31 December 2016, 1,532,678 were Series A shares (carrying ten votes each), 8,885,949 were Series B shares and 5,955 were Series C shares (carrying one vote each).

#### Specification of the capital item Reserves in the statement of financial position

Changes in these reserves are included in comprehensive income for the year.

	2016	2015
<b>Translation reserve</b>		
Opening translation reserve, 1 January	-32	-36
Translation differences for the year	-28	3
<b>Closing translation reserve, 31 December</b>	<b>-60</b>	<b>-32</b>
<b>Revaluation reserve</b>		
Opening revaluation reserve, 1 January	653	394
Revaluation of owner-occupied property	210	330
Revaluation of defined-benefit pension plans	2	2
Tax attributable to revaluation for the year	-47	-73
<b>Closing revaluation reserve, 31 December</b>	<b>818</b>	<b>653</b>
<b>Fair value reserve</b>		
Opening fair value reserve, 1 January	-14	138
Change for the year in fair value of available-for-sale financial assets	138	-195
Tax attributable to change for the year	-30	43
<b>Closing fair value reserve, 31 December</b>	<b>94</b>	<b>-14</b>
<b>Hedging reserve</b>		
Opening hedging reserve, 1 January	47	15
Change for the year in cash-flow hedges	-81	41
Tax attributable to change for the year	18	-9
<b>Closing hedging reserve, 31 December</b>	<b>-16</b>	<b>47</b>

## Note 36 Equity, cont.

### Translation reserve

The translation reserve includes all exchange-rate differences arising on the translation of the financial statements from foreign operations that have prepared their financial statements in a different currency to the currency in which the consolidated financial statements are presented. The Parent Company and Group present their financial statements in Swedish kronor (SEK).

### Revaluation reserve

The revaluation reserve includes changes in value attributable to owner-occupied property and a provision for defined-benefit pensions.

### Fair value reserve

The fair value reserve comprises the accumulated net change in fair value of available-for-sale financial assets until the asset is derecognised from the statement of financial position.

### Hedging reserve

The hedging reserve comprises hedges of variable interest rates against fixed interest rates pertaining to the Parent Company's debt securities in issue and hedges of exchange rate risks in future cash flows pertaining to the Bank Group's debt securities in issue in foreign currency.

### Other capital contributed

Refers to equity that has been provided by the owners. The item includes surpluses paid in conjunction with issues.

### Restricted reserves

Restricted reserves may not be reduced through profit distribution. The statement of changes in equity for the Group includes some restricted reserves in other contributed equity and the remainder in retained earnings.

### Retained earnings, including net profit for the year

Retained earnings, including net profit for the year, includes profit in the Parent Company, subsidiaries and associated companies.

### Dividends

It is proposed that no dividends be paid in 2015.

All capital that is not required for the operations conducted by Länsförsäkringar AB shall, over time, be paid back to the shareholders in the form of dividends. A prerequisite for the payment of dividends is that a credit rating of A can be justified for the Group's credit-rated companies.

## Note 37 Subordinated liabilities

	31 Dec 2016	31 Dec 2015
Subordinated debts with three-month floating interest rates	2,097	1,545
Subordinated debts with a fixed interest rate	498	755
<b>Total subordinated liabilities</b>	<b>2,595</b>	<b>2,300</b>

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

	2016			2015		
	Gross	Reinsurers' portion	Net	Gross	Reinsurers' portion	Net
<b>Unearned premiums</b>						
Opening balance, 1 January	1,801	15	1,785	1,677	8	1,669
Provisions during the period	150	42	108	136	7	129
Exchange-rate changes	2	0	2	-13	-0	-13
<b>Closing balance, 31 December</b>	<b>1,953</b>	<b>58</b>	<b>1,895</b>	<b>1,801</b>	<b>15</b>	<b>1,785</b>
of which non-life insurance	1,953	58	1,895	1,801	15	1,785
<b>Unexpired risk</b>						
Opening balance, 1 January	5	-	5	10	-	10
Provisions during the period	-3	-	-3	-5	-	-5
<b>Closing balance, 31 December</b>	<b>2</b>	<b>-</b>	<b>2</b>	<b>5</b>	<b>-</b>	<b>5</b>
of which non-life insurance	2	-	2	5	-	5
<b>Life-assurance provision</b>						
Opening balance, 1 January	1,791	-	1,791	1,338	-	1,338
Change in opening balance due to changed calculation method	34	-	34	181	-	181
Provisions during the period	6	-	6	5	-	5
Deposits	383	-	383	452	-	452
Payments	-92	-	-92	-44	-	-44
Difference between premiums paid and provisions for new operation	-61	-	-61	-65	-	-65
Costs withdrawn	-5	-	-5	-4	-	-4
Investment income contributed to life-assurance provisions	-7	-	-7	4	-	4
Change in provision due to change in interest-rate assumption	110	-	110	-64	-	-64
Change due to changed cost assumption	105	-	105	-	-	-
Other changes	0	-	0	-12	-	-12
<b>Closing balance, 31 December</b>	<b>2,264</b>	<b>-</b>	<b>2,264</b>	<b>1,791</b>	<b>-</b>	<b>1,791</b>
of which life assurance	2,264	-	2,264	1,791	-	1,791
<b>Claims outstanding</b>						
Claims incurred and reported	5,587	3,761	1,826	6,334	4,376	1,958
Claims incurred but not reported	7,441	5,762	1,678	7,480	5,785	1,695
Claims annuities	1,515	1,306	210	1,580	1,359	221
Claims adjustment costs	238	-	238	245	-	245
<b>Total opening balance, 1 January</b>	<b>14,780</b>	<b>10,829</b>	<b>3,951</b>	<b>15,639</b>	<b>11,521</b>	<b>4,118</b>
Provisions for the period	-289	-485	196	-841	-684	-157
Interest-rate translation of provision for claim annuities	6	-	6	1	-8	9
Exchange-rate changes	42	11	30	-19	-0	-19
<b>Closing balance, 31 December</b>	<b>14,539</b>	<b>10,355</b>	<b>4,184</b>	<b>14,780</b>	<b>10,829</b>	<b>3,951</b>
of which non-life insurance	14,422	10,355	4,067	14,680	10,829	3,851
of which life assurance	117	0	117	100	0	100
<b>Specification of closing balance claims outstanding</b>						
Claims incurred and reported	5,101	3,187	1,914	5,587	3,761	1,826
Claims incurred but not reported	7,534	5,748	1,785	7,441	5,762	1,678
Claims annuities	1,662	1,419	243	1,515	1,306	210
Claims adjustment costs	242	-	242	238	-	238
<b>Total closing balance, 31 December</b>	<b>14,539</b>	<b>10,355</b>	<b>4,184</b>	<b>14,780</b>	<b>10,829</b>	<b>3,951</b>
<b>Carrying amount at year-end</b>	<b>18,757</b>	<b>10,413</b>	<b>8,344</b>	<b>18,376</b>	<b>10,845</b>	<b>7,532</b>
of which non-life insurance	16,376	10,413	5,964	16,485	10,844	5,641
of which life assurance	2,380	0	2,380	1,891	0	1,891
<b>Run-off profit/loss, non-life insurance</b>	<b>802</b>	<b>-644</b>	<b>158</b>	<b>597</b>	<b>-135</b>	<b>462</b>

The discount rate curve defined by the EIOPA is used to calculate the provision for claims outstanding for annuities, including assumed reinsurance for annuities. This curve has been produced to correspond to interest rates for relevant durations and is based on market data for Swedish swap rates. A macroeconomic assumption of a long-term interest rate of 4.20% is also included.

A discount rate is used to determine life-assurance reserves in accordance with the Swedish Financial Supervisory Authority regulation FFFS 2013:23 (regulation repealed on 1 January 2016). The transition to the discount rate defined by the EIOPA will take place in 2017. The assessment is that this will have a limited impact on the life-assurance reserve.

<b>Note 39</b>	<b>Unit-linked insurance liabilities, policyholder bears the risk</b>
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Unit-linked insurance commitments	31 Dec 2016	31 Dec 2015
Opening balance	100,496	91,635
Payments	8,100	8,066
Migrations, repurchases and cancellations	-2,044	-1,835
Paid remuneration	-1,956	-1,898
Costs withdrawn	-632	-632
Change in value	7,936	5,389
Yield tax	-101	-225
Exchange-rate effect	1	-
Portfolio taken over/transferred	1	-
Other changes	-	-4
<b>Closed balance, unit-linked insurance commitments</b>	<b>111,801</b>	<b>100,496</b>
Conditional bonus	424	506
<b>Total</b>	<b>112,225</b>	<b>101,002</b>

<b>Note 40</b>	<b>Deferred tax assets and liabilities</b>
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Recognised deferred tax assets and tax liabilities are attributable to the following:

	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
Intangible assets	-2	-2	10	13	8	11
Property	-	-	304	268	304	268
Financial assets	-1	-13	145	117	144	104
Receivables	-3	-9	-	-	-3	-9
Other assets	-0	-	-0	0	-0	0
Liabilities	-15	-17	5	10	-10	-6
Loss carryforwards	-4	-	-	-	-4	-
Untaxed reserves	-	-	881	738	881	738
<b>Deferred tax asset (-) /deferred tax liability (+)</b>	<b>-25</b>	<b>-41</b>	<b>1,345</b>	<b>1,145</b>	<b>1,320</b>	<b>1,104</b>
Offset	6	7	-6	-7	-	-
<b>Net deferred tax asset (-) /deferred tax liability (+)</b>	<b>-19</b>	<b>-34</b>	<b>1,339</b>	<b>1,139</b>	<b>1,320</b>	<b>1,104</b>

The Group has no temporary differences with tax effects in Group or associated companies.

Deferred tax assets have been recognised for tax loss carryforwards. It is anticipated that the loss will be utilised within one year.

#### Change in deferred tax in temporary differences and loss carryforwards

	Amount at 1 January	Currency translation	Recognised in profit and loss	Recognised in other comprehensive income	Amount at 31 December
<b>2016</b>					
Intangible assets	11	-0	-3	-	8
Property	268	-	-10	46	304
Financial assets	104	-	32	8	144
Receivables	-9	-	6	-	-3
Other assets	0	-	-	-	0
Liabilities	-6	-	-3	-1	-10
Loss carryforwards	-	-	-4	-	-4
Untaxed reserves	738	-	143	-	881
<b>Deferred tax assets (-) /deferred tax liabilities (+)</b>	<b>1,104</b>	<b>-0</b>	<b>162</b>	<b>54</b>	<b>1,320</b>

	Amount at 1 January	Currency translation	Recognised in profit and loss	Recognised in other comprehensive income	Amount at 31 December
<b>2015</b>					
Intangible assets	13	0	-3	-	11
Property	206	-	-11	73	268
Financial assets	83	-	22	-2	104
Receivables	9	-	-18	-	-9
Other assets	0	0	-	-	0
Liabilities	-19	0	13	0	-6
Loss carryforwards	-12	-	12	-	-
Untaxed reserves	630	-	108	-	738
<b>Deferred tax assets (-) /deferred tax liabilities (+)</b>	<b>910</b>	<b>0</b>	<b>123</b>	<b>71</b>	<b>1,104</b>

<b>Note 41</b>	<b>Other provisions</b>
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	31 Dec 2016	31 Dec 2015
Provision for pensions being paid	42	39
Provisions for early retirement in accordance with pension agreement	20	34
Other provisions	75	183
<b>Total other provisions</b>	<b>137</b>	<b>257</b>

#### Defined-benefit pension plans

The Group has a number of defined-benefit pension plans. One of these plans is a pension agreement 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 from the age of 62.

In addition to this plan, there are a number of minor plans that almost only encompass employees who have already reached retirement age. These plans cover old-age pensions and in some cases also survivor's pension. The pension amounts are paid in relation to the final salary level when the employee retires and in the vast majority of cases are life annuities. In the event that upward adjustment of the pension has been agreed, the Group follows the norms applied by the Insurance Industry's Pension Fund (FPK).

Plan assets consist of investments in fixed income funds.

	31 Dec 2016	31 Dec 2015
Present value of wholly or partly funded commitments	4	4
Fair value of plan assets	-4	-4
Present value of unfunded commitments	39	53
Total deficit in defined-benefit pension plans	39	53
<b>Liability in statement of financial position</b>	<b>39</b>	<b>53</b>

	2016	2015
<b>Change in defined-benefit obligation</b>		
Obligation, 1 January	53	65

#### Pension costs

Costs for service during current year	1	1
Interest expense	0	1
Costs for service during prior years and gains and losses from settlement	5	14
Special employer's contribution	0	0
<b>Total pension costs</b>	<b>7</b>	<b>16</b>

#### Revaluations

Return on plan assets	-0	-0
Gain/loss as a result of changed financial assumptions	4	-
Experience-based gains	-0	1
Special employer's contribution related to revaluations	-0	0
<b>Total revaluations</b>	<b>3</b>	<b>1</b>

Paid remuneration	-1	-1
Payments in conjunction with settlement	-19	-28
Paid special employer's contribution	-0	-0
<b>Obligation, 31 December</b>	<b>41</b>	<b>53</b>

	2016	2015
Discount rate	0.4%	0.9%
Expected rate of salary increase	2.5%	2.5%
Percentage expected to retire voluntarily at the age of 62	50%	40%

	2016	2015
<b>Population</b>		
Active	44	82
Old age pensioner	27	17
<b>Total</b>	<b>71</b>	<b>99</b>

#### Defined-contribution pension plans

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

The pension agreement for the insurance industry, the FTP plan, through insurance with the Insurance Industry's Pension Fund (FPK) is a multi-employer defined-benefit pension plan. According to IAS 19 Employee Benefits, the main rule under this pension plan entails that a company recognises its proportional share of the defined-benefit pension commitment and the plan assets and expenses associated with the pension commitment. Disclosures are also presented in the accounts pursuant to the requirements for defined-benefit pension plan. FPK is unable to provide necessary information which is why the pension plans above are recognised as defined-contribution plans in accordance of IAS 19. Nor is any information available on future surpluses and deficits in the plan or whether these surpluses and deficits would then affect the contributions for the plan in future years.

FTP plan contributions for 2017 are expected to total SEK 129 M.

	2016	2015
Expenses for defined-contribution plans	245	227

<b>Note 42</b>	<b>Debt securities in issue</b>
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	31 Dec 2016	31 Dec 2015
Commercial papers	1,126	1,342
Bond loans <sup>1)</sup>	156,252	139,856
Cashier's cheques issued	63	71
<b>Total debt securities in issue</b>	<b>157,440</b>	<b>141,269</b>
Remaining term of note up to 1 year	18,272	16,257
Remaining term of note more than 1 year	139,168	125,012

<sup>1)</sup> Covered bonds in the Group amount to SEK 126,888 (110,400) M.

<b>Note 43</b>	<b>Deposits from the public</b>
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	31 Dec 2016	31 Dec 2015
Deposits from insurance companies	2,503	3,022
Deposits from households	77,421	70,192
Deposits from other Swedish public	10,022	9,488
<b>Total deposits from the public</b>	<b>89,946</b>	<b>82,702</b>

<b>Note 44</b>	<b>Due to credit institutions</b>
----------------	-----------------------------------

	31 Dec 2016	31 Dec 2015
Swedish banks	3,753	2,586
Other Swedish credit institutions	120	368
<b>Total liabilities due to credit institutions</b>	<b>3,873</b>	<b>2,954</b>

Genuine repurchase transactions amounted to SEK 16 M (105).

Note 45	Other liabilities	
	31 Dec 2016	31 Dec 2015
Liabilities pertaining to direct insurance	829	729
Due to Länsförsäkringar Liv Försäkrings AB	280	425
Liabilities, reinsurance	311	404
Accounts payable	168	275
Tax liabilities	103	188
Deposits from reinsurers	38	35
Other liabilities	1,575	1,899
<b>Total other liabilities</b>	<b>3,304</b>	<b>3,955</b>

Note 46	Accrued expenses and deferred income	
	31 Dec 2016	31 Dec 2015
Accrued interest expense	1,643	2,110
Other accrued expenses	1,891	1,754
Prepaid rent	237	234
Other deferred income	963	651
<b>Total accrued expenses and deferred income</b>	<b>4,734</b>	<b>4,749</b>

Note 47	Pledged assets and contingent liabilities	
	31 Dec 2016	31 Dec 2015
<b>Pledged assets</b>		
Total registered investment assets on behalf of policyholders	120,586	111,133
Pledged securities in the Riksbank	2,500	2,500
Pledged securities in Euroclear	2,000	2,000
Pledged shares in subsidiaries	702	953
Loan receivables, covered bonds	159,446	137,484
Loan receivables, substitute collaterals	8,675	8,775
Collateral paid due to repurchase agreement	16	105
Other collateral for securities	225	39
Chattel mortgages, associated companies	0	0
<b>Total pledged assets</b>	<b>294,150</b>	<b>262,989</b>
<b>Contingent liabilities</b>		
Guarantees	41	30
<b>Total contingent liabilities</b>	<b>41</b>	<b>30</b>
<b>Other commitments</b>		
Loans approved but not disbursed	15,530	13,110
Unutilised portion of overdraft facilities	2,309	2,234
Remaining amount to invest in investment assets	179	-
Unutilised portion of credit card facilities	1,526	1,388
<b>Total other commitments</b>	<b>19,544</b>	<b>16,732</b>

Registered assets follow the regulations stipulated in the Swedish Insurance Business Act. In the event of insolvency, the policyholders have a priority right to the registered assets. During the course of the operations, the company has the right to add and withdraw assets from the register as long as all insurance undertakings are covered for liabilities in accordance with the Insurance Business Act.

Loans to the public were provided as collateral for the 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 48	Anticipated recovery and settlement periods for assets and liabilities					
	31 Dec 2016			31 Dec 2015		
Amount expected to be recovered	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
<b>Assets</b>						
Goodwill	-	720	720	-	738	738
Other intangible assets	48	3,957	4,005	26	3,646	3,672
Deferred tax assets	13	6	19	25	10	34
Property and equipment	37	18	55	24	28	53
Owner-occupied property	58	2,663	2,721	72	2,473	2,545
Shares in Länsförsäkringar Liv Försäkrings AB	-	8	8	-	8	8
Shares and participations in associated companies	-	82	82	-	74	74
Reinsurers' portion of technical provisions	902	9,511	10,413	1,217	9,628	10,845
Loans to the public	15,828	210,877	226,705	15,931	186,028	201,959
Unit-linked insurance assets, policyholder bears the risk	7,289	104,510	111,799	4,544	95,953	100,497
Shares and participations	97	1,927	2,024	110	1,722	1,832
Bonds and other interest-bearing securities	9,102	32,269	41,371	8,785	31,276	40,061
Treasury bills and other eligible bills	4,243	3,551	7,794	5,827	2,997	8,824
Derivatives	226	5,371	5,597	197	4,283	4,479
Change in value of hedge portfolios	184	452	636	13	803	815
Other receivables	3,673	-	3,673	3,670	3	3,672
Prepaid expenses and accrued income	2,027	929	2,956	2,186	925	3,111
Cash and cash equivalents	1,171	-	1,171	1,374	-	1,374
<b>Total assets</b>	<b>44,899</b>	<b>376,851</b>	<b>421,749</b>	<b>44,001</b>	<b>340,594</b>	<b>384,595</b>

**Note 48 Anticipated recovery and settlement periods for assets and liabilities, cont.**

Amount expected to be settled	31 Dec 2016			31 Dec 2015		
	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
<b>Liabilities</b>						
Subordinated liabilities	–	2,595	2,595	–	2,300	2,300
Technical provisions	4,244	14,513	18,757	4,366	14,010	18,376
Unit-linked insurance liabilities, policyholder bears the risk	7,289	104,935	112,225	4,544	96,457	101,002
Deferred tax liabilities	–	1,339	1,339	0	1,139	1,139
Other provisions	8	129	137	208	49	257
Debt securities in issue	18,273	139,168	157,440	18,707	122,563	141,269
Deposits from the public	89,313	633	89,946	81,869	833	82,702
Due to credit institutions	3,873	–	3,873	2,954	–	2,954
Derivatives	240	1,440	1,680	294	2,160	2,455
Change in value of hedge portfolios	79	3,113	3,191	309	2,590	2,899
Other liabilities	3,136	168	3,304	3,891	64	3,955
Accrued expenses and deferred income	4,413	321	4,734	4,749	–	4,749
<b>Total liabilities</b>	<b>130,866</b>	<b>268,354</b>	<b>399,221</b>	<b>121,892</b>	<b>242,165</b>	<b>364,057</b>

**Note 49 Classification of financial assets and liabilities**

31 Dec 2016	Financial assets measured at fair value in profit and loss					Total	Fair value
	Financial assets measured according to fair value option	Held for trading	Derivatives used in hedge accounting	Available-for-sale financial assets	Loan receivables and accounts receivable		
<b>Assets</b>							
Shares in Länsförsäkringar Liv Försäkrings AB	–	–	–	8	–	8	8
Loans to the public	–	–	–	–	226,705	226,705	227,784
Unit-linked insurance assets, policyholder bears the risk	111,799	–	–	–	–	111,799	111,799
Shares and participations	1,999	–	–	25	–	2,024	2,024
Bonds and other interest-bearing securities	8,117	–	–	33,254	–	41,371	41,371
Treasury bills and other eligible bills	–	–	–	7,794	–	7,794	7,794
Derivatives	–	81	5,516	–	–	5,597	5,597
Other receivables	20	–	–	–	595	615	–
Cash and cash equivalents	–	–	–	–	1,171	1,171	–
<b>Total assets</b>	<b>121,935</b>	<b>81</b>	<b>5,516</b>	<b>41,082</b>	<b>228,471</b>	<b>397,085</b>	

31 Dec 2016	Financial liabilities measured at fair value in profit and loss				Total	Fair value
	Financial liabilities measured according to fair value option	Held for trading	Derivatives used in hedge accounting	Other financial liabilities		
<b>Liabilities</b>						
Subordinated liabilities	–	–	–	2,595	2,595	2,675
Debt securities in issue	–	–	–	157,440	157,440	162,655
Deposits from the public	–	–	–	89,946	89,946	91,644
Due to credit institutions	–	–	–	3,873	3,873	–
Derivatives	–	27	1,653	–	1,680	1,680
Other liabilities	0	–	–	817	817	–
<b>Total liabilities</b>	<b>0</b>	<b>27</b>	<b>1,653</b>	<b>254,672</b>	<b>256,351</b>	

Gains and losses are recognised in profit and loss in Investment income, net.  
The fair value of shares in Länsförsäkringar Liv Försäkrings AB comprises cost adjusted for impairment.

The carrying amount of other receivables, cash and cash equivalents, due to credit institutions and other liabilities is deemed to comprise a reasonable approximation of their fair value since these assets and liabilities have short terms.

**Note 49 Classification of financial assets and liabilities, cont.**

	Financial assets measured at fair value in profit and loss						
31 Dec 2015	Financial assets measured according to fair value option	Held for trading	Derivatives used in hedge accounting	Available-for-sale financial assets	Loan receivables and accounts receivable	Total	Fair value
Assets							
Shares in Länsförsäkringar Liv Försäkrings AB	-	-	-	8	-	8	8
Loans to the public	-	-	-	-	201,959	201,959	202,780
Unit-linked insurance assets, policyholder bears the risk	100,497	-	-	-	-	100,497	100,497
Shares and participations	1,816	-	-	15	-	1,832	1,832
Bonds and other interest-bearing securities	7,080	-	-	32,981	-	40,061	40,061
Treasury bills and other eligible bills	-	-	-	8,824	-	8,824	8,824
Derivatives	-	66	4,414	-	-	4,479	4,479
Other receivables	-	-	-	-	668	668	-
Cash and cash equivalents	-	-	-	-	1,374	1,374	-
Total assets	109,393	66	4,414	41,829	204,001	359,703	

31 Dec 2015	Financial liabilities measured at fair value in profit and loss			Other financial liabilities	Total	Fair value
	Financial liabilities measured according to fair value option	Held for trading	Derivatives used in hedge accounting			
Liabilities						
Subordinated liabilities	-	-	-	2,300	2,300	2,362
Debt securities in issue	-	-	-	141,269	141,269	145,550
Deposits from the public	-	-	-	82,702	82,702	82,884
Due to credit institutions	-	-	-	2,954	2,954	-
Derivatives	-	33	2,422	-	2,455	2,455
Other liabilities	-	-	-	1,300	1,300	-
Total liabilities	-	33	2,422	230,525	232,980	

**Note 50 Fair value valuation techniques**

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

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

Level 2 – Financial instruments measured using valuation techniques that are essentially based on market data are categorised as Level 2. This Level primarily includes interest-rate and currency derivatives.

Level 3 – Financial instruments whose measurement is significantly influenced by inputs that cannot be verified by external market data are categorised as Level 3. This Level mainly includes properties and unquoted shares and participations.

31 Dec 2016	Level 1	Level 2	Level 3	Total	31 Dec 2015	Level 1	Level 2	Level 3	Total
<b>Assets</b>					<b>Assets</b>				
Owner-occupied property	-	-	2,721	2,721	Owner-occupied property	-	-	2,545	2,545
Unit-linked insurance assets, policyholder bears the risk	111,799	-	-	111,799	Unit-linked insurance assets, policyholder bears the risk	100,497	-	-	100,497
Shares and participations	1,218	20	786	2,024	Shares and participations	1,167	14	650	1,832
Bonds and other interest-bearing securities	41,222	-	149	41,371	Bonds and other interest-bearing securities	39,961	-	100	40,061
Treasury bills and other eligible bills	7,794	-	-	7,794	Treasury bills and other eligible bills	8,824	-	-	8,824
Derivatives	2	5,595	-	5,597	Derivatives	0	4,479	-	4,479
Other receivables	-	-	20	20					
<b>Liabilities</b>					<b>Liabilities</b>				
Derivatives	0	1,680	-	1,680	Derivatives	0	2,455	-	2,455

	Owner-occupied property	Shares and participations	Bonds and other interest-bearing securities	Other receivables	Total
<b>Change level 3</b>					
Opening balance, 1 January 2016	2,545	650	100	-	3,295
Acquisitions	38	6	35	20	98
Divestments	-	-	-	-	-
Recognised in net profit/loss for the year	-72	129	15	-	72
Recognised in other comprehensive income	210	-	-	-	210
<b>Closing balance, 31 December 2016</b>	<b>2,721</b>	<b>786</b>	<b>149</b>	<b>20</b>	<b>3,675</b>
Opening balance, 1 January 2015	2,265	532	31	-	2,828
Acquisitions	22	0	69	-	92
Divestments	-	-3	-	-	-3
Recognised in net profit/loss for the year	-73	120	-	-	47
Recognised in other comprehensive income	330	-	-	-	330
<b>Closing balance, 31 December 2015</b>	<b>2,545</b>	<b>650</b>	<b>100</b>	<b>-</b>	<b>3,295</b>

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

Normally, there are no active markets for owner-occupied property within Level 3, which is why fair value is estimated using models based on discounted cash flows. The method applied to the calculation of fair value is a combination of the location-price method, based on reported purchases of comparable properties, and a return-based cash-flow method. The return method is based on a calculation of the present value of future actual cash flows in the form of operating net, which has been successively adjusted to market over 10 years and the present value of the estimated residual value in year 10. The residual value was estimated by performing a constant capitalisation of an estimated market-adjusted operating net.

Shares and participations in Level 3 are measured at equity per share based on the most recent company reports. Delisted, insolvent companies are measured at zero if no other listing can be found. Länsförsäkringar Bank AB holds shares and participations and financial investment assets measured at cost since the holdings cannot be reliably measured at fair value, and are 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.

Level 2 derivatives essentially refer to swaps for which fair value has been calculated by discounting expected future cash flows.

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

When calculating the fair value (Level 2) of deposits 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 (Level 2) for debt securities in issue and subordinated liabilities is determined based on quoted prices. Parts of debt securities in issue that are considered to be illiquid are adjusted based on expected current issue prices. Commercial papers do not have external market prices and the fair value is determined based on the yield curve of each currency.

**Note 51** Information about offsetting

The table shows financial assets and liabilities covered by a legally binding master netting agreement or similar agreements, together with related collaterals. The Group has ISDA agreements and CSA agreements with all derivative counterparts and corresponding netting agreements for reverse repurchase agreements, meaning that all exposures are covered by these types of agreements. The agreements entitle the parties to offset assets and liabilities in the event of default or insolvency. The net amount is the amount that, in the event of default or insolvency, would be obtained, if the amount is an asset, or paid, if the amount is a liability.

SEK M 31 Dec 2016	Gross amount	Offset in the balance sheet	Amount recognised in the balance sheet	Related amounts that are not offset in the balance sheet		Net amount
				Master netting agreements	Collaterals Received (-) / Pledged (+)	
Assets						
Derivatives	5,597	-	5,597	-1,310	-2,557	1,731
Liabilities						
Derivatives	-1,680	-	-1,680	1,310	45	-325
Repurchase agreements	-16	-	-16	16	-	-
Total	3,902	-	3,902	16	-2,512	1,406

SEK M 31 Dec 2015	Gross amount	Offset in the balance sheet	Amount recognised in the balance sheet	Related amounts that are not offset in the balance sheet		Net amount
				Master netting agreements	Collaterals Received (-) / Pledged (+)	
Assets						
Derivatives	4,479	-	4,479	-1,794	-1,895	790
Reverse repurchase agreement	105	-	105	-	-105	-
Liabilities						
Derivatives	-2,455	-	-2,455	1,794	63	-598
Repurchase agreements	-105	-	-105	-	105	-
Total	2,024	-	2,024	-	-1,832	192

**Note 52** Disclosures on related parties

The 23 regional insurance companies have been chosen to organise joint operations in the Länsförsäkringar AB Group. The Group has been assigned by the regional insurance companies to conduct operations in areas in which economies of scale constitute a decisive competitive advantage and to provide such service to the regional insurance companies, which, for reasons of efficiency, are produced and provided jointly within the Länsförsäkringar Alliance.

Legal entities closely related to the Länsförsäkringar AB Group are considered to be the Länsförsäkringar Liv Group's companies, all associated companies, Länsförsäkringar Mäklarservice AB, Länsförsäkringar Fastighetsförmedling AB, Humlegården Fastigheter AB, the 23 regional insurance companies with subsidiaries and the 16 local insurance companies. Related key persons are Board members, senior executives and their close family members.

**Policies for transactions**

Transactions between closely related parties occur both as transactions of a nonrecurring nature and transactions on a continuous basis.

Transactions of a nonrecurring nature comprise the acquisitions and divestments of assets and similar transactions. They occur in limited scope. In nonrecurring transactions, the transactions are based on written agreements that comply with market standards and terms.

Transactions of a continuous nature include goods and services provided for the companies within the Länsförsäkringar AB Group and to the Länsförsäkringar Alliance for carrying out development projects and services. Transactions of this nature shall follow established routines as below.

**Pricing**

Pricing for business operations is on market terms. Pricing for service activities within the Länsförsäkringar Alliance is based on direct and indirect costs. Overall, pricing is intended to distribute costs within the Länsförsäkringar Alliance based on consumption. Joint development projects and joint service are financed collectively and invoiced based on an established distribution key.

**Process and decisions**

Corporate management within Länsförsäkringar AB, jointly with a service committee with representatives from the insurance companies, prepare the service levels and price lists for the sale of goods and services to related companies. Based on these discussions, the Board of Länsförsäkringar AB decides on the service levels and price lists to related parties.

**Related-party transactions in the Group 2016****Regional insurance companies and local insurance companies**

Länsförsäkringar AB is wholly owned by the 23 regional insurance companies, together with 16 local insurance companies. A large portion of the Group's customer contact takes place through the regional insurance companies and the local insurance companies. Remuneration for the mediation of the Länsförsäkringar AB Group's insurance products is regulated in commission agreements between these parties. Commission is also paid to regional insurance companies for their work with Länsförsäkringar Bank's, Länsförsäkringar Hypotek's and Länsförsäkringar Fondförvaltning's customer-related operations. The assignment and remuneration are regulated in partnership agreements signed by the parties. This solution creates a unique local presence and market awareness.

Länsförsäkringar AB Group manages and reconciles the Länsförsäkringar Alliance's internal and external reinsurance. The Group also carries out development projects and service for the regional insurance companies in a number of areas, such as individual claims adjustment, legal affairs and actuarial services, product and concept development and the development of IT support and other IT services.

**Länsförsäkringar Mäklarservice AB**

Länsförsäkringar Mäklarservice AB is jointly owned by the regional insurance companies and Länsförsäkringar Sak. The company works on behalf of the regional insurance companies and Länsförsäkringar Sak Försäkrings AB within non-life insurance, and on behalf of the regional insurance companies within life assurance.

**Länsförsäkringar Liv Försäkrings AB**

Länsförsäkringar Liv Försäkrings AB is wholly owned by Länsförsäkringar AB. The operations are conducted in accordance with mutual policies and, accordingly, are not consolidated in the Länsförsäkringar AB Group.

Länsförsäkringar Liv Försäkrings AB purchases development and service from Länsförsäkringar AB. The primary task of the service operations is to provide service mainly within the areas of business analysis, accounting, office services, HR and communication.

## Note 52 Disclosures on related parties, cont.

### Related-party transactions 2016

	Income	Expenses	Receivables	Liabilities	Commitments
<b>Associated companies</b>					
Länsförsäkringar Liv Group	390	91	152	933	601
<b>Owners</b>					
Regional insurance companies	3,552	3,354	8,687	12,740	59
<b>Other related parties</b>					
Länsförsäkringar Mäklarservice AB	19	15	10	25	5
Länsförsäkringar Fastighetsförmedling AB	1	0	0	0	–
Other	5	–	8	8	–
<b>Total other related parties</b>	<b>25</b>	<b>15</b>	<b>19</b>	<b>34</b>	<b>5</b>

### Interest income and interest expense 2016

	Interest income	Interest expense
Regional insurance companies	0	–2
Länsförsäkringar Liv Group	–	–17

### Related-party transactions 2015

	Income	Expenses	Receivables	Liabilities	Commitments
<b>Associated companies</b>					
Länsförsäkringar Liv Group	421	–124	146	962	901
<b>Owners</b>					
Regional insurance companies	1,775	–2,209	8,880	13,472	59
<b>Other related parties</b>					
Länsförsäkringar Mäklarservice AB	20	–15	5	40	5
Länsförsäkringar Fastighetsförmedling AB	1	–0	1	0	–
Other	–	–6	9	8	1
<b>Total other related parties</b>	<b>21</b>	<b>–21</b>	<b>15</b>	<b>48</b>	<b>6</b>

### Interest income and interest expense 2015

	Interest income	Interest expense
Regional insurance companies	0	–2
Länsförsäkringar Liv Group	–	–23

Receivables from and liabilities to regional insurance companies include technical provisions.

### Agreements

Significant agreements for the Länsförsäkringar AB Group primarily comprise agreements with the Länsförsäkringar Liv Group regarding IT, development and service, with the 23 regional insurance companies regarding commission agreements, claims adjustment agreements, and development and management agreement.

Other significant agreements for Länsförsäkringar AB Group comprise agreements with Länsförsäkringar Mäklarservice AB regarding sales, and with Humlegården Fastigheter AB regarding management of Utile Dulci 2 HB.

### Transactions between the Länsförsäkringar AB Group and its Board and management

For information regarding remuneration of closely related key persons such as Board members and senior executives see Note 13 Employees, staff costs and remuneration of senior executives. In all other respects, no transactions took place between these individual and their related parties apart from normal customer transactions.

For the Länsförsäkringar Liv Group's transactions with related parties, see the Länsförsäkringar Liv Försäkrings AB's 2016 Annual Report.

## Note 53 Group companies

Holding in directly and indirectly owned subsidiaries	Registered office of subsidiary, country	Participating interest in %	
		31 Dec 2016	31 Dec 2015
Agria Pet Insurance Ltd	UK	100	100
Försäkringsaktiebolaget Agria (publ)	Sweden	100	100
LF Sak Fastighets AB	Sweden	100	100
Länsförsäkringar Bank AB (publ)	Sweden	100	100
Länsförsäkringar Fondförvaltning AB	Sweden	100	100
Länsförsäkringar Fondliv Försäkringsaktiebolag (publ)	Sweden	100	100
Länsförsäkringar Grupplivförsäkringsaktiebolag	Sweden	100	100
Länsförsäkringar Hypotek AB (publ)	Sweden	100	100
Länsförsäkringar Sak Försäkringsaktiebolag (publ)	Sweden	100	100
Utile Dulci 2 HB	Sweden	100	100
Wasa Kredit AB	Sweden	100	100

Participating interest refers to the share of capital, which corresponds to the number of votes for the total number of shares.

## Note 54 Supplementary information to statement of cash flows

	2016	2015
<b>Interest paid and dividends received</b>		
Dividends received	4	5
Interest received	107	80
Interest paid	–118	–66
<b>Adjustment for non-cash items</b>		
Depreciation/amortisation and impairment of assets	330	489
Unrealised gains/losses on investment assets	–8,250	–5,269
Technical provisions after ceded reinsurance	12,036	9,149
Pension provisions	–11	–12
Other provisions	–109	89
Other items not affecting liquidity	264	170
<b>Total</b>	<b>4,260</b>	<b>4,617</b>

## Note 55 Events after balance-sheet date

Johan Agerman took office as the new President of Länsförsäkringar AB on 9 January 2017. He succeeded Sten Dunér who has retired.

## Note 56 Information regarding the Parent company

Länsförsäkringar AB (publ) is a limited liability company registered in Sweden with its registered offices in Stockholm.  
Corporate Registration Number 556549-7020  
The office address is Tegelluddsvägen 11-13, Stockholm, Sweden.  
The postal address is SE-106 50 Stockholm.  
The 2016 consolidated financial statements comprise the Parent Company and its subsidiaries. The Länsförsäkringar AB Group also included participations owned in associated companies. Länsförsäkringar AB (publ) is wholly owned by the 23 regional insurance companies and the 16 local insurance companies.

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## Income statement for the Parent Company

SEK M	Note	2016	2015
<b>Net sales</b>	3	2,894	2,653
Operating expenses			
External expenses	4, 5, 7	-2,100	-2,015
Staff costs	6	-909	-822
Depreciation/amortisation and impairment of property and equipment and intangible assets	12, 13	-33	-37
<b>Operating loss</b>		<b>-149</b>	<b>-221</b>
<b>Profit/loss from financial items</b>			
Profit from participations in Group companies	8	679	742
Interest income and similar profit/loss items	9	4	26
Interest expense and similar profit/loss items	10	-81	-109
<b>Profit after financial items</b>		<b>453</b>	<b>438</b>
Tax	11	-7	-7
<b>Net profit for the year</b>		<b>447</b>	<b>431</b>

## Statement of comprehensive income for the Parent Company

SEK M	2016	2015
<b>Net profit for the year</b>	<b>447</b>	<b>431</b>
<b>Other comprehensive income</b>		
<b>Items that have been or may be transferred to profit and loss</b>		
Cash-flow hedges	17	6
Change in fair value of available-for-sale financial assets	8	-1
Tax attributable to items that have been or may be transferred to profit and loss	-6	-1
<b>Total other comprehensive income for the year, net after tax</b>	<b>19</b>	<b>4</b>
<b>Comprehensive income for the year</b>	<b>466</b>	<b>435</b>

## Balance sheet for the Parent Company

SEK M	Note	31 Dec 2016	31 Dec 2015
<b>ASSETS</b>			
<b>Fixed assets</b>			
Intangible assets	12	459	227
Property and equipment	13	78	90
<i>Financial assets</i>			
Shares and participations in Group companies	14	17,858	16,892
Derivatives	23	0	-
Deferred tax assets	16	10	20
Other securities held as fixed assets	15	851	1,007
<b>Total financial assets</b>		<b>18,718</b>	<b>17,919</b>
<b>Total fixed assets</b>		<b>19,256</b>	<b>18,236</b>
<b>Current assets</b>			
<i>Current receivables</i>			
Receivables from Group companies	30	554	1,026
Receivables from other related parties	30	181	166
Other receivables		25	41
Prepaid expenses and accrued income	17	111	116
<b>Total current receivables</b>		<b>871</b>	<b>1,349</b>
Current investments	18	4	4
Cash and bank balances		251	243
<b>Total current assets</b>		<b>1,126</b>	<b>1,596</b>
<b>Total assets</b>	27	<b>20,382</b>	<b>19,832</b>

## Balance sheet for the Parent Company, cont.

SEK M	Note	31 Dec 2016	31 Dec 2015
<b>EQUITY, PROVISIONS AND LIABILITIES</b>			
<b>Equity</b>	19		
<i>Restricted equity</i>			
Share capital		1,042	1,042
Statutory reserve		5,043	4,801
<b>Total restricted equity</b>		<b>6,085</b>	<b>5,843</b>
<i>Non-restricted equity</i>			
Share premium reserve		5,471	5,471
Fair value reserve		-8	-28
Retained earnings		4,983	4,793
Net profit for the year		447	431
<b>Total non-restricted equity</b>		<b>10,893</b>	<b>10,668</b>
<b>Total equity</b>		<b>16,978</b>	<b>16,511</b>
<b>Provisions</b>			
Provisions for pensions and similar commitments	20	28	41
Other provisions	21	51	157
<b>Total provisions</b>		<b>79</b>	<b>198</b>
<b>Long-term liabilities</b>			
Debt securities in issue	22	-	1,698
Derivatives	23	-	34
Liabilities to other related parties	30	440	237
<b>Total long-term liabilities</b>		<b>440</b>	<b>1,969</b>
<b>Current liabilities</b>			
Accounts payable		127	236
Liabilities to Group companies	30	287	236
Liabilities to other related parties	30	283	368
Debt securities in issue	22	1,699	-
Derivatives		17	-
Other liabilities		26	24
Accrued expenses and deferred income	24	446	290
<b>Total current liabilities</b>		<b>2,885</b>	<b>1,154</b>
<b>Total equity, provisions and liabilities</b>	27	<b>20,382</b>	<b>19,832</b>

For information on pledged assets and contingent liabilities, see note 25.

## Statement of changes in equity for the Parent Company

SEK M	Restricted equity			Fair value reserves		Non-restricted equity			Total equity
	Share capital	Fair value reserve	Statutory reserve	Fair value reserv	Hedging reserve	Share premium reserve	Retained earnings	Net profit/ loss for the year	
Opening equity, 1 January 2015	1,007	-	4,801	0	-32	4,907	4,001	792	15,476
<b>Comprehensive income for the year</b>									
Net profit for the year	-	-	-	-	-	-	-	431	431
Other comprehensive income	-	-	-	-1	5	-	-	-	4
<b>Comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-1</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>431</b>	<b>435</b>
Appropriation of profit	-	-	-	-	-	-	792	-792	-
New share issue	36	-	-	-	-	564	-	-	600
<b>Closing equity, 31 December 2015</b>	<b>1,042</b>	<b>-</b>	<b>4,801</b>	<b>-1</b>	<b>-27</b>	<b>5,471</b>	<b>4,793</b>	<b>431</b>	<b>16,511</b>
Opening equity, <b>1 January 2016</b>	1,042	-	4,801	-1	-27	5,471	4,793	431	16,511
<b>Comprehensive income for the year</b>									
Net profit for the year	-	-	-	-	-	-	-	447	447
Other comprehensive income	-	-	-	6	14	-	-	-	20
<b>Comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6</b>	<b>14</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>467</b>
Appropriation of profit	-	-	-	-	-	-	431	-431	-
Capitalised proprietary development expenditures	-	241	-	-	-	-	-241	-	-
<b>Closing equity, 31 December 2016</b>	<b>1,042</b>	<b>241</b>	<b>4,801</b>	<b>5</b>	<b>-13</b>	<b>5,471</b>	<b>4,983</b>	<b>447</b>	<b>16,978</b>

## Cash flow statement for the Parent Company

SEK M	Note	2016	2015
<b>Operating activities</b>			
Profit after financial items		453	438
Adjustment for non-cash items	31	-277	-194
Income tax paid		-1	-
<b>Cash flow from operating activities before changes in working capital</b>		<b>175</b>	<b>244</b>
<b>Cash flow from changes in working capital</b>			
Increase (-)/Decrease (+) in operating receivables		832	291
Increase (+)/Decrease (-) in operating liabilities		218	48
<b>Cash flow from operating activities</b>		<b>1,225</b>	<b>583</b>
<b>Investing activities</b>			
Shareholders' contribution paid		-	-500
Acquisition of shares in Group company		-965	-50
Acquisition of intangible assets		-246	-128
Acquisition of property and equipment		-8	-24
Divestment of property and equipment		3	22
<b>Cash flow from investing activities</b>		<b>-1,217</b>	<b>-680</b>
<b>Financing activities</b>			
New share issue		-	600
Amortisations of loans		-	-499
<b>Cash flow from financing activities</b>		<b>-</b>	<b>101</b>
Net cash flow for the year		8	4
Cash and cash equivalents, 1 January		243	239
<b>Cash and cash equivalents, 31 December</b>		<b>251</b>	<b>243</b>

# Notes to the financial statements for the Parent Company

All figures in SEK M unless otherwise stated.

## Note 1 Accounting policies

The Parent Company's annual accounts have been prepared in accordance with the Swedish Annual Accounts Act (1995:1554) as well as recommendation RFR 2 Accounting for Legal Entities and the statements regarding listed companies by the Swedish Financial Reporting Board.

The regulations in RFR 2 stipulate that the Parent Company, in the annual accounts for the legal entity, is to apply all IFRS adopted by the EU and statements to the extent that this is possible within the framework of the Swedish Annual Accounts Act, the Pension Obligations Vesting Act and with consideration to the relationship between accounting and taxation. The recommendation stipulates the permissible exceptions from and supplements to IFRS.

### Changed accounting policies

New rules are applied in the Swedish Annual Accounts Act 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.

There are no other amended accounting policies applied in the Parent Company, except for those stated in note 1 for the Group.

### 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 Swedish Annual Accounts Act, the Pension Obligations Vesting Act and in certain cases for tax reasons.

The Parent Company applies the same accounting policies as the Group except in the following cases.

### Classification and presentation format

For the Parent Company, the terms Balance sheet and Cash-flow Statements are used for reports that are referred to as Statement of Financial Position and Statement of Cash Flows in the Group. The income statement and the balance sheet for the Parent Company are presented following the format of the Swedish Annual Accounts Act, while the statement of comprehensive income, statement of changes in equity and statement of cash flows are based on IAS 1 Presentation of Financial Statements and IAS 7 Statement of Cash Flows. The differences compared with the consolidated financial statements that apply in the Parent Company's income statement and balance sheets primarily comprise reporting of financial income and expenses, fixed assets, equity, as well as the presence of provisions as a separate heading in the balance sheet.

### Subsidiaries

Shares and participations in subsidiaries are recognised at cost.

### Income

#### Sale of goods and execution of service assignments

Service assignments are recognised in the Parent Company's earnings in accordance with Chapter 2, Section 4 of the Swedish Annual Accounts Act when the service has been completed. Until that time, work in progress pertaining to service assignments is recognised at the lower of cost and the net selling price on the balance-sheet date.

### Operating segment reporting

Segment reporting in the Parent Company does not correspond to that of the Group in terms of distribution and extent, instead provides information on the distribution of net sales.

### Shareholders' contributions

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

### Group contributions

Group contributions are recognised according to the general rule in RFR 2. Group contributions received by the company from a subsidiary are recognised according to the same policies as financial income. Group contributions paid to a subsidiary are recognised as an investment in shares and participations in Group companies.

### Leased assets

In the Parent Company, all lease agreements are recognised in accordance with the rules for operational leasing.

### Borrowing costs

Borrowing costs in the Parent Company are charged to earnings for the period to which they are attributable.

### Remuneration of employees

#### Defined-benefit pension plans

The Parent Company applies different principles for the calculation of defined-benefit plans to those stipulated in IAS 19 Employee Benefits. 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.

## Note 2 Risks and risk management

In addition to shares in and receivables from Group companies, the Parent Company also has long-term securities and current investments. However, these investments are limited in size relative to the investment assets of the Group's insurance companies. At year-end 2016, the Parent Company's holdings of investment assets amounted to SEK 4 M (4). participations in tenant-owned apartments to SEK 10 M (9) shares in Länsförsäkringar Liv Försäkrings AB (publ) to SEK 8 M (8) and interest-bearing bonds to SEK 833 M (990) and bank balances amounting to SEK 251 M (243). Also, there are cash flow hedges for hedging of interest rate risks with a net book value of SEK -22 M (-39) in the Parent Company. In addition to the aforementioned assets and liabilities, the Parent Company's risks derive from the operations of the subsidiaries. See also the Board of Directors' Report and the Group's note 2 Risks and risk management.

## Note 3 Net sales

Sales in the Parent Company comprise service income of SEK 2,811M (2,551) and rental income of SEK 83 M (102) for premises and equipment. The company's sales are recognised in the Parent Company operating segment in the Group. A total of 45% (43) of sales comes from companies in the Länsförsäkringar AB Group, 8% (9) from the Länsförsäkringar Liv Group, 46% (47) from regional insurance companies and 1% (1) from external customers.

Note 4	External expenses	
	2016	2015
Cost of premises, note 5	-148	-168
Other cost of premises	27	-135
Marketing	-71	-51
Consultants	-558	-630
Fees to auditors, note 7	-4	-5
IT costs	-1,060	-732
Printed matter, telephony and postage	-104	-104
Other expenses	-182	-191
<b>Total</b>	<b>-2,100</b>	<b>-2,015</b>

Costs for premises refers primarily to rent for premises used by the Group for its operations.

Länsförsäkringar AB in turn leases premises to Group companies and external customers.

Note 5	Operational leasing	
Lease agreements in which the company is the lessee		
Irrevocable lease payments pertaining to rent for premises amount to:		
	2016	2015
Within one year	-147	-150
Later than one year but within five years	-587	-568
Later than five years	-	-142
Total	-734	-860

A rental charge of SEK -148 M (-168) was recognised in profit for 2016.

Lease contracts are valid for ten years up to and including 31 December 2021. Every time that lease contracts are renewed, a basic rent level is established that is subsequently index-linked to the consumer price index.

#### Lease agreements in which the company is the lessor

Irrevocable lease payments pertaining to rent for premises amount to

	2016	2015
Within one year	85	83
Later than one year but within five years	341	307
Later than five years	0	77
<b>Total</b>	<b>426</b>	<b>467</b>

In 2016, rental income amounting to SEK 83 M (102) was recognised.

The company leases premises to both internal and external tenants. Internal lease contracts are valid for ten years up to and including December 2021.

External tenants sign agreements directly with Utile Dulci from January 2016. The rent amount is deduced from the original lease between Länsförsäkringar AB and Utile Dulci, except for Länsförsäkringar Stockholm.

Note 6	Employees, staff costs and remuneration to senior executives	
	2016	2015
<b>Average number of employees, Sweden</b>		
Men	318	311
Women	385	366
<b>Total number of employees</b>	<b>703</b>	<b>677</b>
<b>Salaries, other remuneration and social security expenses</b>		
<i>Other employees</i>		
Salaries and remuneration	495	447
of which variable remuneration	-	-
Social security expenses	328	298
of which pension costs	137	127
<b>Total</b>	<b>823</b>	<b>745</b>
<i>Board of Directors and senior executives, 18 (18)</i>		
Salaries and remuneration	26	26
of which, fixed salary to the President and Executive Vice President	10	9
of which, variable remuneration to the President and Executive Vice President	-	-
of which fixed salary to other senior executives	13	12
of which variable salary to other senior executives	0	-
Social security expenses	19	18
of which pension costs	8	8
<b>Total</b>	<b>45</b>	<b>44</b>
<i>Total salaries, other remuneration and social security expenses</i>		
Salaries and remuneration	521	473
of which variable remuneration	-	-
Social security expenses	347	316
of which pension costs	145	135
<b>Total</b>	<b>868</b>	<b>789</b>

#### Variable remuneration

Variable remuneration is a rarely utilised form of remuneration at the Länsförsäkringar AB Group and, accordingly, comprises a minor part of total salaries. Commission-based remuneration is used by some functions. Commission-based remuneration is proportionate to sales efforts and is regulated by local collective agreements.

#### 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 6 Employees, staff costs and remuneration to senior executives, cont.

### Remuneration for senior executives

	Basic salary	Other remuneration	Pensioncosts	Total	Pension costs as a percentage of pensionable salary, %
					Defined-contribution
<b>2016</b>					
Sten Dunér, President	6.2	0.1	2.1	8.4	35
Ann Sommer, Executive Vice President	3.5	0.0	1.4	4.9	40
Sören Westin, Executive Vice President	3.5	0.0	1.2	4.7	35
Jan Fock, Chariman of the Board	1.1	-	-	1.1	-
Göran Lindell, Deputy Chariman of the Board	0.5	-	-	0.5	-
Mikael Sundquist, Board member	0.3	-	-	0.3	-
Jonas Rosman, Board member	0.4	-	-	0.4	-
Mats Fabricius, Board member	0.1	-	-	0.1	-
Caesar Åfors, Board member	0.2	-	-	0.2	-
Maria Engholm, Board member	0.4	-	-	0.4	-
Pia Sandvik, Board member	0.1	-	-	0.1	-
Christer Villard, Board member	0.4	-	-	0.4	-
Susanne Peterson, Board member	0.2	-	-	0.2	-
<b>Other senior executives</b>					
Parent Company (6 people)	12.6	0.0	4.9	17.5	40
Subsidiaries and Länsförsäkringar Liv (3 people)	11.7	0.1	5.0	16.7	44
<b>Total 2016</b>	<b>41.0</b>	<b>0.2</b>	<b>14.6</b>	<b>55.8</b>	
Total remuneration from Parent Company	25.8	0.2	8.2	34.2	
Total remuneration from subsidiaries and Länsförsäkringar Liv	15.1	0.1	6.4	21.6	

	Basic salary	Other remuneration	Pensioncosts	Total	Pension costs as a percentage of pensionable salary, %
					Defined-contribution
<b>2015</b>					
Sten Dunér, President	5.5	0.1	2.0	7.6	35
Ann Sommer, Executive Vice President	3.4	0	1.3	4.7	39
Sören Westin, Executive Vice President	3.4	0	1.2	4.6	35
Jan Fock, Chairman of the Board	1.0	-	-	1.0	-
Göran Lindell, Deputy Chairman of the Board	0.4	-	-	0.4	-
Mikael Sundquist, Board member	0.2	-	-	0.2	-
Jonas Rosman, Board member	0.3	-	-	0.3	-
Mats Fabricius, Board member	0.3	-	-	0.3	-
Lars Hallkvist, Board member	0.3	-	-	0.3	-
Maria Engholm, Board member	0.1	-	-	0.1	-
Pia Sandvik, Board member	0.2	-	-	0.2	-
Christer Villard, Board member	0.3	-	-	0.3	-
Henrietta Hansson, former Board member	0.1	-	-	0.1	-
<b>Other senior executives</b>					
Parent Company (6 people)	13.0	0.2	5.0	18.2	39
Subsidiaries and Länsförsäkringar Liv (3 people)	11.3	0	4.8	16.1	44
<b>Total 2015</b>	<b>40.1</b>	<b>0.3</b>	<b>14.4</b>	<b>54.8</b>	
Total remuneration from Parent Company	25.5	0.3	8.2	34.0	
Total remuneration from subsidiaries and Länsförsäkringar Liv	14.6	0	6.2	20.8	

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

**Note 6 Employees, staff costs and remuneration to senior executives, cont.****Pensions**

The retirement age for the President is 65. The pension is a defined-contribution plan and the pension premium is to amount to 35% of the monthly salary. The retirement age for one Executive Vice President is 60 years. The pension between the age of 60 and 65 is a defined-contribution plan. The pension premium is to amount to 18% of pensionable salary. Pensionable salary refers to fixed salary. Pension from the age of 65 is subject to the terms of the pension agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (FTF) and the Swedish Confederation of Professional Associations (SACO). The retirement age for one Executive Vice President is 65 years. The pension is a defined-contribution plan and the pension premium is to amount to 35% of the monthly salary.

The retirement age for other senior executives is 60, 62 or 65. If the retirement age is 65, the pension is a defined-contribution plan and the pension premium is to amount to 35% of the monthly salary. If the retirement age is 60 or 62, the pension between the age of 60 and 65, or 62 and 65, is a defined-contribution plan. Pension amounting to about 70% of the pensionable salary will be paid. Pension from the age of 65 is subject to the terms of the pension agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (FTF) and the Swedish Confederation of Professional Associations (SACO).

**Severance pay**

A mutual period of notice of six months applies for the President, one Executive Vice President and other senior executives. If termination of employment is issued by the company, severance pay corresponding to 18 monthly salaries will be paid, in addition to the period of notice. A mutual period of notice of three months applies to the Executive Vice President. If termination of employment is issued by the company, the President shall also be entitled to severance pay corresponding to 24 monthly salaries.

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

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

**Composition and mandate of Remuneration Committee**

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

**Policies for remuneration of corporate management**

Senior executives in the Länsförsäkringar AB Group are to have market-based employment terms and conditions. The total remuneration must be on par with the industry. The structure and level of remuneration should be harmonised with the company's values, meaning that it should be reasonable, moderate and well-balanced, contribute to good ethics and organisational culture, and be characterised by openness and transparency.

**Fixed remuneration**

Fixed remuneration is paid according to the general policy above.

**Pensions**

The pension solution shall be solely premium-based with a premium provision of 35% of the monthly salary. A transition to this policy shall occur successively and as soon as possible.

**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.

Loans to senior executives	31 Dec 2016	31 Dec 2015
Board members	8	16
President and Executive Vice Presidents	7	6
Other senior executives	17	9
<b>Total</b>	<b>32</b>	<b>31</b>

Loans granted comprise personnel loans and other loans. Personnel loans are maximised at SEK 500,000 and carry loan terms comparable to what applies to other employees in the Group. The interest rate for employees is the repo rate less 0.5 percentage points, but can never be lower than 0.5%. The interest benefit is calculated in accordance with the Swedish Tax Agency's rules and is included in other benefits as above. The terms and conditions of other loans are market-based.

Number of women among senior executives, %	31 Dec 2016	31 Dec 2015
Board member	45	42
Other senior executives	50	58

**Note 7 Fees and remuneration to auditors**

	2016	2015
<b>KPMG AB</b>		
- audit assignments	-3	-4
- audit operations in addition to the audit assignment	-1	-1
- tax consulting	0	0
- other assignments	0	0
<b>Total</b>	<b>-4</b>	<b>-5</b>

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

**Note 8 Profit from participations in group companies**

	2016	2015
Dividends from subsidiaries	470	412
Group contributions received	160	330
Share of profit in partnership	49	-
<b>Total</b>	<b>679</b>	<b>742</b>

**Note 9 Interest income and similar profit/loss items**

	2016	2015
Interest income, Group companies	0	0
Interest income, other	2	5
Capital gains, shares and participations	0	0
Capital gains, interest-bearing securities Group companies	2	20
Unrealised gains, shares and participations	0	2
<b>Total</b>	<b>4</b>	<b>27</b>

**Note 10 Interest expense and similar profit/loss items**

	2016	2015
Interest expense, interest-bearing securities issued by Group companies	-17	-23
Interest expense, bonds and interest-bearing securities	-38	-47
Realised losses, derivatives	-24	-20
Capital losses, currencies	-2	-0
Unrealised losses, interest-bearing securities	-	-19
<b>Total</b>	<b>-81</b>	<b>-109</b>

Note 11	Tax	
	2016	2015
<b>Current tax</b>		
Tax income for the period	-2	-2
Adjustment of tax expense pertaining to prior years	0	-
<b>Deferred tax income (+) / tax expense (-)</b>		
Deferred tax pertaining to temporary differences	-4	-5
<b>Total recognised tax income (+) / tax expense (-)</b>	<b>-7</b>	<b>-7</b>
<b>Reconciliation of effective tax rate</b>		
Profit before tax	453	438
Tax at applicable tax rate	-100	-96
Tax on non-deductible costs	-22	-24
Tax on non-taxable income	115	113
Tax attributable to prior year	0	-
<b>Recognised effective tax</b>	<b>-7</b>	<b>-7</b>
Applicable tax rate	22.0%	22.0%
Effective tax rate	1.4%	1.6%

Note 12	Intangible assets	
	2016	2015
<b>Capitalised IT costs</b>		
<b>Cost</b>		
Opening cost, 1 January	339	211
Acquisitions	246	128
<b>Closing cost, 31 December</b>	<b>586</b>	<b>339</b>
<b>Amortisation</b>		
Opening accumulated amortisation, 1 January	-67	-57
Amortisation	-15	-10
<b>Closing accumulated amortisation, 31 December</b>	<b>-82</b>	<b>-67</b>
<b>Impairment</b>		
Opening accumulated impairment, 1 January	-45	-42
Impairment	-	-3
<b>Closing accumulated impairment, 31 December</b>	<b>-45</b>	<b>-45</b>
<b>Carrying amount, 31 December</b>	<b>459</b>	<b>227</b>

In 2016, SEK 193 M (128) was accrued in ongoing intangible projects due to a new non-life insurance system that is expected to be capitalised and amortised from 2018.

The amortisation period for an acquired accounting and monitoring system with a carrying amount of SEK 88 M (98) is 15 years based on its anticipated useful life. Other intangible assets are amortised over a period of 5 years.

Note 13	Property and equipment	
	2016	2015
<b>Improvement to third-party properties</b>		
<b>Cost</b>		
Opening cost, 1 January	253	253
<b>Closing cost, 31 December</b>	<b>253</b>	<b>253</b>
<b>Depreciation</b>		
Opening accumulated depreciation, 1 January	-120	-106
Depreciation	-13	-14
<b>Closing accumulated depreciation, 31 December</b>	<b>-134</b>	<b>-120</b>
<b>Impairment</b>		
Opening accumulated impairment, 1 January	-57	-57
Impairment	-	-
<b>Closing accumulated impairment, 31 December</b>	<b>-57</b>	<b>-57</b>
<b>Carrying amount, 31 December</b>	<b>62</b>	<b>75</b>
<b>Equipment</b>		
<b>Cost</b>		
Opening cost, 1 January	123	143
Acquisitions	9	24
Divestments/disposals	-42	-44
<b>Closing cost, 31 December</b>	<b>90</b>	<b>123</b>
<b>Depreciation</b>		
Opening accumulated depreciation, 1 January	-105	-118
Depreciation	-5	-9
Divestments/disposals	40	22
<b>Closing accumulated depreciation, 31 December</b>	<b>-70</b>	<b>-105</b>
<b>Impairment</b>		
Opening accumulated impairment, 1 January	-3	-3
Impairment	-	-
<b>Closing accumulated impairment, 31 December</b>	<b>-3</b>	<b>-3</b>
<b>Carrying amount, 31 December</b>	<b>16</b>	<b>15</b>
<b>Total carrying amount, 31 December</b>		
	<b>78</b>	<b>90</b>

Equipment includes SEK 4 M (4) representing works of art that are not depreciated. Accumulated impairment of art amounting to SEK 2 M (2) has been made.

Note 14	Shares and participations in group companies	
	2016	2015
<b>Cost</b>		
Opening cost, 1 January	20,451	19,901
Shareholders' contributions	-	500
Capital contribution	-	50
Acquisitions	998	-
Withdrawal	-32	-
<b>Closing cost, 31 December</b>	<b>21,417</b>	<b>20,451</b>
<b>Impairment</b>		
Opening accumulated impairment, 1 January	-3,559	-3,559
<b>Closing accumulated impairment, 31 December</b>	<b>-3,559</b>	<b>-3,559</b>
<b>Carrying amount, 31 December</b>	<b>17,858</b>	<b>16,892</b>

The capital contribution pertains to Länsförsäkringar Fondliv Försäkrings AB, see the Group's note 4 Acquisitions of operations.

## Note 14 Shares and participations in group companies, cont.

### Specification of the company's holding of shares and participations in Group companies

Company name	Corporate Registration Number	Number of shares and participations	Participating interest 2016, %	Participating interest 2015, %	Carrying amount 31 Dec 2016	Carrying amount 31 Dec 2015
Länsförsäkringar Bank AB (publ)	516401-9878	9,548,708	100	100	8,430	8,430
Länsförsäkringar Fondliv Försäkrings AB (publ)	516401-8219	10,000	100	100	5,255	5,255
Länsförsäkringar Sak Försäkrings AB (publ)	502010-9681	2,000,000	100	100	3,206	3,206
Utile Dulci 2 HB	916601-0067	1,824	45.6	0.1	966	1
<b>Shares and participations in Group companies</b>					<b>17,858</b>	<b>16,892</b>

All subsidiaries have their registered offices in Stockholm. Länsförsäkringar Sak Försäkrings AB owns 54.4% of Utile Dulci 2 HB. Participating interest refers to the share of capital, which corresponds to the number of votes for the total number of shares.

Länsförsäkringar AB owns 100% of the shares in Länsförsäkringar Liv Försäkringsaktiebolag (publ). This company is operated in accordance with mutual principles and may

not pay dividends according to its current Articles of Association. As a result, the majority of the risks and rewards associated with ownership do not accrue to the owner Länsförsäkringar AB but to the life-assurance policyholders. Accordingly, this shareholding cannot be classified as a holding in a subsidiary under the definition provided in IAS 27 Consolidated and Separate Financial Statements.

### Note 15 Other securities held as fixed assets

	2016	2015	Company name	Number of shares and participations	Carrying amount 31 Dec 2016	Carrying amount 31 Dec 2015
Opening balance, 1 January	1,007	15				
Revaluation of tenant-owned apartments	1	2				
Acquisitions of bonds and interest-bearing securities	-	991	Länsförsäkringar Liv Försäkrings AB (publ)	8,000	8	8
Change in value of bonds and interest-bearing securities	-12	-1	Brf Mässen	2	10	9
Sale of bonds and interest-bearing securities	-145	-	Listed bonds issued by other Swedish issuers		833	990
<b>Carrying amount, 31 December</b>	<b>851</b>	<b>1,007</b>	<b>Total</b>		<b>851</b>	<b>1,007</b>

Shares in Länsförsäkringar Liv Försäkringsaktiebolag (publ) are classified as available-for-sale holdings. Since there is no active market for these shares, the fair value cannot be calculated reliably based on such a listing, and instead a valuation at cost was also performed after the acquisition, whereby impairment is continuously tested. No impairment requirements were identified in 2015 and 2016.

### Note 16 Deferred tax assets and liabilities

	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
Property and equipment	-	-	3	5	3	5
Current investments	-1	-11	-	-	-1	-11
Pension provisions	-12	-13	-	-	-12	-13
Liabilities	-	-1	-	-	-	-1
<b>Deferred tax assets (-)/deferred tax liabilities (+)</b>	<b>-13</b>	<b>-25</b>	<b>3</b>	<b>5</b>	<b>-10</b>	<b>-20</b>
Offset	3	5	3	5	-	-
<b>Net deferred tax asset (-)/deferred tax liability (+)</b>	<b>-10</b>	<b>-20</b>	<b>-</b>	<b>-</b>	<b>-10</b>	<b>-20</b>

#### Change in deferred tax in temporary differences and loss carryforwards 2016

	Amount at 1 January	Recognised in profit and loss	Recognised in other comprehensive income	Amount at 31 December
Property and equipment	5	-2	-	3
Current investments	-11	4	6	-1
Pension provisions	-13	1	-	-12
Liabilities	-1	1	-	-
<b>Deferred tax assets (-)/deferred tax liabilities (+)</b>	<b>20</b>	<b>4</b>	<b>6</b>	<b>-10</b>

#### Change in deferred tax in temporary differences and loss carryforwards 2015

	Amount at 1 January	Recognised in profit and loss	Recognised in other comprehensive income	Amount at 31 December
Property and equipment	6	-1	-	5
Current investments	-8	-4	1	-11
Pension provisions	-11	-2	-	-13
Liabilities	-1	-	-	-1
Loss carryforwards	-12	12	-	-
<b>Deferred tax assets (-)/deferred tax liabilities (+)</b>	<b>-26</b>	<b>5</b>	<b>1</b>	<b>-20</b>

Länsförsäkringar AB has no deferred tax recognised directly against equity.

Note 17	Prepaid expenses and accrued income			
	31 Dec 2016		31 Dec 2015	
Accrued interest income		9		15
Other accrued income		19		63
Prepaid expenses		83		38
<b>Total</b>		<b>111</b>		<b>116</b>

Note 18	Current investments			
	31 Dec 2016		31 Dec 2015	
	Cost	Fair value	Cost	Fair value
Unlisted shares and participations, Swedish	3	4	3	4
Listed shares and participations, foreign	-	-	20	-
<b>Total</b>	<b>3</b>	<b>4</b>	<b>23</b>	<b>4</b>

	31 Dec 2016		31 Dec 2015	
Specification of current investments	Cost	Fair value	Cost	Fair value
<b>Unlisted participations, Swedish</b>				
Länsförsäkringar Fastighetsförmedling AB	3	4	3	4
<b>Listed participations, foreign</b>				
Kaupthing Búnadarbanki hf	-	-	20	-
<b>Total current investments</b>	<b>3</b>	<b>4</b>	<b>23</b>	<b>4</b>

Note 19	Equity		
A specification of changes in shareholders' equity is provided after the Parent Company's balance sheet.			
Shares at a quotient value of SEK 100	Number of votes per share	31 Dec 2016 Number	31 Dec 2015 Number
Series A	10	1,532,678	1,532,678
Series B	1	8,885,949	8,885,949
Series C	1	5,955	5,955
Number of shares outstanding		10,424,582	10,424,582

In 2016, no shares issued.

#### Restricted reserves

Restricted reserves may not be reduced through profit distribution.

#### Statutory reserve

The aim of the statutory reserve is to save a portion of the net profit that is not utilised to cover losses brought forward. The statutory reserve comprises restricted equity. No new transfers to the statutory reserve are required, although transfers can be made voluntarily. The statutory reserve also includes the amount of SEK 4,801 M that was included in the share premium reserve prior to 1 January 2006.

#### Non-restricted equity

##### Fair value reserve

##### Hedging reserve

Amounts are recognised directly against the fair value reserve when a change in value refers to a hedging instrument and the applied hedge accounting policies permit a portion of or the entire change in value to be recognised in equity. The hedging reserve comprises hedges of variable interest rates against fixed interest rates pertaining to the Parent Company's debt securities in issue.

##### Fair value reserve

The fair value reserve comprises the accumulated net change in fair value of available-for-sale financial assets until the asset is derecognised from the statement of financial position.

##### Share premium reserve

When shares are issued at a premium, meaning that a higher amount than the quotient value is paid for the share, an amount corresponding to the surplus of the quotient value of the share is recognised in the share premium reserve.

##### Retained earnings

Retained earnings comprises profit brought forward from the preceding year after deductions for any dividends paid during the year.

## Note 19 Equity, cont.

### Share ownership in Länsförsäkringar AB

Company	Number of shares			Share capital, %
	A	B	C	
Länsförsäkringar Skåne	141,849	882,046	-	9.8
Länsförsäkringar Stockholm	129,212	802,382	-	8.9
Länsförsäkringar Östgöta	114,155	663,463	-	7.5
Dalarnas Försäkringsbolag	104,708	609,639	-	6.9
Länsförsäkringar Göteborg och Bohuslän	87,010	605,143	821	6.6
Länsförsäkringar Älvsborg	100,176	581,374	-	6.5
Länsförsäkringar Bergslagen	86,351	495,089	-	5.6
Länsförsäkringar Jönköping	82,812	474,021	-	5.3
Länsförsäkringar Uppsala	73,298	424,791	-	4.8
Länsförsäkringar Västerbotten	57,195	330,919	-	3.7
Länsförsäkringar Halland	56,785	329,857	-	3.7
Länsförsäkringar Södermanland	58,117	323,139	-	3.7
Länsförsäkringar Göinge-Kristianstad	49,982	322,347	-	3.6
Länsförsäkringar Kalmar län	56,717	295,878	-	3.4
Länsförsäkringar Gävleborg	60,058	281,083	-	3.3
Länsförsäkringar Skaraborg	64,058	253,172	-	3.0
Länsförsäkringar Västernorrland	50,186	257,122	-	2.9
Länsförsäkringar Jämtland	35,795	226,453	-	2.5
Länsförsäkring Kronoberg	36,701	203,130	-	2.3
Länsförsäkringar Värmland	31,160	202,208	-	2.2
Länsförsäkringar Norrbotten	16,960	127,878	-	1.4
Länsförsäkringar Blekinge	23,088	120,500	-	1.4
Länsförsäkringar Gotland	16,305	74,315	-	0.9
16 local insurance companies	-	-	5,134	0.0
<b>Total number of shares</b>	<b>1,532,678</b>	<b>8,885,949</b>	<b>5,955</b>	<b>100.0</b>

Note 20	Provisions for pensions and similar commitments			
	31 Dec 2016		31 Dec 2015	
Pension provisions		16		19
Provisions for early retirement in accordance with pension agreement		8		18
Other provisions		4		4
<b>Total provisions for pensions</b>		<b>28</b>		<b>41</b>

Pension provisions of SEK 16 M (19) are encompassed by the Pension Obligations Vesting Act.

#### Defined-benefit pension plans

The Parent Company has a number of defined-benefit pension plans. One of these plans is a pension agreement for the insurance industry 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 age 62. The provision is calculated on an actuarial basis according to the insurance guidelines and basis for calculation applied for individually issued life assurance. The calculations are based on the individual salaries and ages.

In addition to this plan, there are a number of minor plans that almost only encompass employees who have already reached retirement age. These plans cover old-age pensions and in some cases also survivor's pension. The pension amounts are paid in relation to the final salary level when the employee retires and in the vast majority of cases are life annuities. In the event that upward adjustment of the pension has been agreed, the Group follows the norms applied by the Insurance Industry's Pension Fund (FPK).

Assumptions for defined-benefit commitments	2016	2015
Discount rate	0.6%	0.7%
Expected rate of salary increase	2.5%	2.5%
Percentage expected to retire voluntarily at the age of 62	50%	40.0%

**Note 20 Provisions for pensions and similar commitments, cont.****Defined-contribution pension plans**

The company pays fixed contributions to a separate legal entity and does not have a legal or informal obligation to pay additional contributions. The company's payments to defined-contribution plans are recognised as expenses during the period in which the employee performed the services to which the contributions refer. Primarily, contributions to the Insurance Industry's Pension Fund (FPK) are recognised here. This plan encompasses all employees except for a few individuals who have individual solutions. The pension agreement for the insurance industry, the FTP plan, through insurance with the Insurance Industry's Pension Fund (FPK) is a multi-employer defined-benefit pension plan. According to IAS 19 Employee Benefits, this pension plan entails that, as a rule, a company is to recognise its proportional share of the defined-benefit pension commitment and the plan assets and expenses associated with the pension commitment. Disclosures are also presented in the accounts pursuant to the requirements for defined-benefit pension plans. FPK is currently unable to provide necessary information which is why the pension plans above are recognised as a defined-contribution plan in accordance with 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.

FTP plan contributions for 2017 are expected to total SEK 64 M.

	2016	2015
Expenses for defined-contribution plans	122	113

**Note 21 Other provisions**

	31 Dec 2016	31 Dec 2015
Provision for interest subsidies for personell loans to former employees who have retired.	18	17
Other provisions	33	140
<b>Total</b>	<b>51</b>	<b>157</b>

**Note 22 Debt securities in issue**

	31 Dec 2016	31 Dec 2015
Bond loans	1,699	1,698
<b>Total</b>	<b>1,699</b>	<b>1,698</b>
<b>Maturities of bond loans</b>		
Within 1 year	1,699	-
1-5 years	-	1,698
<b>Total</b>	<b>1,699</b>	<b>1,698</b>

**Note 23 Derivatives**

	Carrying amount		Nominal value	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
<b>Derivative instruments with positive values</b>				
<i>Derivative instruments in hedge accounting</i>				
Interest	0	-	-156	-
<b>Total derivative instruments with positive values</b>	<b>0</b>	<b>-</b>	<b>-156</b>	<b>-</b>
<b>Derivative instruments with negative values</b>				
<i>Derivative instruments in hedge accounting</i>				
Interest	17	34	1,200	1,200
<b>Total derivative instruments with negative values</b>	<b>17</b>	<b>34</b>	<b>1,200</b>	<b>1,200</b>

**Note 24 Accrued expenses and deferred income**

	31 Dec 2016	31 Dec 2015
Holiday pay liability	51	46
Social security expenses	18	15
Special employer's contribution	34	32
Provisions for staff costs	25	19
Other accrued expenses	319	178
<b>Total</b>	<b>446</b>	<b>290</b>

**Note 25 Pledged assets and contingent liabilities**

	31 Dec 2016	31 Dec 2015
<b>Pledged assets</b>		
Pledged shares in subsidiaries	601	901
<b>Contingent liabilities</b>		
Part-owner of Utile Dulci 2 HB	17	9

**Note 26 Anticipated recovery and settlement periods for assets, provisions and liabilities**

	31 Dec 2016			31 Dec 2015		
	within 12 months	after 12 months	Total	within 12 months	after 12 months	Total
<b>Amount expected to be recovered</b>						
<b>Fixed assets</b>						
Intangible assets <sup>1)</sup>	19	440	459	10	217	227
Property and equipment <sup>1)</sup>	19	59	78	24	66	90
Shares and participations in Group companies	-	17,858	17,858	-	16,892	16,892
Deferred tax assets	10	-	10	20	-	20
Other securities held as fixed assets	-	851	851	-	1,007	1,007
<b>Total fixed assets</b>	<b>48</b>	<b>19,208</b>	<b>19,256</b>	<b>54</b>	<b>18,182</b>	<b>18,236</b>
<b>Current assets</b>						
Receivables from Group companies	554	-	554	1,026	-	1,026
Receivables from other related parties	181	-	181	166	-	166
Other receivables	25	-	25	41	-	41
Prepaid expenses and accrued income	111	-	111	116	-	116
Current investments	4	-	4	4	-	4
Cash and bank balances	251	-	251	243	-	243
<b>Total current assets</b>	<b>1,126</b>	<b>-</b>	<b>1,126</b>	<b>1,596</b>	<b>-</b>	<b>1,596</b>
<b>Total assets</b>	<b>1,174</b>	<b>19,208</b>	<b>20,382</b>	<b>1,650</b>	<b>18,182</b>	<b>19,832</b>

	31 Dec 2016			31 Dec 2015		
	within 12 months	after 12 months	Total	within 12 months	after 12 months	Total
<b>Amount expected to be settled</b>						
<b>Provisions</b>						
Provisions for pensions and similar commitments	-	28	28	-	41	41
Other provisions	-	51	51	-	157	157
<b>Total provisions</b>	<b>-</b>	<b>79</b>	<b>79</b>	<b>-</b>	<b>198</b>	<b>198</b>
<b>Long-term liabilities</b>						
Debt securities in issue	-	-	-	-	1,698	1,698
Derivatives	-	-	-	-	34	34
Liabilities to other related parties	-	440	440	-	237	237
<b>Total long-term liabilities</b>	<b>-</b>	<b>440</b>	<b>440</b>	<b>-</b>	<b>1,969</b>	<b>1,969</b>
<b>Current liabilities</b>						
Accounts payable	127	-	127	236	-	236
Liabilities to Group companies	287	-	287	236	-	236
Liabilities to other related parties	283	-	283	368	-	368
Debt securities in issue	1,699	-	1,699	-	-	-
Derivatives	17	-	17	-	-	-
Other liabilities	26	-	26	24	-	24
Accrued expenses and deferred income	446	-	446	290	-	290
<b>Total current liabilities</b>	<b>2,885</b>	<b>-</b>	<b>2,885</b>	<b>1,154</b>	<b>-</b>	<b>1,154</b>
<b>Total liabilities and provisions</b>	<b>2,885</b>	<b>519</b>	<b>3,404</b>	<b>1,154</b>	<b>2,167</b>	<b>3,321</b>

<sup>1)</sup> The amount that is expected to be recovered within 12 months corresponds to depreciation/amortisation for the year.

31 Dec 2016	Financial assets measured at fair value in profit and loss		Derivatives used in hedge accounting	Available-for-sale financial assets	Loan receivables and accounts receivable	Total	Fair value
	Financial assets measured according to fair value option	Held for trading					
Assets							
Other securities held as fixed assets	18	-	-	833	-	851	851
Derivatives	-	0	-	-	-	0	0
Receivables from Group companies	-	-	-	-	554	554	554
Receivables from other related parties	-	-	-	-	181	181	181
Other receivables	-	-	-	-	25	25	25
Prepaid expenses and accrued income	-	-	-	-	111	111	111
Current investments	4	-	-	-	-	4	4
Cash and bank balances			-	-	251	251	251
Total	22	0	-	833	1.122	1.977	

31 Dec 2016	Financial liabilities measured at fair value in profit and loss		Derivatives used in hedge accounting	Other financial liabilities	Total	Fair value
	Financial liabilities measured according to fair value option	Held for trading				
Liabilities						
Debt securities in issue	-	-	-	1,699	1,699	1,727
Derivatives	-	-	17	-	17	17
Liabilities to Group companies	-	-	-	287	287	287
Liabilities to other related parties	-	-	-	723	723	723
Other liabilities and accounts payable	-	-	-	153	153	153
Accrued expenses and deferred income	-	-	-	446	446	446
Total	-	-	17	3,308	3,325	

	Financial assets measured at fair value in profit and loss						
31 Dec 2015	Financial assets measured according to fair value option	Held for trading	Derivatives used in hedge accounting	Available-for- sale financial assets	Loan receivables and accounts receivable	Total	Fair value
Assets							
Other securities held as fixed assets	9	-	-	998	-	1,007	1,007
Receivables from Group companies	-	-	-	-	1,026	1,026	1,026
Receivables from other related parties	-	-	-	-	166	166	166
Other receivables	-	-	-	-	38	38	38
Prepaid expenses and accrued income	-	-	-	-	78	78	78
Current investments	4	-	-	-	-	4	4
Cash and bank balances	-	-	-	-	243	243	243
Total	13	-	-	998	1,551	2,562	

	Financial liabilities measured at fair value in profit and loss					
	Financial liabilities measured according to fair value option	Held for trading	Derivatives used in hedge accounting	Other financial liabilities	Total	Fair value
31 Dec 2015						
Liabilities						
Debt securities in issue	-	-	-	1,698	1,698	1,755
Derivatives	-	-	34	-	34	34
Liabilities to Group companies	-	-	-	185	185	185
Liabilities to other related parties	-	-	-	507	507	507
Other liabilities and accounts payable	-	-	-	260	260	260
Accrued expenses and deferred income	-	-	-	290	290	290
Total	-	-	34	2,940	2,974	

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

The main principle for measuring the fair value of debt securities in issue is that the value is measured at prices from external parties at year-end or the most recent trading date. If external prices are not available or are deemed to deviate from market levels, a standard method or valuation technique based on the estimated or original issue spread is utilised.

## Note 28 Fair value valuation techniques

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

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

Level 2 – Financial instruments measured using valuation techniques that are essentially based on market data are categorised as Level 2. This Level primarily includes interest-rate and currency derivatives.

Level 3 – Financial instruments whose measurement is significantly influenced by inputs that cannot be verified by external market data are categorised as Level 3. This Level mainly includes properties and unquoted shares and participations.

SEK M	2016				2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Shares and participations	-	10	4	14	-	9	4	13
Bonds and other interest-bearing securities	833	-	-	833	990	-	-	990
Derivatives	0	-	-	0	-	-	-	-
<b>Liabilities</b>								
Derivatives	0	17	-	17	-	34	-	34

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

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

Profits and losses are recognised in Interest income and similar profit/loss items or Interest expense and similar profit/loss items. For disclosures of determination of fair value and valuation techniques and input data, see Note 1 Accounting policies.

### Change level 3

	Shares and participations	Total		Shares and participations	Total
<b>Opening balance 1 January 2015</b>	4	4	<b>Opening balance 1 January 2016</b>	4	4
Acquisitions	-	-	Acquisitions	-	-
Divestments	-	-	Divestments	-	-
Recognised in net profit for the year	0	0	Recognised in net profit for the year	0	0
Recognised in other comprehensive income	-	-	Recognised in other comprehensive income	-	-
<b>Closing balance 31 December 2015</b>	<b>4</b>	<b>4</b>	<b>Closing balance 31 December 2016</b>	<b>4</b>	<b>4</b>

### Financial instruments measured at amortised cost in the balance sheet

31 Dec 2016	Level 1	Level 2	Level 3	Total
<b>Liabilities</b>				
Securities issued	-	1,699	-	1,699
31 Dec 2015	Level 1	Level 2	Level 3	Total
<b>Liabilities</b>				
Securities issued	-	1,698	-	1,698

**Note 29 Information about offsetting**

The table shows financial assets and liabilities covered by a legally binding master netting agreement or similar agreements, together with related collaterals. The Group has ISDA agreements and CSA agreements with all derivative counterparts, meaning that all exposures are covered by these types of agreements. The net amount pertains to the exposure under normal operations in the event of default or insolvency. Financial assets and liabilities are offset in the balance sheet when there is a legally enforceable right to offset the transactions and there is an intention to settle the net amount or to realise the asset and settle the liability simultaneously.

Financial assets and liabilities that are offset or are subject to netting agreements						
SEK M 31 Dec 2016	Gross amount	Offset in the balance sheet	Amount recognised in the balance sheet	Related amounts that are not offset in the balance sheet		Net amount
				Master netting agreements	Collaterals Received (-) / Pledged (+)	
<b>Assets</b>						
Derivatives	0	-	0	-	-	0
<b>Liabilities</b>						
Derivatives	-17	-	-17	-	24	7
<b>Total</b>	<b>-17</b>	<b>-</b>	<b>-17</b>	<b>-</b>	<b>24</b>	<b>7</b>

Financial assets and liabilities that are offset or are subject to netting agreements						
SEK M 31 Dec 2015	Gross amount	Offset in the balance sheet	Amount recognised in the balance sheet	Related amounts that are not offset in the balance sheet		Net amount
				Master netting agreements	Collaterals Received (-) / Pledged (+)	
<b>Assets</b>						
Derivatives	-	-	-	-	-	-
<b>Liabilities</b>						
Derivatives	-34	-	-34	-	40	6
<b>Total</b>	<b>-34</b>	<b>-</b>	<b>-34</b>	<b>-</b>	<b>40</b>	<b>6</b>

**Note 30 Disclosures on related parties**

Pricing for business operations is on market terms. Pricing for service activities within the Länsförsäkringar Alliance is based on direct and indirect costs. A price list is established in conjunction with the target process. Overall, pricing is intended to distribute costs within the Länsförsäkringar Alliance based on consumption. Joint development projects and joint service are financed collectively and invoiced based on an established distribution key.

Related-party transactions 2016		Group companies	Liv Group	Regional insurance companies	Other related parties	Total
Income	Services sold	1,215	224	1,342	21	2,803
	Rent, premises	74	3	-	-	77
	Rent, equipment	-	-	-	-	-
	Financial income	679	-	-	-	679
Expenses	Services purchased	-18	-3	-43	-	-64
	Rent, premises	-185	-	-9	-	-194
	Financial costs	-	-17	-	-	-17
Receivables	Interest-bearing loans	-	-	-	-	-
	Cash and cash equivalents with Länsförsäkringar Bank	159	-	-	-	159
	Other receivables	394	25	156	-	576
Liabilities	Interest-bearing liabilities	-	255	-	-	255
	Other liabilities	287	25	437	6	755

## Not 30 Disclosures on related parties, cont.

Related-party transactions 2015		Group companies	Liv Group	Regional insurance companies	Other related parties	Total
Income	Services sold	1,085	216	1,248	12	2,561
	Rent, premises	64	12	-	-	76
	Rent, equipment	0	0	-	-	0
	Financial income	742	-	-	-	742
Expenses	Services purchased	-21	-6	-58	0	-85
	Rent, premises	-178	-	-8	-	-186
	Financial costs	-	-23	-	-	-23
Receivables	Interest-bearing loans	0	-	-	-	0
	Cash and cash equivalents with Länsförsäkringar Bank	525	-	-	-	525
	Other receivables	501	29	136	2	668
Liabilities	Interest-bearing liabilities	0	-	-	-	0
	Other liabilities	236	392	209	6	843

Länsförsäkringar AB is owned by the 23 regional insurance companies and 16 local insurance companies. In terms of operations, Länsförsäkringar AB with subsidiaries are organised into four business units: Non-life Insurance, Unit-linked Life Assurance, Traditional Life Assurance and Bank, as well as support functions Customer and Channel Support and Business Support. The President's staff includes the shared units of Accounting and Finance, Legal Affairs, Asset Management, HR, Compliance and Risk Management.

Länsförsäkringar AB purchases and owns equipment that is subsequently leased to Group companies and Länsförsäkringar Liv.

Länsförsäkringar AB leases its office premises from property owner Utile Dulci 2 HB, owned by Länsförsäkringar Sak and Länsförsäkringar AB.

Länsförsäkringar Bank manages subsidised loans to employees on behalf of the Parent Company Länsförsäkringar AB, issued after the bank performs standard credit rating checks.

For information regarding remuneration of related key persons, such as Board members and senior executives, see note 6 Employees, staff costs and remuneration of senior executives.

Related subsidiaries are specified in note 14 Shares and participations in Group companies.

Note 31	Supplementary information to the cash-flow statement	
	2016	2015
<b>Interest paid and dividends received</b>		
Dividends received from subsidiaries	470	412
Withdrawal subsidiaries	32	-
Interest received	1	3
Interest paid	-81	-45
<b>Adjustment for non-cash items</b>		
Depreciation/amortisation and impairment of assets	33	37
Realised gains and losses	20	1
Unrealised gains and losses	-21	18
Provisions	-120	76
Change in fair value of available-for-sale financial assets	6	-1
Hedging reserve	14	5
Group contributions received that are regulated in the following fiscal year	-160	-330
Profit participation subsidiaries	-49	-
<b>Total</b>	<b>-277</b>	<b>-194</b>

Cash and cash equivalents comprise bank balances.

Note 32	Financial transactions not recognised in the balance sheet
<p>Länsförsäkringar AB has external suppliers of IT operations at a cost of SEK 491 M (514). The costs also include machinery equipment for computer operations. Some regional insurance companies and Länsförsäkringar Liv are also included in the arrangement. Their remuneration to Länsförsäkringar AB is included in service revenue.</p>	
Note 33	Events after balance-sheet date
<p>Johan Agerman took office as the new President of Länsförsäkringar AB on 9 January 2017. He succeeded Sten Dunér who has retired.</p>	
Note 34	Proposed appropriation of profit
<p>According to the statement of financial position for Länsförsäkringar AB, non-restricted equity totalling SEK 10,892,736,756 is at the disposal of the Annual General Meeting.</p>	
<p><b>The Parent Company's non-restricted equity comprises (SEK)</b></p>	
Share premium reserve	5,470,917,955
Fair value reserve	-7,607,544
Retained earnings	4,982,688,208
Net profit for the year	446,738,137
<b>Non-restricted equity, 31 December 2016</b>	<b>10,892,736,756</b>

The Board of Directors proposes that SEK 10,892,736,756 of the unappropriated earnings in the Parent Company be carried forward, of which SEK 5 470 917 955 to the share premium reserve.

# Statement from the Board

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

Stockholm, 8 March 2017

Jan Fock  
*Chairman*

Göran Lindell  
*Deputy Chairman*

Maria Engholm  
*Board member*

Susanne Petersson  
*Board member*

Jonas Rosman  
*Board member*

Mikael Sundquist  
*Board member*

Christer Villard  
*Board member*

Caesar Åfors  
*Board member*

Susanne Lindberg  
*Employee Representative*

Linnea Niklasson  
*Employee Representative*

Anna Sandqvist  
*Employee Representative*

Johan Agerman  
*President*

My audit report was submitted on 8 March 2017.

Helene Willberg  
*Authorised Public Accountant*

The Annual Report and the consolidated financial statements above were approved for publishing by the Board of Directors on 8 March 2017. The Group's income statement, statement of comprehensive income and statement of financial position, as well as the Parent Company's income statement and balance sheet are subject to approval by the Annual General Meeting to be held on 12 May 2017.

# Auditor's Report

To the general meeting of the shareholders of Länsförsäkringar AB (publ), corp. id 556549-7020

Translation from the Swedish original

## REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

### Opinions

I have audited the annual accounts and consolidated accounts of Länsförsäkringar AB (publ) for the year 2016, except for the corporate governance statement on pages 40–45. The annual accounts and consolidated accounts of the company are included on pages 28–114 in this document.

In my opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act, and present fairly, in all material respects, the financial position of the parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act for Insurance Companies and present fairly, in all material respects, the financial position of the group as of 31 December 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 Insurance Companies. My opinions do not cover the corporate governance statement on pages 40–45. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

I therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the income statement and statement of financial position for 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.

## Valuation of shares and participations in Group companies

See note 14 and accounting principles on pages 55–56 and 101 in the annual accounts for detailed information and description of the matter.

### Description of key audit matter

On the balance sheet as at 31 December 2016, the value of shares and participations in Group companies for Länsförsäkringar AB amounted to 17 858 MSEK, which represents 87,6 % of total assets.

The book value of shares and participations in Group companies is compared with each subsidiary's consolidated value. If the subsidiary's consolidated value is less than the book value, the group carries out an impairment test, which is inherently complex and involves significant levels of judgments made by the company.

### Response in the audit

We have inspected the results of the company's impairment tests in order to assess whether they have been carried out in accordance with the prescribed method.

Moreover, we have considered the reasonableness of the predicted future cash in- and outflows, the present value of future profits as well as the discount rate used through evaluation of the client's internal written documentation and forecasts. Our work has also comprised interviews with the group and assessment of the accuracy of previous years' cash flow forecasts in relation to actual results.

We have involved our internal valuation specialists in the audit team in order to ensure that we have sufficient experience and competency in this area, in particular when looking at the assumptions made regarding external markets and competitors as well as the company's assessment of future cash in- and outflows and the present value of future profits.

## Calculation of technical provisions

See note 38 and accounting principles on page 62 in the consolidated accounts for detailed information and description of the matter.

### Description of key audit matter

The Group's technical provisions amounted to 18 757 MSEK as at December 31, 2016, which represents 4,7 % of the Group's total liabilities.

This is an area that involves significant judgments over uncertain future outcomes, primarily regarding the timing and size of claims and payments for life in the form of a pension or survivor benefits payable to policy holders.

Consistent with insurance industry norms, the Group uses established valuation models to support the calculations of the technical provisions. There is a risk that the complexity of the models may give rise to errors as a result of inadequate/incomplete data and/or incorrect assumptions and/or inaccurate actuarial calculations.

The Group's technical provisions relate to a variety of products with different characteristics such as settlement time, injury patterns, assumptions about mortality, inflation, discount rates, mortality, expenses etc.

### Response in the audit

We validated the appropriateness of the actuarial assumptions used in the calculations of the provisions by comparing the valuation assumptions against the Group's own analyses, regulatory requirements and industry benchmarks.

We have involved our own actuarial specialists to assist us in challenging the methodology and assumptions used in the calculation of cashflows and valuation of the provision. Furthermore, we have performed calculations to check/verify that the liabilities appear/seem/are likely to be adequate as compared to the expected future contractual obligations or as compared to our internal calculations regarding IBNR, incurred but not reported claims.

We have tested a sample of the process controls that the Group has in place/uses for their control of input data, actuarial calculations and to verify that the book-keeping entries are made in the correct general ledger.

We have assessed the facts presented in the notes in the consolidated financial statements and evaluated whether the information is sufficiently comprehensive to accurately describe the Group's estimates.

## Measurement of financial instruments

See disclosure 50 and accounting principles on pages 59–61 in the consolidated accounts for detailed information and description of the matter.

### Description of key audit matter

The Group 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 5,615 and liabilities of SEK 1,680 M.

The Group has, 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 935 M in the Group.

Level 2 and 3 instruments total 1.6% of the Group's assets and 0.4% of the Group's liabilities.

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.

Level 3 financial instruments mainly comprise of unquoted shares.

The valuation of Level 2 and Level 3 financial instruments includes assessments by the Group, since these instruments are measured using models. In light of this, these financial instruments have been deemed to be a particularly significant audit matter.

### Response in the audit

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.

With the assistance of our internal valuation specialists, we challenged the methods and assumptions used in measuring unquoted/illiquid financial instruments.

We assessed the methods of the valuation techniques against industry practice and valuation guidelines.

We have verified the values of the financial instruments by comparing the assumptions applied by the Group 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.

We have assessed the circumstances presented in the disclosures in the consolidated financial statements and whether the information is sufficiently extensive as a description of the Group's assessments.

## Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–27 and 118–125. 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 and the Annual Accounts Act for Insurance Companies and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

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

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

## Auditor's responsibility

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 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 Annual Accounts Act, the Annual Accounts Act for Insurance 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 the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

### The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 40–45 has been prepared in accordance with the Annual Accounts Act.

My examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that my examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. I believe that the examination has provided me with sufficient basis for my opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts are in accordance with the Annual Accounts Act and the Annual Accounts Act for Insurance Companies.

Stockholm, 8 March 2017

Helene Willberg  
Authorized Public Accountant

# Board of Directors and auditors



**Secretary of the Board:** Olle Törnell Born 1958. Head of Legal Affairs. Employed 1992. Education: Bachelor of Arts in Legal Science, Uppsala University. Previous experience: Head of Legal Affairs Wasa Försäkring, bank attorney Nordbanken.

**Auditors:** Helene Willberg. Auditor elected by Annual General Meeting Authorised Public Accountant, KPMG AB.  
Anders Tagde. Deputy auditor elected by Annual General Meeting Authorised Public Accountant, KPMG AB.

## 1 Jan Fock

Chairman of the Board since 2012. Born 1949. Elected 2012. **Education:** Master of Science in Agriculture, and in Business and Economics. **Previous experience:** President of Länsförsäkringar Halland and Länsförsäkringar Skåne, Board member of Halmstad University, Campus Helsingborg Lund University, Länsförsäkringar Mäklarservice, Länsförsäkringar Asset Management, Chairman of Aragon/Kaupthing Bank, Stadshypotek Halland and Stadshypotek Skåne, Deputy Chairman of Länsförsäkringar Sak and Agria Djurförsäkring, Board member of Flyinge AB.

## 2 Göran Lindell

Deputy Chairman since 2014. Born 1954. Elected 2014. **Education:** Master of Science in Business and Economics from Linköping University. **Other Board appointments:** Chairman of Länsförsäkringar Jönköping. **Previous experience:** Municipal Commissioner and member of parliament.

## 3 Maria Engholm

Born 1967. President/CEO of HSB Dalarna. Elected 2015. **Education:** Master of Science in Business and Economics. **Other Board appointments:** Chairman of Dalarnas Försäkringsbolag, Dalarnas Försäkringsbolags Förvaltnings AB, Board member of HSB Riksförbund and HSB Projektpartner AB. **Previous experience:** Board member of Länsförsäkringar Bank, President of Triple Steelix, President of Folke i Borlänge AB, Local Federation Director of Siljan Region, Board member of Sparbanken Dalarna.

## 4 Susanne Petersson

Born 1962. President of Länsförsäkringar Skåne. Elected 2016. **Education:** Master of Science in Business and Economics. **Other Board appointments:** Board member of Länsförsäkringar Skåne, Wasa Kredit AB, Swedish Insurance Employers' Association. **Previous experience:** President of Nordea Finans AB, Board member of Länsförsäkringar Bank.

## 5 Jonas Rosman

Born 1963. President of Länsförsäkringar Skaraborg. Elected 2014. **Education:** Business school economist, agricultural education. **Previous experience:** Accounting consultant, Business Manager Federation of Swedish Farmers Consulting, chief economist at Federation of Swedish Farmers Consulting, President of Skaraborg Agricultural Society.

## 6 Mikael Sundquist

Born 1961. President of Länsförsäkringar Bergslagen. Elected 2014. **Education:** Master of Science in Business and Economics. **Other Board appointments:** Chairman of Chamber of Commerce of Mälardalen. **Previous experience:** Board member of 1:a Västmanlandsfonden, Länsförsäkringar Sak, Chairman of Länsförsäkringar Mäklarservice, senior positions at Länsförsäkringar and Handelsbanken.

## 7 Christer Villard

Born 1949. Director. Elected 2013. **Education:** Bachelor of Arts in Legal Science. **Other Board appointments:** Chairman of Länsförsäkringar Stockholm, Wallenstam AB, Stockholms köpmanskлубb, Friends of Drottningholms Slottsteater and Accvi AB. Board member of AB Segulah, Greta Hamilton Family Foundation, Joen Fagerberg Foundation in Stockholms Borgerskap, Drottningholms Slottsteater Foundation.

## 8 Caesar Åfors

Born 1959. President of own operations at Virå Bruk and consultancy activities in the property industry. Elected 2016. **Education:** Master of Science in Forestry. **Other Board appointments:** Chairman of Länsförsäkringar Södermanland, Board member of Lansa AB and Intea AB. **Previous experience:** Board member of Länsförsäkringar Bank, CFO and Executive Vice President of Klöver AB (publ).

## Employee representatives

### 9 Susanne Lindberg

Born 1967. Employee representative. Elected 2012. **Education:** Upper-secondary education in economics, diploma in non-life insurance and life assurance from Swedish Institute of Insurance Training (IFU), diploma in individual claims adjustment training from Länsförsäkringar. **Other Board appointments:** Deputy Chairman of FTF, Chairman of the Länsförsäkringar Alliance's Staff Association, deputy Board member of Länsförsäkringar Fondliv, deputy Board member of Länsförsäkringar Liv, Deputy Chairman of Insurance Industry's Pension Fund (FPK).

**Deputy:** Mirek Swartz



### 10 Linnéa Niklasson

Born 1958. Object specialist Integration. Employee representative. Elected 2014. **Education:** Systems developer, business school economist. **Other Board appointments:** Länsförsäkringar Sak, Agria Djurförsäkring, Chairman of Länsförsäkringar AB FTF club. **Previous experience:** Test Manager/Change Management at Länsförsäkringar AB, Systems Developer Agria, Chairman of FTF Agria employee club, Group Manager accounts receivable ledger/IT Esselte Meto.

**Deputy:** Mirek Swartz



### 11 Anna Sandqvist

Born 1963. Compliance. Employee representative. Elected 2014. **Education:** Bachelor of Arts. **Other Board appointments:** Länsförsäkringar Sak, Chairman of SACO association at Länsförsäkringar AB. **Previous experience:** AMF Pension, Wasa Försäkring

**Deputy:** Tomas Hansson

# Group management



## 1 Johan Agerman

Born 1962. Employed 2017. President from 9 January 2017. **Education:** Business Administration, Uppsala. AMPT, Stockholm School of Economics. **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:** President 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 Susanne Bergh

Born 1969. Employed 1989. Head of Customer and Channel Support. **Education:** Diploma in market economics. **Previous experience:** Various positions at the Länsförsäkringar AB Group, most recently as Head of Digital Channels at Länsförsäkringar Bank.

## 3 Tua Holgersson

Born 1964. Employed since 2013. President of Länsförsäkringar Fondliv. **Education:** Communication programme. **Board appointments:** Board member of Länsförsäkringar Gruppliv and Länsförsäkringar Mäklarservice. **Previous experience:** President of Länsförsäkringar Gävleborg, President of Skandia Rådgivning, Business Manager Skandia Liv, Head of Sales, Head of Marketing at Skandiabanken.

## 4 Rikard Josefson

Born 1965. Employed 2011. President of Länsförsäkringar Bank. **Education:** Bachelor of Arts. **Board appointments:** Chairman of Wasa Kredit and Länsförsäkringar Hypotek. Board member of Länsförsäkringar Fondförvaltning, Länsförsäkringar Fastighetsförmedling, Swedish Bankers' Association, FCG Fonder AB, Livslust Foundation and CSN Oversight Council. **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 Latvian Unibanka in Latvia, Head of Global Transaction Services SEB Merchant Banking.

## 5 Göran Laurén

Born 1962. Employed 2007. Acting Head of Asset Management. **Education:** Executive MBA, Stockholm University. **Board appointments:** Chairman of Länsförsäkringar Sak Fastighets AB and Utile Dulci 2 HB, Board member of Länsbörsen. **Previous experience:** CIO Länsförsäkringar AB, Executive Vice President Länsförsäkringar Hypotek, CFO SBAB.

## 6 Malin Rylander-Leijon

Born 1970. Employed 2001. CFO. Head of Finance. **Education:** Administration Programme, specialising in Economics, Uppsala University. **Board appointments:** Board member of Utile Dulci 2. HB. **Previous experience:** Head of Finance & Control Länsförsäkringar Liv and auditor at SET Revisionsbyrå.

## 7 Ann Sommer

Born 1959. Employed 1988. President of Länsförsäkringar Sak. **Education:** Master of Science in Business and Economics. **Board appointments:** Chairman Länsförsäkringar Gruppliv and Agria Djurförsäkring. Board member of Länsförsäkringar Mäklarservice, SOS International, Swedish Theft Prevention Association, Amice (Association of Mutual Insurers and Insurance Cooperatives in Europe), Landstingens Ömsesidiga Försäkringsbolag. **Previous experience:** President of WASA International and Wasa International UK, Board member of Equatorial Re Singapore and Swedish Forest Agency.



## 8 Jörgen Svensson

Born 1959. Employed 2008. President of Länsförsäkringar Liv. **Education:** Studies in economics, law and marketing, Lund University, AMP Stockholm School of Economics. **Board appointments:** Board member of Länsförsäkringar Mäklarservice. **Previous experience:** President of Länsförsäkringar Blekinge, various senior positions at Skandia and If.



## 9 Sören Westin

Born 1953. Employed 2008. Executive Vice President, Länsförsäkringar AB. Head of Business Support. **Education:** Licentiate of Science in Business and Economics, Umeå University. **Board appointments:** Board member of Länsförsäkringar Fastighetsförmedling, Foundation for Regional Insurance Companies' Research Fund and Swedish Motor Insurers. **Previous experience:** President of Länsförsäkringar Jämtland, President AB Länstidningen, member of Samhall AB's corporate management.



Co-opted members

## 10 Carin Dunér

Born 1962. Employed since 2012. HR Director. **Education:** Bachelor Programme in Human Resource Management and Working Life, Uppsala University. **Previous experience:** Head of HR at Swedbank Large Corporates & Institutions, Head of HR at Nordea Securities, HR/senior positions at Nordea Markets, Ericsson Radio Systems, Swedish University of Agricultural Sciences.

## 11 Olle Törnell

Born 1958. Employed 1992. Head of Legal Affairs. **Education:** Bachelor of Arts in Legal Science, Uppsala University. **Previous experience:** Head of Legal Affairs Wasa Försäkring, bank attorney Nordbanken.

## 12 Fanny Wallér

Born 1962. Employed since 2012. Director of Corporate Communications. **Education:** Bachelor of Arts in Political Science, Economics and Languages, Uppsala University. **Previous experience:** Chief Marketing Officer at Intrum Justitia, Marketing and Sales Director at SEB Retail Banking, Marketing Director at SEB e-banking and Product Manager at Eurocard.

# Definitions

## After ceded reinsurance

The proportion of an insurance transaction for which the insurance company assumes the risk, and which is not reinsured with another insurance company. Sometimes the term "for own account" is used.

## Capital adequacy ratio, bank

Closing own funds as a percentage of the closing risk-weighted amount.

## Claims payments

The cost for claims incurred, including costs for claims that have not yet been reported to the insurance company. The cost also includes the run-off result, meaning the profit and loss arising in the provision for claims outstanding made in the immediately preceding year-end accounts. Run-off profit/loss arises since some of the claims in the provision are either settled during the period at amounts differing from those allocated or are re-valued pending final settlement.

## Claims ratio

The ratio between claims payments, including claims adjustment costs and premiums earned after ceded reinsurance.

## Collective consolidation, life assurance

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

## Combined ratio, non-life insurance

The sum of operating expenses, claims payments and claims adjustment costs as a percentage of premiums earned after ceded reinsurance.

## Common Equity Tier 1 capital, bank

Total Tier 1 capital excluding Additional Tier 1 instruments.

## Common Equity Tier 1 capital ratio, bank

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

## Cost/income ratio, bank

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

## Cost ratio, non-life insurance

The sum of operating expenses in the insurance operations and claims adjustment costs as a percentage of premiums earned after ceded reinsurance.

## Direct insurance

Insurance contract concluded directly between the insurer and the policyholder. In contrast to assumed reinsurance, the insurance company is directly responsible to the policyholder.

## Earnings per share

Profit/loss for the year attributable to the Parent Company shareholders in relation to the average number of shares during the year.

## Expense ratio, non-life insurance

Operating expenses in the insurance operations as a percentage of premiums earned after ceded reinsurance.

## Investment income transferred from financial operations

Premiums are paid in advance, while operating expenses and claims costs are paid in arrears. Funds that have not yet been paid out are invested in order to obtain a return. The estimated interest on these investments – the cost of capital – is transferred from investment income to the insurance operations.

## Investment margin, bank

Net interest income in relation to average total assets.

## Loan losses in relation to loans, bank

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

## Loan losses net, bank

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.

## Management cost ratio, life assurance

Total operating expenses and claims adjustment costs as a percentage of average managed assets.

## Net interest income, bank

Interest income from loans to the public, credit institutions and income from interest-bearing securities less expenses for deposits and funding from the public, credit institutions and expenses for interest-bearing securities.

## Operating expenses in the insurance operations

Includes costs of marketing, sales and administration in insurance operations.

## Own funds, bank

Own funds comprises the sum of Tier 1 and Tier 2 capital and the difference between expected losses and reserves established for probable loan losses.

## Premiums earned

The proportion of premium income attributable to the fiscal year.

## Premium income

Premiums paid in during the year or recognised as receivables at year-end since they have fallen due for payment. Premium income is a common measure of the volume of insurance operations.

## Reinsurance

If an insurance company cannot, or does not wish to, assume the entire liability to policyholders, it reinsures part of its underwritten policies with other insurance companies. In this connection, the reinsurance is said to be "ceded" by the first company and "assumed" by the second company.

### Return on equity

Operating profit less standard tax at a rate of 22.0% in relation to average equity adjusted for capital contributions and Additional Tier 1 Capital instruments.

### Risk Exposure Amount, bank

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

### Solvency capital

The sum of equity, untaxed reserves, deferred tax liabilities, subordinated debt as well as surplus values on assets.

### Solvency margin, non-life insurance

Solvency capital as a percentage of premium income after ceded reinsurance.

### Solvency ratio

Own funds in relation to risk-based capital requirement, according to Solvency II Directive in Swedish law.

### Technical provisions

Provision for unearned premiums and unexpired risks, life-assurance reserves and provision for claims outstanding and comparable commitments in accordance with signed insurance contracts. For life assurance, this shall correspond to the insurance company's guaranteed insurance commitments.

### Technical result for non-life insurance operations

Premiums earned less claims payments, claims adjustment costs and operating expenses in the insurance operations plus profit/loss from ceded reinsurance and investment income transferred from financial operations.

### Tier 1 capital, bank

Tier 1 capital is part of 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, bank

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

### Tier 2 capital, bank

Primarily comprises fixed-term subordinated debt.

### Total return ratio

The sum of direct yield, realised gains and losses, and unrealised changes in the value of assets in relation to the average fair value of managed assets.

## Länsförsäkringar Liv Försäkrings AB Group's income statement and balance sheet

Income statement		
SEK M	2016	2015
Premium income, net	1,720	1,919
Investment income, net	6,027	373
Claims payments	-5,683	-5,959
Change in technical provisions	1,221	9,497
Operating expenses	-447	-442
<b>Technical result, life-assurance operations</b>	<b>2,838</b>	<b>5,388</b>
Non-technical items	-110	-284
<b>Profit before tax</b>	<b>2,728</b>	<b>5,104</b>
Tax	-46	-15
<b>Net profit for the year</b>	<b>2,682</b>	<b>5,089</b>
Items that cannot be transferred to profit and loss	-	-2
<b>Comprehensive income for the year</b>	<b>2,682</b>	<b>5,087</b>

Balance sheet		
SEK M	31 Dec 2016	31 Dec 2015
<b>Assets</b>		
Property and equipment	2	2
Investment assets	111,597	110,395
Investment assets for which the policyholder bears the investment risk	4,810	4,959
Reinsurers' portion of technical provisions	477	481
Receivables	1,909	1,378
Other assets	4,763	3,945
Prepaid expenses and accrued income	755	957
<b>Total assets</b>	<b>124,312</b>	<b>122,117</b>
<b>Equity, provisions and liabilities</b>		
Share capital	8	8
Funds plus net profit for the period	23,042	21,394
Technical provisions	87,408	88,539
Provisions for life assurance for which the policyholder bears the investment risk	4,810	4,959
Provisions for other risks and expenses	239	137
Deposits from reinsurers	477	481
Liabilities	8,116	6,407
Accrued expenses and deferred income	212	192
<b>Total equity, provisions and liabilities</b>	<b>124,312</b>	<b>122,117</b>

# Financial calendar 2017

## First quarter:

Interim report, Länsförsäkringar AB	5 May
Interim report, Länsförsäkringar Bank	5 May
Interim report, Länsförsäkringar Hypotek	5 May
Interim review, Länsförsäkringar Alliance	5 May

## Second quarter:

Interim report, Länsförsäkringar AB	10 August
Interim report, Länsförsäkringar Bank	10 August
Interim report, Länsförsäkringar Hypotek	10 August
Interim review, Länsförsäkringar Alliance	10 August

## Third quarter:

Interim report, Länsförsäkringar AB	10 November
Interim report, Länsförsäkringar Bank	10 November
Interim report, Länsförsäkringar Hypotek	10 November
Interim review, Länsförsäkringar Alliance	10 November

# Addresses

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## JOINT COMPANIES

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## Länsförsäkringar Hypotek

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## Wasa Kredit

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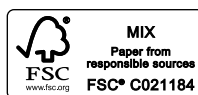
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