2015

Risk and Capital Management Länsförsäkringar Bank AB on the basis of the Consolidated Situation

Länsförsäkringar

Contents

1 | Introduction

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

"Länsförsäkringar Bank AB with subsidiaries" comprises Länsförsäkringar Bank AB, Länsförsäkringar Hypotek AB, Wasa Kredit AB and Länsförsäkringar Fondförvaltning AB (hereinafter referred to as the "Bank Group").

With the introduction of CRR and CRD IV, the parent mixed financial holding company, Länsförsäkringar AB, is also subjected to prudential and reporting requirements. As a result Länsförsäkringar AB is consolidated with the Bank Group. The Consolidated Situation comprises Länsförsäkringar AB, Länsförsäkringar Bank AB, Länsförsäkringar Hypotek AB, Länsförsäkringar Fondförvaltning AB and Wasa Kredit AB (hereinafter referred to as the "Consolidated Situation").

The comparative period is per 31 December 2014.

1.1 Länsförsäkringar Bank AB in brief

1.1.1 Strategy and goals

Länsförsäkringar Bank AB was founded in 1996 and is the fifth largest retail bank in Sweden with a business volume of SEK 404 billion. The banking operations are conducted only in Sweden and business volumes are continuing to grow in all areas. The strategy is to offer banking services to the Länsförsäkringar Alliance's customers and leverage Länsförsäkringar's strong brand and local presence. The banking operations have a large potential customer base with the Länsförsäkringar Alliance's 3.7 million customers. The main target groups are the 3 million retail customers, of whom 2.2 million are home-insurance customers. Other target groups are agricultural customers and small businesses. The aim is, based on low risk, to maintain healthy growth in volumes and profitability, have the most satisfied customers and increase the share of customers who have both banking and insurance with Länsförsäkringar. Länsförsäkringar Bank has one again Sweden's most satisfied retail customers, according to the 2015 Swedish Quality Index, which is confirmation of the high quality of the banking operations. With a comprehensive banking and insurance offering from Länsförsäkringar, customers receive a secure, total solution for their private finances.

Customer ownership

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

Customer meetings and local presence

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

Award-winning mobile app

Digital services are an increasingly important supplement to local customer meetings. The digital services in the mobile app and Internet bank make it convenient and easy for customers to do their banking. The number of customer transactions using both the mobile app and the Internet bank is continuing to rise. Länsförsäkringar's leading-edge position in this area was confirmed at the Mobilgala in January 2016 when our app won Sweden's best mobile bank, and when we were awarded the prize for Sweden's best app and mobile site at the Web Service Awards. A banking service for the Apple Watch and Android Watch was also launched during the year. The Bank Group's goal is to be the leader in digital services.

Customer-driven business model

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

A strong brand

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

Credit-risk quality

The operations are characterised by a low risk profile. The Bank Group is exposed to a number of risks, primarily comprising credit risk, market risk, liquidity risk and operational risk. The macroeconomic situation in Sweden is critical for credit risk, since all loans are granted in Sweden. Loan losses remained low. The Bank Group has highly diversified funding and a liquidity reserve comprising securities with high liquidity and creditworthiness. Business volumes rose to SEK 404 billion (354), and maintained a high level of credit quality.

Rating

Länsförsäkringar Bank AB's long-term credit rating is A/Stable from Standard & Poor's and A1/Stable from Moody's. The short-term credit ratings are A–1 from Standard & Poor's and P–1 from Moody's. Länsförsäkringar Hypotek AB's covered bonds maintained the highest credit rating of Aaa from Moody's, and AAA/Stable from Standard & Poor's. Länsförsäkringar Hypotek AB is thus one of three issuers in the Swedish market for covered bonds with the highest rating from both Standard & Poor's and Moody's.

1.2 Significant events during the year with regard to risk and capital

Approval of change in IRB Approach for Loss Given Default

During 2015, Länsförsäkringar Bank AB and the subsidiary Länsförsäkringar Hypotek AB received permission from the Swedish Financial Supervisory Authority to change their IRB model for calculating Loss Given Default (LGD) for loans secured by immovable property. The new model entails lower LGD amounts for loans secured by immovable property for retail customers.

Approval of changed limit for retail exposures

Länsförsäkringar Bank AB and all of its subsidiaries that apply the IRB Approach gained approval in 2015 to change the limit between what is classified as retail exposures and exposures to corporates. The changed limit resulted in exposures to corporates being transferred to retail exposures and thus gaining a slightly lower risk weight.

IFRS 9

IFRS 9 will take effect in January 2018, and contains amended principles governing the creation of reserves for expected loan losses. Länsförsäkringar currently has an IFRS 9 project in progress but it is too early to assess the effect of the rules and their effect on capital adequacy.

Issue of Tier 1 instruments

Länsförsäkringar Bank AB issued a Tier 1 instrument corresponding to SEK 1.2 billion during the year. The loan is undated and cannot be repurchased until after five years. The loan meets all requirements to be included as Tier 1 capital under the capital adequacy rules. The Additional Tier 1 Capital loan strengthens the capital ratio for both Länsförsäkringar Bank AB and the Consolidated Situation.

Strengthened Common Equity Tier 1 capital

Länsförsäkringar AB implemented a new share issue of SEK 600 M during the first quarter, which strengthened the capital for the Consolidated Situation.

Impending changes to capital adequacy rules

The Basel Committee is currently working on an extensive review of current capital adequacy frameworks including a proposed new Standardised Approach and new proposed floor rules. In addition, there is an ongoing review of internal model requirements and the introduction of leverage ratio requirements. The Consolidated Situation is following the regulatory developments and is highly prepared and well capitalised for impending changes, even if it is unclear at this stage what the effects of a capital requirement will be.

2 | Organisation

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

2.1 The Bank Group

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

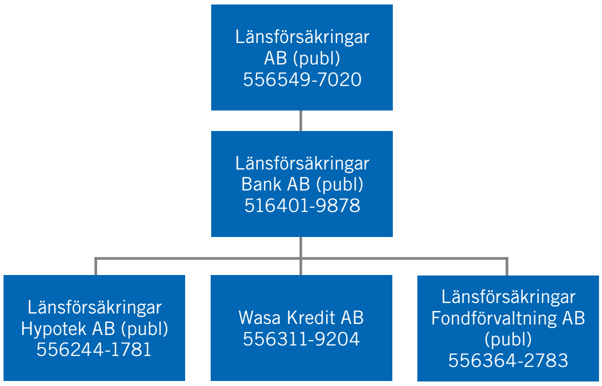
2.2 Consolidated Situation

In accordance with CRR and CRD IV, the parent mixed financial holding company, Länsförsäkringar AB, is to be subject to prudential and reporting requirements. Accordingly, the Consolidated Situation comprises Länsförsäkringar AB, Länsförsäkringar Bank AB, Länsförsäkringar Hypotek AB, Wasa Kredit AB and Länsförsäkringar Fondförvaltning AB. This structure is defined in the above regulations as the Consolidated Situation and its composition does not correspond to the accounting structure.

In addition to Länsförsäkringar Bank AB, Länsförsäkringar AB has the subsidiaries of Länsförsäkringar Fondliv Försäkrings AB, Länsförsäkringar Sak Försäkrings AB and Länsförsäkringar Liv Försäkrings AB. These companies are not subject to prudential requirements for credit institutions and are thus not included in the Consolidated Situation. They are instead subject to the solvency rules for insurance companies. As well as these holdings, Länsförsäkringar AB has a lesser holding in the company Utile Dulci 2 HB. Only capital from companies included in the Consolidated Situation may be included in own funds. The capital adequacy rules impose requirements that investments in financial entities above a certain level are to be deducted from own funds. These deductions are explained in more detail in the section on Capital management. For further information about the companies, refer to Länsförsäkringar AB's Annual Report.

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

FIGURE 2.1 LEGAL STRUCTURE OF THE CONSOLIDATED SITUATION



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

TABLE 2.1 CARRYING AMOUNT AND PARENT COMPANY'S PARTICIPATING INTEREST

Company name	Carrying amount, SEK M	Parent Company's participating interest (%)	Corporate Registration Number	Consolidation method
Länsförsäkringar AB Parent Company				
Länsförsäkringar Bank AB	8,429.6	100	516401-9878	Complete
Länsförsäkringar Fondliv Försäkrings AB	5,255.4	100	516401-8219	Deducted from own funds
Länsförsäkringar Sak Försäkrings AB	3,206.5	100	502010-9681	Deducted from own funds
Länsförsäkringar Liv Försäkrings AB	8.2	100	516401-6627	Deducted from own funds
Utile Dulci 2 HB	0.8	0.1	916601-0067	Deducted from own funds
Länsförsäkringar Bank AB Parent Company				
Länsförsäkringar Hypotek AB	6,020.5	100	556244-1781	Complete
Länsförsäkringar Fondförvaltnings AB	165.0	100	556364-2783	Complete
Wasa Kredit AB	814.8	100	556311-9204	Complete

3 | Risk management and risk governance

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

3.1 Consolidated Situation's risks

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

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

Credit risk	Credit risk refers to the risk that a counterparty is unable to fulfil its commitments and that any collateral provided does not cover the receivable. Credit risk comprises lending risk, placement risk, counterparty risk and settlement risk.
Market risk	Market risk refers to the risk of loss arising due to changes in the market value of financial assets and liabilities. Market risk includes interest-rate risk, currency risk, equities risk and property risk.
Liquidity risk	Liquidity risk is defined as the risk that payment commitments cannot be fulfilled due to insufficient cash funds, or are only able to be fulfilled by funding at a significantly higher cost than normal or by divesting assets at a substantial deficit price. Liquidity risk comprises financing risk.
Operational risk	Operational risk refers to the risk of losses arising due to human error, inappropriate or faulty internal processes, systems or external events, and includes legal and compliance risks.
Business risk	Business risk refers to the risk of lower earnings due to lower volumes, price pressure or other consequences of a changed competitive situation. Business risk comprises strategic risk and earnings risk.

3.2 Risk appetite

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

3.3 Risk-management and internal-control system

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

3.3.1 Three lines of defence

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

First line of defence

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

Second line of defence

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

Third line of defence

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

3.3.2 Risk framework

The risk framework contains strategies, processes, limits, controls and reporting procedures necessary for continuously identifying, measuring, monitoring, managing and reporting the risks associated with the business activities. All risk activities are based on this risk framework that is adopted by the Board. The risk framework is described in governance documents, including a Risk Policy, a policy for risk appetites and risk limits, and guidelines for the independent Risk Management function. The risk framework also includes governance documents for the Board's Committees.

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

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

- Clear and documented descriptions of processes and procedures.
- Clearly defined and documented responsibilities and authorities.

- Risk-measurement methods and system support that are customised to the requirements, complexity and size of the operations.
- Regular reporting, including the business incident reporting.
- Sufficient resources and expertise for attaining the desired level of quality in both the business and control activities.
- Documented and communicated business contingency, continuity and recovery plans.
- Clear instructions for each respective risk area and approval process.

3.4 Risk governance

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

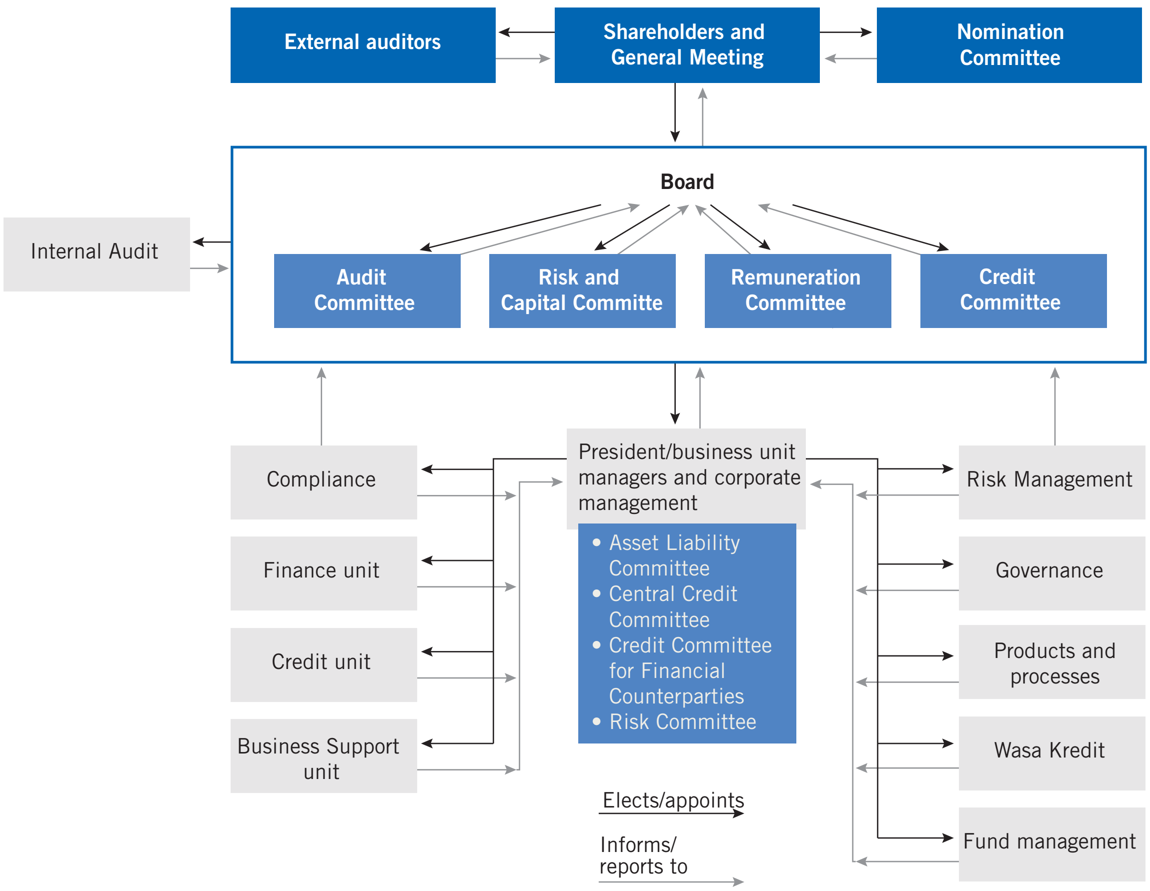
Board of Directors

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

President

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

FIGURE 3.1 BANK GROUP'S RISK GOVERNANCE STRUCTURE



Operations

Business managers have the overall responsibility for day-to-day risk management in their respective area of responsibility and for ensuring that such risk management takes place in accordance with the risk framework. Each business area that assume risk and also own the risk.

Risk Management

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

The individual responsible for Risk Management is the Chief Risk Officer (CRO), who is directly subordinate to the President and reports directly to the President, the Risk and Capital Committee, and the Board. The Board approves the appointment and replacement of the CRO. Risk Management's areas of responsibility are defined and documented in the guidelines adopted by the Board. Risk Management is also responsible for the Consolidated Situation's capital-adequacy process.

3.4.1 Monitoring and reporting

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

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

4 | Capital management

4.1 Capital adequacy

Minimum capital requirements and capital buffers

Under the Capital Requirements Regulation (CRR), a credit institution is to maintain own funds that at all times fulfils the minimum requirements, expressed as a percentage of the total Risk Exposure Amount (REA):

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

In addition to minimum standards on bank capital adequacy, CRD IV also permits the introduction of a number of capital buffers, the purpose of which is to manage both cyclical and structural systemic risks. These buffers are:

- Capital conservation buffer of 2.5% of REA.
- Countercyclical capital buffer of between 0 and 2.5% of REA.
- Systemic risk buffer, the amount of which is proportionate to the institute's significance to the financial system.
- Buffer for systemically important institutions.

All capital buffers are to comprise Common Equity Tier 1 capital. Breaching any of these buffers will entail restrictions on the institute's opportunities to distribute capital, such as dividends and repurchasing shares. In addition to these requirements, a minimum level exists, through transitional provisions, corresponding to a capital requirement based on 80% of the risk-weighted assets under the former Basel I rules.

A countercyclical capital buffer of 1% has been applied in Sweden since September 2015. The Swedish Financial Supervisory Authority decides on the target amount for the countercyclical capital buffer and a countercyclical capital buffer every quarter. In June 2015, the Financial Supervisory Authority decided to raise the countercyclical capital buffer to 1.5%. This amount is to be applied from June 2016.

The Financial Supervisory Authority introduced a risk weight floor of 25% for Swedish mortgages within the framework of Pillar II and its overview and assessment process. This floor for the Consolidated Situation on 31 December 2015 amounted to SEK 3,338 M.

The Consolidated Situation's Common Equity Tier 1 capital ratio on 31 December 2015 amounted to 21.4% (13.9) and the capital adequacy ratio to 28.2% (17.5). The Consolidated Situation's surplus of capital under the Basel I floor on the same date amounted to SEK 5,121 M (2,342).

4.2 Internal capital and liquidity adequacy assessment processes

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

The CRO of Länsförsäkringar Bank AB is responsible for conducting the process work that leads to an ICAAP and ILAAP for the Consolidated Situation and forms the basis for business planning and Board decisions concerning capital forecasts. The Consolidated Situation's ICAAP and ILAAP are designed based on the requirements of CRR and CRD IV and the requirements established by the Board of Directors for the operations. The procedures, implementation and results are to be documented and reported annually to the Financial Supervisory Authority. The process is to be carried out at least annually and includes the following activities:

- Identifying all risks
- Risk assessment

TABLE 4.1 TREND IN CAPITAL ADEQUACY MEASURES

	Consolidated Situation		Bank Group	
SEK M	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014
Common Equity Tier 1 capital	11,064	8,369	10,019	8,564
Tier 1 capital	12,264	8,369	11,219	8,564
Tier 2 capital	2,297	2,145	2,297	2,305
Own funds	14,561	10,514	13,516	10,869
Risk Exposure Amount	51,724	60,250	42,239	52,822
Capital requirement	4,138	4,820	3,379	4,226
Common Equity Tier 1 capital ratio	21.4%	13.9%	23.7%	16.2%
Tier 1 capital ratio	23.7%	13.9%	26.6%	16.2%
Capital adequacy ratio	28.2%	17.5%	32.0%	20.6%
Capital conservation buffer	1,293	1,506	1,056	1,321
Capital requirement according to Basel I floor	9,847	8,642	9,678	8,579
Own funds adjusted to Basel I floor	14,968	10,984	13,924	11,339
Surplus capital according to Basel I floor	5,121	2,342	4,246	2,761

- Stress tests
- Capital calculations

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

- Credit-related concentration risk
- Credit risk in exposures to governments
- Business risk, comprising strategic risk, earnings risk and reputation risk
- Market risk, comprising currency risk, interest-rate risk in the bank book, credit-spread risk and currency-basis spread risk.
- Pension risk

The internally assessed capital requirement for the Consolidated Situation on 31 December 2015 amounted to SEK 4,949 M. The Financial Supervisory Authority's method for assessing total capital requirements includes, in addition to this, the capital requirement for the capital conservation buffer, the countercyclical capital buffer and the risk weight floor for Swedish mortgages.

The internal capital requirement provides a view of the Consolidated Situation's current position. Scenario analyses and stress tests are performed under the ICAAP framework to ensure that the Consolidated Situation is well-capitalised for the future. The basic prerequisites for stress tests are to be reviewed by the Board of Directors at least once annually. This discussion provides guidance for the continuing work involving stress tests. Work on stress tests is based on a number of scenarios and the impact of these scenarios on the Consolidated Situation. The basic scenario is based on the business plan and the most probable trend in volumes, earnings and loan losses. Assumptions in this basic scenario are stress-tested by applying the most unfavourable conditions in the external business world for the Consolidated Situation that could be expected to occur once every 20–25 years. The purpose of the stress-test scenario is to ensure that the amount and composition of the Consolidated Situation's own funds are sufficient to absorb losses arising as a result of a serious and stressed financial situation. Also, a comparison between the Consolidated Situation's basic scenario and the stress-test scenario provides a basis for the amount of the capital planning buffer. The capital planning buffer is to be of such an amount that the Consolidated Situation can maintain an adequate level of capitalisation even in the event of unforeseen circumstances.

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

TABLE 4.2 OWN FUNDS

	Consolidated Situation		Bank Group	
SEK M	**31 Dec 2015**	**31 Dec 2014**	**31 Dec 2015**	**31 Dec 2014**
Equity	20,138.4	17,143.0	12,056.9	9,597.0
of which, share capital	1,042.5	1,006.6	954.9	954.9
of which, share premium reserve	5,470.9	4,906.7		
of which, retained earnings	6,249.7	4,772.9	1,489.2	804.1
of which, other comprehensive income	31.7	151.9	59.2	183.6
of which, net profit for the period	1,342.3	1,503.6	911.1	711.9
Other reserves	4,801.3	4,801.3	7,442.5	6,942.5
Tier 1 Capital Instruments	1,200.0	–	1,200.0	–
Unrecognised dividend	–2.1	–	–2.1	–
Equity for capital adequacy	20,136.3	17,143.0	12,054.8	9,597.0
Intangible assets	–533.0	–421.1	–306.2	–309.6
Cash-flow hedges	–46.4	–15.1	–74.0	–46.8
Unrealised changes in value of financial assets		–138.2		–138.2
Goodwill	–371.6			
IRB Provisions deficit (–)/surplus (+)	–407.8	–478.3	–407.8	–478.3
Adjustments for prudent valuation	–48.7	–50.7	–47.6	–49.4
Deferred tax assets			–	
Threshold deduction: financial companies	–6,465.2	–7,660.4		–0.5
Qualifying holdings outside the financial sector		–10.2		–10.2
Deductions: Tier 1 capital in equity	–1,200.0	–	–1,200.0	
Common Equity Tier 1 capital	11,063.7	8,369.1	10,019.3	8,564.0
Additional Tier 1 instruments	1,200.0	–	1,200.0	–
Tier 1 capital	12,263.7	8,369.1	11,219.3	8,564.0
Tier 2 instruments	2,296.8	2,136.8	2,296.8	2,296.8
IRB Provisions deficit (–)/surplus (+)	–	8.0		8.1
Tier 2 capital	2,296.8	2,145.0	2,296.8	2,305.0
Total own funds	**14,560.6**	**10,514.1**	**13,516.1**	**10,868.9**

4.3 Own funds

Own funds consist of capital that can be used to cover the regulatory capital requirement defined in the CRR/CRD and is based on equity according to applicable accounting regulations. Only capital from companies included in the Consolidated Situation may be included in own funds.

In the fourth quarter, the previously applied principle for calculating deductions of investments in financial entities outside the Consolidated Situation was reassessed. The reassessment resulted in a change to the process applied entailing that the direct deduction in Common Equity Tier 1 capital is reduced, while a larger portion of the investment amount can be risk-weighted at 250%. All in all, this had a positive effect of 0.7% on the Common Equity Tier 1 capital ratio on the date of the reassessment.

Own funds

Own funds is the total of Tier 1 capital and Tier 2 capital, less items indicated in the capital adequacy rules. Tier 1 capital may be equated to the institution's approved capital (Common Equity Tier 1 capital) and a limited share of perpetual subordinated debt (Tier 1 instruments). Common Equity Tier 1 capital comprises equity according to applicable accounting regulations after direct deductions from Common Equity Tier 1 capital as defined in the CRR. Profit may be included if it has been verified and deductions have been made for the proposed dividends or other related expenses.

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

Tier 2 capital may comprise perpetual and dated subordinated loans. A limited portion of the reserve surplus regarding IRB items can also be included as Tier 2 capital.

Common Equity Tier 1 capital

Equity comprises share capital, capital contributed and reserves. During the year, equity included in the Common Equity Tier 1 capital increased net due to dividends received, new capital (a shareholders' contribution of SEK 500 M) and net profit for the year which is included in the amount of SEK 1,342 M. In accordance with the Board's proposed appropriation of profits, no deductions for dividends are made. Changes in equity attributable to cash-flow hedges, negative SEK 46.4 M (neg: 15.1), may not be included in own funds, and is adjusted in Common Equity Tier 1 capital.

Adjustments for the IRB shortfall when, according to the accounts, the reserves are less than the calculated expected loss of the capital adequacy, are to be made within Common Equity Tier 1 capital. If the reserves exceed the anticipated loss, a limited portion may be included in the Tier 2 capital (maximum 0.6% of IRB REA). On 31 December 2015, SEK 408 M was deducted from Common Equity Tier 1 capital and SEK 0 M (8.1) was included in Tier 2 capital. Common Equity Tier 1 capital includes a deduction of SEK 48.7 M, which arose due to the regulatory requirements regarding prudent valuation of items in the category of fair value. This deduction complies with Article 105 of CRR.

Deferred tax assets recognised in the balance sheet are to reduce Common Equity Tier 1 capital if they meet certain criteria and exceed certain threshold amounts. The deferred tax assets that existed on 31 December 2015 in the companies in the Consolidated Situation did not give rise to any deductions in own funds but are included in the calculation of the threshold levels below. Recognised intangible assets and goodwill, where applicable, are also designed to reduce Common Equity Tier 1 capital. The deduction in the Consolidated Situation refers to intangible assets, SEK 533.0 M, and goodwill related to the parent holding company's investments in Fondliv AB, SEK 371.6 M, which is a part of the deduction for investments in financial companies.

The rules stipulate that deductions for investments in financial companies are to be made in Common Equity Tier 1 capital if the invested capital comprises Common Equity Tier 1 capital instruments and exceeds 10% of gross Common Equity Tier 1 capital, or 17.65% of the net Common Equity Tier 1 capital when aggregated with deferred tax assets. Amounts under the threshold are risk-weighted and assigned a risk weight of 250%. The deduction in the financial corporate group derives from Länsförsäkringar AB's holdings in the insurance sector. The value of these holdings, which following application of the threshold levels is deducted from Common Equity Tier 1 capital, amounted to a negative SEK 6,465.2 M on 31 December 2015. The remaining share is risk-weighted at 250%.

Tier 1 capital

Tier 1 capital in the Consolidated Situation solely comprises Additional Tier 1 instruments. Additional Tier 1 instruments are subordinated liabilities which fulfil certain conditions in order to be included as Tier 1 capital when calculating the size of own funds. Länsförsäkringar Bank AB issued an Additional Tier 1 Capital loan of SEK 1.2 billion during the year. The loan bears an interest rate corresponding to 3 months Stibor + 325 base points, is undated and cannot be repurchased until after five years. The loan meets all requirements to be included as Tier 1 capital under the capital adequacy rules. The Additional Tier 1 Capital loan strengthens the capital ratio for both Länsförsäkringar Bank AB and the Consolidated Situation.

TABLE 4.3 OUTSTANDING SUBORDINATED LOANS

Borrower	Loan amount	Loan date	Repayment date	Premature redemption (break-off date)
Additional Tier 1 instruments – External				
Länsförsäkringar Bank	1,200,000,000 SEK	9 June 2015	Perpetual	Optional first redemption date: 9 June 2020
Tier 2 – Externa				
Länsförsäkringar Bank	1,100,000,000 SEK	28 March 2013	28 March 2023	28 March 2018
Länsförsäkringar Bank	445,000,000 SEK	30 June 2011	30 June 2021	30 June 2016
Länsförsäkringar Bank	755,000,000 SEK	30 June 2011	30 June 2021	30 June 2016

More detailed information about outstanding loans can be found on Länsförsäkringar Bank AB's website.

Tier 2 capital

Tier 2 capital must be subordinate to other receivables from the company, except for equity instruments and Additional Tier 1 instruments. Fixed-term subordinated debt that is included may not be covered or guaranteed in any form by an issuing institution or institution in the Consolidated Situation.

Except for a small amount from the surplus from IRB Provisions (see above), Tier 2 capital exclusively comprises fixed-term subordinated debt, of which externally investment amounts totalled SEK 2,300 M. These loans meet the CRR/CRD IV requirements for being included in own funds as Tier 2 capital.

4.4 Capital requirement

During the year, the Risk Exposure Amount declined by SEK 8,525 M in the Consolidated Situation and by SEK 10,583 M in the Bank Group. The main contributing factors for these decreases were that Länsförsäkringar Bank AB and its subsidiary Länsförsäkringar Hypotek AB received permission in April to change the model for calculating Loss Given Default (LGD) for loans secured by immovable property. In addition, Länsförsäkringar Bank AB and its subsidiaries Länsförsäkringar Hypotek AB and Wasa Kredit AB also received permission in April to raise the exposure limit for the retail exposure class, which determines whether exposures to small and medium-sized businesses are attributable to either the retail or corporates exposure class, in accordance with the current rules.

The decrease was slightly lower for the Consolidated Situation. One of the reasons for this was the changed management of holdings in financial entities, as described above. The Risk Exposure Amount for equity exposures increased by SEK 2,208 during the year, but the Consolidated Situation could instead credit a portion of this amount in its Common Equity Tier 1 capital.

4.5 New and amended rules

Accounting policies

No amendments to or new IFRS applicable from 2015 had any significant effect on the consolidated financial statements or capital

TABLE 4.4 MINIMUM CAPITAL REQUIREMENTS AND BUFFERS

	Minimum capital requirement	Capital conservation buffer	Countercyclical buffer	Systemic risk buffer	Total
%					
Common Equity Tier 1 capital	4.5%	2.5%	1.0%	n/a	8.0%
Tier 1 capital	6.0%	2.5%	1.0%	n/a	9.5%
Own funds	8.0%	2.5%	1.0%	n/a	11.5%
SEK M					
Common Equity Tier 1 capital	2,328	1,293	517	n/a	4,138
Tier 1 capital	3,103	1,293	517	n/a	4,914
Own funds	4,138	1,293	517	n/a	5,948
Common Equity Tier 1 capital available for use as a buffer					16.9%

TABLE 4.5 CAPITAL REQUIREMENT AND RISK EXPOSURE AMOUNT

	Consolidated Situation				Bank Group			
	31 Dec 2015		31 Dec 2014		31 Dec 2015		31 Dec 2014	
SEK M	Capital requirement	Risk Exposure Amount	Capital requirement	Risk Exposure Amount	Capital requirement	Risk Exposure Amount	Capital requirement	Risk Exposure Amount
Credit risk according to Standardised Approach								
Exposures to institutions	58.5	731.8	76.8	960.2	53.9	674.0	72.2	902.8
Exposures to corporates	113.5	1,419.3	141.0	1,763.0	111.3	1,391.6	139.2	1,740.1
Retail exposures	96.5	1,206.0	77.1	963.6	96.5	1,206.0	77.1	963.6
Defaulted exposures	7.7	95.9	11.7	146.2	7.7	95.9	11.7	146.2
Covered bonds	228.2	2,851.9	261.7	3,271.6	220.2	2,752.0	261.7	3,271.6
Exposures to CIUs	–	–	13.7	171.3	0.0	0.0	–	–
Equity exposures	329.7	4,120.8	153.0	1,912.5	1.8	22.5	0.2	3.1
Other items	111.7	1,395.9	115.1	1,438.1	46.7	584.1	54.6	682.1
Total capital requirement and Risk Exposure Amount	**945.7**	**11,821.7**	**850.1**	**10,626.7**	**538.1**	**6,726.3**	**616.8**	**7,709.5**
Credit risk according to IRB Approach								
Retail exposures								
Secured by immovable property	1,050.6	13,132.2	1,751.9	21,898.6	1,050.6	13,132.2	1,751.9	21,898.6
Other retail exposures	788.5	9,856.4	769.1	9,613.3	788.5	9,856.4	769.1	9,613.6
Total retail exposures	**1,839.1**	**22,988.6**	**2,521.0**	**31,512.0**	**1,839.1**	**22,988.6**	**2,521.0**	**31,512.0**
Exposures to corporates	586.2	7,327.9	724.8	9,060.6	586.2	7,327.9	724.8	9,060.6
Non credit-obligation assets	–	–	–	–	0.0	0.0	–	–
Total capital requirement and Risk Exposure Amount	**2,425.3**	**30,316.5**	**3,245.8**	**40,572.5**	**2,425.3**	**30,316.5**	**3,245.8**	**40,572.5**
Operational risk								
Standardised Approach	631.2	7,889.8	209.5	2,619.0	280.2	3,503.1	209.5	2,619.0
Basic Indicator approach, Länsförsäkringar AB	–	–	360.5	4,506.9	0.0	0.0	–	–
Total capital requirement for operational risk	**631.2**	**7,889.8**	**570.1**	**7,125.9**	**280.2**	**3,503.1**	**209.5**	**2,619.0**
Credit valuation adjustment, Standardised Approach	**135.7**	**1,696.3**	**154.0**	**1,924.5**	**135.5**	**1,693.3**	**153.7**	**1,921.1**

adequacy. With regard to new standards and interpretations which have not yet begun to be applied, IFRS 9 Financial Instruments is of particular interest in terms of capital adequacy due to its direct connection to own funds. IFRS 9 will take effect on 1 January 2018, and contains amended principles governing the creation of reserves for expected loan losses, known as an expected loss impairment model. Länsförsäkringar currently has an IFRS 9 project in progress but it is too early to assess the effect of the rules and their effect on capital adequacy.

Impending changes to capital adequacy rules

The Basel Committee is currently working on an extensive review of current capital adequacy frameworks. In December 2015, a second revised proposal of the Standardised Approach for credit risk was published. At the beginning of 2016, proposals are also expected for new floor requirements linked to the proposed Standardised Approach, as well as a new method for calculating operational risk and a review of rules relating to the trading book. In addition, there is an ongoing review of internal model requirements and the introduction of leverage ratio requirements. The Consolidated Situation is following the regulatory developments and is highly prepared and well capitalised for impending changes, even if it is unclear at this stage what the effects of a capital requirement will be.

Bank Recovery and Resolution Directive

In accordance with the European Parliament and Council's Bank Recovery and Resolution Directive (BRRD) (2014/59/EU), which establishes a framework for recovery and resolution of credit institutions and investment firms, the rules are to be incorporated into national law and applied in member states on 1 January 2015. The new legal changes will come into effect in Sweden on 1 February 2016. Under this directive, all institutes under supervision in the EU will be covered by harmonised crisis management and cost distribution rules. One basic principle of the rules is that owners and creditors of companies should bear any losses in the company and that taxpayers should not have to supply funds if a bank encounters a crisis. In order to prepare for this, requirements will be placed on banks to allocate a certain amount of liabilities that can be impaired or converted if necessary – i.e. a minimum requirement for write-downs of liabilities (MREL). The directive also includes rules governing how the crisis management should be financed. This should be done via the creation of a new resolution fund into which institutions pay an annual fee – the resolution fee.

The implementation of the Bank Recovery and Resolution Directive will entail a range of requirements being placed on affected institutions.

5 | Credit risk

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

5.1 Risk appetite

The risk-taking for credit risk is based on a sound credit process and the credit portfolio is highly diversified with an overall low risk level. The regional insurance companies' local presence and market knowledge are important for ensuring the high quality of the credit portfolio.

5.2 Risk management

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

5.2.1 Credit process

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

Länsförsäkringar Bank AB is responsible for ensuring that loan origination is carried out according to uniform procedures based on the Board's adopted guidelines, which ensures a common view on loan origination throughout the organisation. Together with the Bank Group, the regional insurance companies continuously monitor and review the quality of the loan portfolio and borrowers' repayment capacity. Combined with system support for risk classification, this leads to balanced and consistent loan origination.

The Board's adopted credit regulations form the foundation of all loan origination and apply for all regional insurance companies and the Bank Group. The credit decision level is determined by the size of the loan and level of risk, where the highest instance is the Board and the lowest instance is a decision at local level. Mandates for granting credit at the respective decision-making instance are set out in the credit regulations.

The credit regulations also set out minimum requirements for underlying documentation for credit-granting decisions. Compliance with the credit regulations is monitored by the regional insurance companies and by the Bank Group. The credit regulations and credit process, combined with local customer and market knowledge, create a loan portfolio of high credit quality.

5.2.2 IRB system

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

- Credit process for risk assessment and credit-granting decisions
- Calculation of portfolio reserves
- Calculation of risk-adjusted returns
- Monitoring and reporting to management and the Board
- Calculation of capital requirements
- Capital allocation

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

Exposure at Default (EAD)

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

Probability of Default (PD)

The Probability of Default is the probability that a counterparty will default within a 12-month period. A counterparty is considered to be in default if a payment is more than 60 days past due[1]. A counterparty is also considered to be in default if there are other reasons to expect that the counterparty cannot meet its undertaking to the Bank Group.

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

The information that is most relevant to each type of counterparty has been taken into consideration in the development of models for estimating PD. Retail exposures are divided into risk classes ("scoring") using models based on predictive statistical analysis, while the scoring process for exposures to corporates, in addition to a strict predictive statistical analysis, is based on individual expert assessments. These risk models take both internal and external information into consideration.

Loss Given Default (LGD)

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

Credit Conversion Factor (CCF)

The Credit Conversion Factor is used to calculate off-balance sheet commitments that are expected to be utilised by the counterparty in the event of default. An internal estimate of CCF is calculated for the Advanced IRB Approach, which is based on internal informa-

[1] 90 days is applied for Wasa Kredit.

tion about such factors as degree of realisation, degree of utilisation and type of product. A safety margin is added to these estimates to ensure that the risk is not underestimated.

Validation

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

5.2.3 Method for calculating capital requirements for credit risk

This section provides an overview of the exposure classes calculated by the Standardised Approach and IRB Approach, and the dates on which the Bank Group received approval for applying the IRB Approach to each portfolio.

Standardised Approach

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

Internal Ratings-based Approach (IRB)

The Bank Group applies the IRB Approach for lending to the retail and corporate exposure classes[2]. The Foundation Internal Ratings-Based Approach is applied to exposures to corporates, with PD estimated by using internal models, while prescribed values are used for LGD and CCF. The Bank Group received permission to apply the IRB Approach as follows:

- In December 2006, permission was granted by the Financial Supervisory Authority to apply the IRB Approach to retail exposures. This Approach has been applied to capital requirement calculations since February 2007.
- In December 2009, permission was granted to apply the Foundation IRB Approach to capital requirement calculations for credit risk for companies with agricultural operations, which comprises most of the corporate portfolio. This Approach has been applied since March 2010.
- In May 2012, permission was received to apply the IRB Approach for exposures to corporates, excluding Wasa Kredit. This Approach has been applied since June 2012.
- In April 2015, Länsförsäkringar Bank AB and the subsidiary Länsförsäkringar Hypotek AB received permission from the Financial Supervisory Authority to change their IRB model for calculating LGD for loans secured by immovable property. This Approach has been applied to capital requirement calculations since May 2015.
- In April 2015, Länsförsäkringar Bank AB and its subsidiaries Länsförsäkringar Hypotek AB and Wasa Kredit AB received approval for all IRB portfolios in the Bank Group to change the limit for what is classified as retail exposures and exposures to corporates. The new limit has been applied to capital requirement calculations since May 2015.

5.3 Credit quality

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

As Described in table 5.1, the Bank Group's IRB retail exposure increased, while exposures to corporates declined. The reason for this is the abovementioned new, higher limit for what is classified as retail exposures and exposures to corporates combined with a volume growth for mortgages in the retail segment. Furthermore, the average risk weight for retail exposures has declined due to the permission described above for the new LGD model for lending secured by immovable property. IRB exposures to corporates declined as a result of the increase in the limit for classifying customers as corporates, as shown in table 5.1. Amounts and risk weights are reported separately for small and medium-sized enterprises (SMEs) in the retail and corporates exposure classes.

[2] Some exposures in Wasa Kredit to which the Standardised Approach is applied are included in the IRB roll-out plan approved by the Financial Supervisory Authority.

TABLE 5.1 EXPOSURE BY EXPOSURE CLASS

	31 Dec 2015			31 Dec 2014			Period average		
Exposure class, SEK M	Original exposure	EAD	RW (%)	Original exposure	EAD	RW (%)	Original exposure	EAD	RW (%)
Standardised Approach									
Central governments and central banks	11,162	11,162	0	8,352	8,352	0	8,364	8,364	0
Regional governments or local authorities	3,268	3,268	0	3,116	3,116	0	3,234	3,234	0
Multilateral development banks	932	932	0	363	363	0	702	702	0
Institutions	5,633	3,659	20	11,809	4,801	20	14,994	3,959	20
Corporates	1,669	1,668	85	2,113	2,111	84	1,828	1,822	85
of which, SMEs	1,073	1,072	77	1,476	1,474	77	1,205	1,200	77
Retail	2,379	1,608	75	1,769	1,285	75	2,107	1,457	75
of which, SMEs	–	–	–	–	–	–	–	–	–
Defaulted exposures	100	65	147	114	98	149	104	72	147
Covered bonds	28,519	28,519	10	32,716	32,716	10	27,405	27,405	10
Claims in the form of CIU	–	–	–	1,225	1,225	14	644	644	13
Equity exposures	1,660	1,660	248	769	769	249	1,095	1,095	247
Other items	1,460	1,460	96	1,391	1,391	103	1,182	1,182	98
Total, Standardised Approach	**56,782**	**54,002**	**22**	**63,736**	**56,228**	**19**	**61,660**	**49,936**	**20**
IRB Approach									
Corporates	18,875	18,681	39	21,278	21,027	43	19,558	19,366	40
of which, SMEs	18,692	18,502	39	21,093	20,844	43	19,375	19,185	40
Retail	195,319	192,661	12	168,371	165,905	19	187,624	184,410	14
of which, SMEs	31,361	31,004	21	25,027	24,706	22	163,525	160,970	10
of which secured by immovable property	170,619	168,617	8	145,998	144,180	15	24,099	23,440	42
of which, other retail credits	24,700	24,044	41	22,372	21,724	44	29,494	29,145	21
Total, IRB Approach	**214,194**	**211,342**	**14**	**189,649**	**186,931**	**22**	**207,181**	**203,776**	**16**
Total	**270,976**	**265,344**	**16**	**253,385**	**243,159**	**21**	**268,841**	**253,711**	**17**

Table 5.2 presents the exposure by country calculated according to the Standardised Approach (Consolidated Situation).

TABEL 5.2 DISTRIBUTION OF EXPOSURE PER COUNTRY, STANDARDISED APPROACH

	31 Dec 2015		31 Dec 2014	
Standardised Approach, SEK M	Original exposure	EAD	Original exposure	EAD
Sweden	50,406	49,210	56,528	51,762
Germany	919	919	925	925
Finland	681	681	807	807
Luxembourg	932	932	363	363
Switzerland	1,262	448	828	403
Denmark	2,109	1,347	3,832	1,537
Norway	473	464	408	385
Ireland	0	0	47	47
Total	**56,782**	**54,002**	**63,737**	**56,228**

All IRB exposure is found in Sweden and Table 5.3 presents the Bank Group's exposure per county. Exposure is well-diversified throughout Sweden with a slight concentration to the metropolitan areas, specifically counties of Stockholm, Skåne and Västra Götaland. Exposures secured by immovable property amounted to SEK 186.2 billion of a total of SEK 211.3 billion at 31 December 2015.

TABEL 5.3 DISTRIBUTION OF EXPOSURE PER COUNTY, BANK GROUP

	31 Dec 2015				31 Dec 2014			
	Total		Of which, exposures secured by immovable property		Total		Of which, exposures secured by immovable property	
County, SEK M	**EAD**	**%**	**EAD**	**%**	**EAD**	**%**	**EAD**	**%**
Blekinge	3,786	1.8%	3,300	1.8%	3,390	1.8%	2,908	1.8%
Dalarnas	9,410	4.5%	8,439	4.5%	8,477	4.5%	7,509	4.6%
Gotlands	5,092	2.4%	4,641	2.5%	4,707	2.5%	4,223	2.6%
Gävleborgs	6,136	2.9%	5,351	2.9%	5,603	3.0%	4,832	3.0%
Hallands	10,802	5.1%	9,735	5.2%	10,229	5.5%	9,055	5.6%
Jämtlands	4,174	2.0%	3,711	2.0%	3,733	2.0%	3,293	2.0%
Jönköpings	8,595	4.1%	7,651	4.1%	7,364	3.9%	6,523	4.0%
Kalmar	5,245	2.5%	4,532	2.4%	4,547	2.4%	3,884	2.4%
Kronobergs	4,130	2.0%	3,596	1.9%	3,480	1.9%	3,004	1.8%
Norrbottens	2,916	1.4%	2,382	1.3%	2,482	1.3%	2,001	1.2%
Skåne	25,605	12.1%	21,983	11.8%	22,614	12.1%	19,278	11.8%
Stockholms	28,851	13.7%	24,727	13.3%	25,072	13.4%	21,373	13.1%
Södermanlands	6,536	3.1%	5,718	3.1%	5,797	3.1%	5,059	3.1%
Uppsala	10,707	5.1%	9,820	5.3%	9,696	5.2%	8,919	5.5%
Värmlands	3,537	1.7%	2,960	1.6%	3,059	1.6%	2,558	1.6%
Västerbottens	7,024	3.3%	6,472	3.5%	6,006	3.2%	5,440	3.3%
Västernorrlands	3,336	1.6%	2,822	1.5%	2,963	1.6%	2,480	1.5%
Västmanlands	7,163	3.4%	6,439	3.5%	5,851	3.1%	5,502	3.4%
Västra Götalands	34,565	16.4%	30,811	16.5%	30,101	16.1%	26,481	16.2%
Örebro	8,026	3.8%	6,929	3.7%	7,812	4.2%	6,371	3.9%
Östergötlands	15,707	7.4%	14,185	7.6%	13,948	7.5%	12,425	7.6%
Total	**211,342**	**100.0%**	**186,204**	**100.0%**	**186,931**	**100.0%**	**163,118**	**100.0%**

Table 5.4 describes the Bank Group's IRB exposure by industry and exposure class. Most of the exposure comprises loans to private individuals and agricultural customers representing 90% of the total IRB exposure.

TABLE 5.4 EXPOSURE BY INDUSTRY AND EXPOSURE CLASS, IRB

		31 Dec 2015			31 Dec 2014		
Exposure class	**Industry**	**EAD**	**%**	**RW (%)**	**EAD**	**%**	**RW (%)**
Retail	Private individuals	161,657	76	10	141,066	76	18
	Agricultural operations	18,016	9	13	13,339	7	12
	Other business	12,988	6	33	11,500	6	34
	Total retail	**192,661**	**91**	**12**	**165,905**	**89**	**19**
	of which, SMEs	31,004	–	21	24,706	–	22
Corporates	Agricultural operations	10,554	5	37	13,475	7	40
	Other business	8,127	4	42	7,551	4	49
	Total corporates	**18,681**	**9**	**39**	**21,026**	**11**	**43**
	of which, SMEs	18,502	–	43	20,844	–	43
Total		**211,342**	**100**	**14**	**186,931**	**100**	**22**

Figure 5.1 and Table 5.5 present the Bank Group's credit-risk exposure, calculated according to IRB, specified according to the Bank Group's risk grades. The results show a distribution of exposure, with 76% (72) of exposure found in the best grades 1-4. A contributing reason for the increase in these grades is that a higher percentage of lending takes place in the form of mortgages to private individuals, for which the probability of default is significantly lower than in other portfolios.

FIGURE 5.1. EXPOSURE DISTRIBUTION BY PD GRADE, IRB

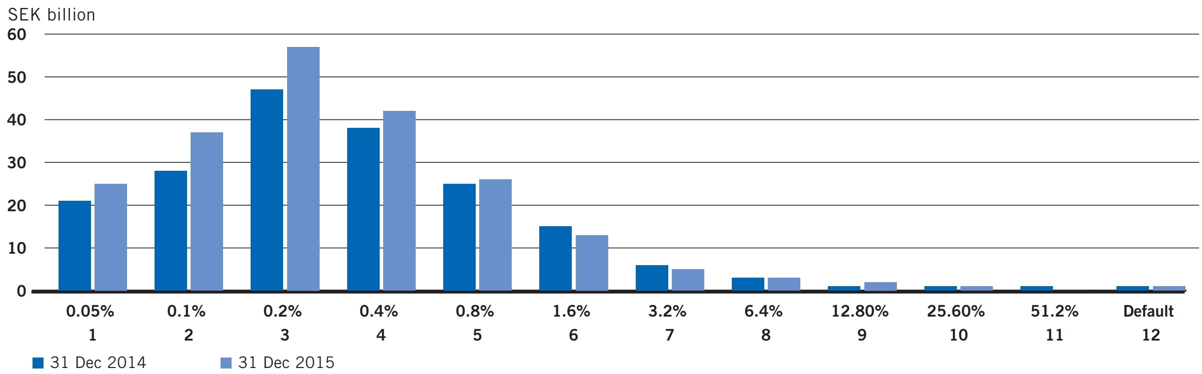


TABLE 5.5. EXPOSURE DISTRIBUTION BY PD GRADE AND EXPOSURE CLASS

	Retail exposures									
	Secured by immovable property		Other exposures		Total		Exposures to corporates		Total	
PD grade, 31 Dec 2015, SEK M	EAD	RW (%)	EAD	RW (%)	EAD	RW (%)	EAD	RW (%)	EAD	RW (%)
1	22,007	1	837	4	22,844	1	1,677	12	24,521	2
2	34,278	3	1,635	13	35,913	3	635	18	36,547	3
3	48,728	5	2,961	19	51,689	6	4,991	28	56,679	8
4	34,223	8	2,422	30	36,645	10	5,765	38	42,410	14
5	17,783	14	5,407	36	23,190	19	2,695	51	25,885	23
6	6,790	23	5,054	50	11,844	34	1,537	64	13,381	38
7	2,145	35	2,617	58	4,762	47	626	81	5,388	51
8	1,195	50	1,398	62	2,593	57	214	100	2,807	60
9	678	69	714	68	1,392	69	130	125	1,522	73
10	312	88	310	91	622	89	87	184	709	101
11	218	74	226	102	444	88	37	153	481	93
Default	262	135	461	107	723	117	288	0	1,012	84
Total	**168,617**	**8**	**24,044**	**41**	**192,661**	**12**	**18,681**	**39**	**211,342**	**14**

	Retail exposures				
	Secured by immovable property	Other exposures	Total	Exposures to corporates	Total
PD (%)[1]	0.57	2.55	0.81	0.93	0.82
LGD (%)[1]	11.6	43.6	15.6	–	–
CF (%)[2]	52.2	86.4	70.3	–	–

[1] Exposure-weighted average, non-defaulted exposures.
[2] Only for unutilised undertakings.

A correlation between the Bank Group's internal grades and external rating that the bank believes is a reasonable comparison is presented below.

TABLE 5.6 CORRELATION BETWEEN INTERNAL PD GRADES AND EXTERNAL RATING (STANDARD & POOR'S)

Internal	PD (%)	Indicative credit rating from S&P
1–4	< 0.5	AAA to BBB–
5–6	0.5–2.1	BB+ to BB–
7–8	2.1–8.5	B+ to B–
9–11	> 8.5	C
Default	100	D

Expected Loss and actual outcome

The Expected Loss Percentage (EL) is calculated based on the parameter estimates of PD and LGD. EL as a percentage for all non-defaulted exposures in the retail exposure class was 0.36% and the outcome was 0.12%[3]. EL for retail exposures secured by immovable property was 0.26% and the outcome was 0.01%. For other retail exposures, EL was 1.28% and the outcome was 0.95%. One of the reasons that EL is higher than the actual outcome is that the parameter estimate for PD is significantly higher than the observed default percentage.

5.3.1 Risk-reducing measures and contractual maturities

The starting point of the Bank Group's credit assessment is always the customer's repayment capacity, with the approach that collateral received can never compensate for a low repayment capacity. However, collateral received can significantly counteract the losses in the event of a credit default. The Bank Group conducts operations whereby loans are granted against collateral in property and for which the Bank Group has extensive experience and robust procedures in place. The market value of properties is updated on an annual basis following established procedures. The relationship between the loan portfolio and the underlying assets expressed as the weighted average loan-to-value (LTV) ratio, was 64% (66).

TABLE 5.7 RETAIL MORTGAGES BY LOAN-TO-VALUE RATIO INTERVAL (LTV)

31 Dec 2015, SEK M	EAD	%
0–50%	114,223	78
51–60%	15,394	10
61–70%	10,995	8
71–75%	3,380	2
75%–	3,395	2
Total	**147,387**	**100**

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

Table 5.8 presents exposure amounts covered by eligible collateral. Collateral for exposures to institutions comprises financial collateral, while collateral for the corporate and retail exposure classes comprises properties for which the covered amount totals SEK 182.9 billion.

TABLE 5.8 ELIGIBLE COLLATERAL FOR CAPITAL ADEQUACY PURPOSES

	31 Dec 2015		31 Dec 2014	
SEK M	Original exposure	Exposure amount covered by collateral	Original exposure	Exposure amount covered by collateral
Standardised Approach				
Central governments and central banks	11,162	–	8,352	–
Regional governments or local authorities	3,268	–	3,116	–
Multilateral development banks	932	–	363	–
Institutions	5,633	1,973	11,809	7,066
Corporates	1,669	–	2,113	–
of which, SMEs	1,073		1,476	
Retail	2 379	–	1,769	–
of which, SMEs	–	–	–	–
Defaulted exposures	100	–	114	–
Covered bonds	28,519	–	32,716	–
Claims in the form of CIU	–	–	1,225	–
Equity exposures	1,660	–	769	–
Other items	1,460	–	1,391	–
Total, Standardised Approach	**56,782**	**1,973**	**63,736**	**7,066**
IRB Approach				
Corporates	18,875	16,060	21,278	18,170
of which, SMEs	18,692	15,888	21,093	17,995
Retail	195,319	166,823	168,371	142,505
of which, SMEs	31,361	18,388	25,027	14,274
Total, IRB Approach	**214,194**	**182,883**	**189,649**	**160,675**
Total	**270,976**	**184,856**	**253,385**	**167,741**

[3] The estimate is based on non-defaulted exposures at 31 December 2013. Outcome is calculated as confirmed loan losses for default in 2014 with a follow-up period until 31 December 2015.

Table 5.9 presents exposures distributed by exposure class and remaining fixed-interest periods.

TABLE 5.9 EXPOSURES BY FIXED-INTEREST PERIODS

31 Dec 2015, SEK M	< 3 months	3-6 months	6-12 months	1-3 years	3-5 years	> 5 years	Total
Standardised Approach							
Central governments and central banks	4,772	202	2,379	3,072	540	197	11,162
Regional governments or local authorities	224	0	433	1,547	1,064	0	3,268
Multilateral development banks	2	3	8	623	295	0	932
Institutions	3,598	0	61	0	0	0	3,659
Covered bonds	640	2,838	2,342	14,282	8,271	147	28,519
Corporates	1,642	19	19	15	3	2	1,700
Retail	1,641	0	0	0	0	0	1,641
Claims in the form of CIUs	0	0	0	0	0	0	0
Equity exposures	1,660	0	0	0	0	0	1,660
Other items	1,460	0	0	0	0	0	1,460
Total, Standardised Approach	**15,639**	**3,063**	**5,242**	**19,539**	**10,174**	**345**	**54,002**
IRB Approach							
Corporates	5,698	4,621	1,104	4,669	2,046	543	21,027
Retail	100,311	36,410	8,187	35,638	10,417	1,697	192,661
– Of which secured by immovable property	76,529	36,323	8,114	35,558	10,403	1,691	168,617
– Of which other exposures	23,782	87	74	80	15	7	24,044
Total, IRB Approach	**106,009**	**41,031**	**9,292**	**40,307**	**12,464**	**2,240**	**211,342**
Total	**121,648**	**44,094**	**14,534**	**59,845**	**22,637**	**2,585**	**265,344**

5.4 Non-performing receivables, impaired loans and loan losses

Non-performing receivables, impaired loans, and loan losses are based in their entirety on the total loan portfolio from an accounting perspective.

5.4.1 Non-performing receivables

A loan receivable is considered non-performing if it has an outstanding payment that is more than nine days and up to 60 days past due.

TABLE 5.10 NON-PERFORMING RECEIVABLES BY COMPANY

	Länsförsäkringar Bank AB		Länsförsäkringar Hypotek AB		Wasa Kredit AB		Totalt	
Overdue receivables, days	**31 Dec 2015**	**31 Dec 2014**	**31 Dec 2015**	**31 Dec 2014**	**31 Dec 2015**	**31 Dec 2014**	**31 Dec 2015**	**31 Dec 2014**
10–19 days[1)]	0.3	0.1	0.6	0.0	0.0	0.0	0.9	0.1
20–39 days	27.1	35.3	30.4	40.0	218.3	253.7	275.8	329.0
40–60 days	0.1	16.6	0.1	0.0	1.8	3.0	2.0	19.6
Total	**27.5**	**52.0**	**31.1**	**40.0**	**220.1**	**256.7**	**278.7**	**348.7**

5.4.2 Impaired loans

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 obligations. A loan receivable is considered impaired to the extent that it is not covered by collateral. Impaired loans amounted to SEK 241 M (316), corresponding to 0.12% (0.17) of the total loan portfolio before reserves.

TABLE 5.11 IMPAIRED LOANS BY EXPOSURE CLASS, INDUSTRY AND COMPANY

		Länsförsäkringar Bank AB		Länsförsäkringar Hypotek AB		Wasa Kredit AB		Total	
Standardised Approach	**Industry**	**31 Dec 2015**	**31 Dec 2014**	**31 Dec 2015**	**31 Dec 2014**	**31 Dec 2015**	**31 Dec 2014**	**31 Dec 2015**	**31 Dec 2014**
	Private individuals	0.0	0.0	0.0	0.0	17.1	30.6	17.1	30.6
	Agricultural operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Other business	0.0	0.0	0.0	0.0	36.0	77.6	36.0	77.6
Total, Standardised Approach		**0.0**	**0.0**	**0.0**	**0.0**	**53.1**	**108.2**	**53.1**	**108.2**
IRB Approach									
Retail	Private individuals	13.4	28.0	0.0	0.3	60.5	88.8	73.9	117.1
	Agricultural operations	0.0	16.4	0.0	0.0	0.0	0.0	0.0	16.4
	Other business	1.3	9.7	0.0	0.0	99.8	28.9	101.1	38.6
Total retail		**14.7**	**54.1**	**0.0**	**0.3**	**160.3**	**117.7**	**175.0**	**172.1**
Corporates	Private individuals	1.2	5.0	0.0	0.0	0.0	0.0	1.2	5.0
	Agricultural operations	8.4	17.9	0.0	0.0	0.0	0.0	8.4	17.9
	Other business	3.4	12.7	0.0	0.0	0.0	0.0	3.4	12.7
Total corporates		**13.0**	**35.6**	**0.0**	**0.0**	**0.0**	**0.0**	**13.0**	**35.6**
Total, IRB Approach		**27.7**	**89.7**	**0.0**	**0.3**	**160.3**	**117.7**	**188.0**	**207.7**
Total		**27.7**	**89.7**	**0.0**	**0.3**	**213.4**	**225.9**	**241.1**	**315.9**

5.4.3 Loan losses

The item Loan losses comprises confirmed loan losses, probable loan losses, recoveries of loan losses that were previously recognised as confirmed and reversals due to impairment requirements no longer being deemed necessary. 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 when there is an indication that impairment is required. Recoveries comprise reversed amounts of loan losses that were previously recognised as confirmed.

Only the Bank Group's share of probable and confirmed loan losses are recognised. The new settlement model, which was introduced on 1 January 2014, regarding the commitment that the regional insurance companies have for loan losses related to the business they have originated, entails that the regional insurance companies cover 80% of the provision requirement on the date when an impairment is identified, by means of an off-set against a buffer of accrued commission. On 31 December 2015, the total credit reserve requirement amounted to SEK 388 M, of which the Bank Group's recognised credit reserve accounted for SEK 281 M and the remainder of SEK 107 M was offset against the regional insurance companies' held funds, according to the model described above. 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 60 M was reversed during the period.

Loan losses, including the regional insurance companies' share of loan losses, amounted to SEK 6 M (-10), net, corresponding to loan losses of 0.00% (0.00). Loan losses before reversal remained low and amounted to SEK 66 M, net. Impaired loans and loan losses continued to account for a very small percentage of total loans.

TABLE 5.12 LOAN LOSSES

Loan losses, net (SEK M)	31 Dec 2015[1]	31 Dec 2014[1]
Specific impairment for individually assessed loan receivables		
Write-off of confirmed loan losses during the period	–111.4	–103.7
Reversed earlier impairment of loan losses recognised as confirmed losses	111.1	101.3
Impairment of loan losses during the period	–121.5	–123.1
Payment received for prior confirmed loan losses	41.4	35.3
Reversed impairment of loan losses no longer required	66.6	80.5
Net expense for the period for individually assessed loan receivables	**–13.8**	**–9.7**
Collectively assessment of homogeneous groups of loan receivables with limited value and similar credit risk		
Provision/reversal of impairment of loan losses	7.5	18.6
Net expense for the period for collectively assessed receivables	**7.5**	**18.6**
Net expense for the period for fulfilment of guarantees	0.2	1.1
Net expense of loan losses for the period	**–6.1**	**10.0**

[1] New settlement model from 1 January 2014 entailing that a change in impairment is recognised only at 20% in the Bank Group.

TABLE 5.13 COLLLECTIVE AND INDIVIDUAL IMPAIRMENT BY INDUSTRY

		31 Dec 2015			31 Dec 2014		
Standardised Approach	Industry	Collective impairments	Individual impairments	Total	Collective impairments	Individual impairments	Total
	Private individuals	3.3	13.0	16.3	2.1	3.2	5.3
	Agricultural operations	0.0	0.0	0.0	0.0	0.0	0.0
	Other business	0.8	16.7	17.5	5.5	8.1	13.6
Total, Standardised Approach		**4.1**	**29.7**	**33.8**	**7.6**	**11.3**	**18.9**
IRB Approach							
Retail	Private individuals	39.8	82.0	121.8	56.7	145.9	202.6
	Agricultural operations	0.9	10.0	10.9	1.4	16.9	18.3
	Other business	15.8	64.6	80.4	7.7	42.7	50.4
Total retail		**56.5**	**156.6**	**213.1**	**65.8**	**205.5**	**271.3**
Corporates	Private individuals	0.0	1.2	1.2	0.1	5.0	5.1
	Agricultural operations	17.5	13.4	30.9	12.0	34.1	46.1
	Other business	0.1	1.5	1.6	0.0	2.9	4.1
Total corporates		**17.6**	**16.1**	**33.7**	**12.1**	**42.0**	**54.1**
Total, IRB Approach		**74.1**	**172.7**	**246.8**	**77.9**	**247.5**	**325.4**
Total		**78.2**	**202.4**	**280.6**	**85.5**	**258.8**	**344.3**

5.5 Counterparty risk for derivatives

Counterparty risk is the risk of a counterparty being unable to fulfil its commitments, which could lead to losses. The Board determines limits on the maximum exposure amount per counterparty. The market-value method is used for calculating capital requirements for counterparty risk regarding derivatives. The Consolidated Situation has only swap counterparties with a high credit rating and for which ISDA agreements have been prepared. ISDA agreements allow net accounting of positive and negative derivatives, which reduces the risk to the net position per counterpart. The ISDA agreements also have associated CSA agreements. CSA agreements involve commitments concerning delivery and receipt of collateral in the event of market changes. These agreements are unilateral for Länsförsäkringar Hypotek AB's covered-bond operations, with only the counterparty providing collateral. There are no CSA agreements for which the Consolidated Situation is required to provide collateral for downgrades. Table 5.14 presents the derivative exposure for the Consolidated Situation.

TABLE 5.14 DERIVATIVES AT FAIR VALUE

	31 Dec 2015				31 Dec 2014			
Rating	Gross	Netting gain	Collateral	Net exposure	Gross	Netting gain	Collateral	Net exposure
AA–/Aa3	2,034.2	993.7	140.5	901.1	1,948.8	758.2	175.3	1,015.2
A+/A1	833.7	485.7	292.5	55.5	1,951.5	1,439.8	385.9	125.8
A/A2	2,379.1	650.0	1,749.0	44.7	620.3	0.0	569.6	56.7
A/A3					1,739.7	476.6	1,167.8	119.3
Total	**5,247.0**	**2,129.4**	**2,182.0**	**1,001.3**	**6,260.3**	**2,674.6**	**2,298.6**	**1,317.0**

6 | Market risk

Market risk refers to the risk of loss arising due to changes in the market value of financial assets and liabilities.

6.1 Risk appetite

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

6.2 Risk management

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

6.2.1 Governance

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

6.2.2 Interest-rate risk

The Consolidated Situation's primary market risk is interest-rate risk. Interest-rate risk is defined as the risk of negative changes in the fixed-income market and includes interest-price risk, credit-spread risk and currency-basis spread risk.

Interest-rate risk arises in the Consolidated Situation primarily through different fixed-interest periods for assets and liabilities, but also in ensuring access to a large liquidity reserve and funding in foreign currency. Credit-spread risk arises in the liquidity reserve and currency-basis spread risk arise when hedging funding in foreign currency. Interest-rate risk is primarily minimised by matching fixed lending with corresponding funding. Secondly, interest-rate risk is reduced by utilising interest-rate derivatives.

Interest-rate risk is calculated as the effect of a sharp momentary stress scenario. Credit spread and currency-basis spread risk are measured using sensitivity measures. The capital requirement calculation for interest-rate risk in Pillar II uses a Value-At-Risk model combined with stress scenarios.

TABLE 6.1 INTEREST-RATE RISK PER CURRENCY

SEK M	31 Dec 2015	31 Dec 2014
SEK	–16.2	46.7
Foreign currencies		
CHF	0.0	0.0
EUR	–0.1	–0.2
NOK	–0.1	–0.1
USD	0.0	0.0
Total	**–16.4**	**46.4**

Table 6.1 shows the changes in present value arising from a 100-basis-point increase in market interest rates, specified by currency. The analysis does not include equity that the Consolidated Situation has or the possibility of adapting to changed interest-rate levels. Interest-rate risk is almost exclusively in SEK and has reduced due to natural fluctuations in interest-rate risk, arising from different fixed-interest days for assets and liabilities. Table 6.2 shows the fixed-interest period of assets, liabilities and derivatives for the Consolidated Situation.

TABLE 6.2 FIXED-INTEREST PERIOD OVER NUMBER OF MONTHS

SEK M	Not more than 1 month	1–3 months	3–6 months	6–12 months	1–3 years	3–5 years	> 5 years	Without interest	Total
Assets									
Cash and balances with central banks	22								22
Treasury bills and other eligible bills	3,000	400	200	2,124	2,659	246	195		8,824
Loans to credit institutions	398	243							641
Loans to the public	79,772	48,680	9,664	9,103	40,267	12,303	2,170		201,959
Bonds and other interest-bearing securities	272	251	2,654	2,914	16,830	9,914	147		32,981
Other assets		121				1	121	17,200	17,443
Total assets	**83,464**	**49,694**	**12,518**	**14,140**	**59,756**	**22,464**	**2,633**	**17,200**	**261,870**
Liabilities									
Due to credit institutions	2,954								2,954
Deposits and funding from the public	60,636	13,991	6,981	942	614	235			83,399
Debt securities in issue	1,596	9,296	4,009	2,885	54,154	47,395	22,245		141,580
Other liabilities								11,498	11,498
Subordinated liabilities			1,200		1,100				2,300
Equity								20,138	20,138
Total liabilities	**65,187**	**23,287**	**12,190**	**3,827**	**55,868**	**47,630**	**22,245**	**31,636**	**261,870**
Difference assets and liabilities	**18,277**	**26,407**	**329**	**10,313**	**3,888**	**–25,166**	**–19,611**	**–14,436**	
Interest-rate derivatives, par values	–6,833	–7,386	–2,205	–10,528	–18,316	25,608	20,528		868
Net exposure	**11,445**	**19,021**	**–1,876**	**–215**	**–14,428**	**442**	**916**	**–14,436**	**868**

6.2.3 Currency risk

Currency risk refers to the risk of a currency changing in value in relation to another currency in a negative direction for the Consolidated Situation.

Currency risk arises in funding in foreign currency, primarily in the currencies of EUR, CHF and NOK. Currency risk is measured as the effect of a momentary +/–10% change in the exchange rate. Currency risk is calculated as the total of the absolute amount of the change in value per currency, given a 10% change in the exchange rate. Currency risk is managed for each funding by converting the funding to SEK using swap contracts. Accordingly, no significant currency risk will remain. Total currency risk on 31 December 2015 amounted to SEK 0.5 M (0.3).

6.2.4 Monitoring and reporting

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

7 | Liquidity risk

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

7.1 Risk appetite

The Consolidated Situation's risk appetite for liquidity risk is very low. This means that liquidity risks are minimised and prevented as far as possible by sound forecasting of future liquidity requirements and high access to funds. The Consolidated Situation's risk appetite for liquidity risk is determined by the Board, which also establishes the direction of liquidity risk management and establishes liquidity risk limits that reflect the Consolidated Situation's risk appetite.

7.2 Risk management

The objective of liquidity management is that the Consolidated Situation, at any given time, is to have sufficient cash and cash equivalents with which to fulfil its commitments under both normal and stressed market conditions.

The overall strategy for managing liquidity risk is based on highly diversified funding regarding investor base, instruments, currencies and maturities, and a satisfactory liquidity reserve comprising high-liquidity assets, most of which can be pledged with central banks.

The operational liquidity risk management is based on the Bank Group, but also takes into account Länsförsäkringar AB for LCR, with the requirement that the operations at all times are to meet their liquidity and financing undertakings.

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

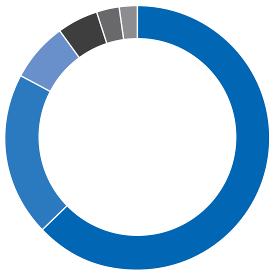
7.2.1 Governance

The Board has a low risk tolerance for liquidity risk. Governance for the Consolidated Situation is based on limits, governance documents and established business targets. Every year, the Board decides on a funding plan that states the funding requirements and planned liquidity for the Bank Group. Outcomes are monitored against the plan at every ALCO and Board meeting. The plan is updated as necessary. The department responsible for daily monitoring and liquidity risk management is the Bank Group's Treasury unit.

Liquidity reserve

A satisfactory liquidity reserve ensures that sufficient liquidity is always available. The Treasury unit monitors and manages the liquidity reserve on a daily basis and is responsible for the amount of the reserve totalling the minimum limits set by the Board. 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. In total, this means that the reserve can quickly be converted to cash and cash equivalents. On 31 December 2015, the liquidity reserve amounted to SEK 42.5 billion (44.1), according to the Swedish Bankers' Association's definition, and 63% (72) of the reserve comprises Swedish covered bonds.

FIGURE 7.1 LIQUIDITY RESERVE



- Swedish covered bonds **63%**
- Swedish government bonds **20%**
- Other Swedish bonds AAA/Aaa **7%**
- AAA/Aaa-rated bonds issued or guaranteed by European governments and multinational development banks **5%**
- Deposits with Swedish National Debt Office **3%**
- Nordic AAA/Aaa-rated covered bonds **2%**

Funding

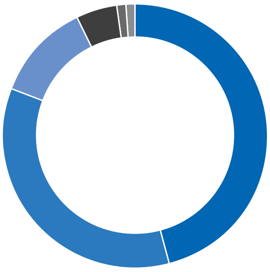
Funding takes place in a manner that creates a sound maturity profile and avoids maturity concentrations. The refinancing activities are based on broad diversification in terms of a variety of investors and markets. Diversification is achieved, for example, through proactive work on creating long-term investor relations.

Funding is primarily managed through covered bonds since the majority of the Bank Group's assets comprise Swedish mortgages, although senior debt and short-term commercial paper programme 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.

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

Länsförsäkringar Bank AB's credit rating from Moody's was raised from A3 to A1 in 2015. The stable trend in Länsförsäkringar Bank AB's credit rating from rating agencies is positive for the bank's ability to finance its operations at low costs on the capital market. In addition, Länsförsäkringar Hypotek AB's covered bonds have the highest rating from both Moody's and Standard & Poor's.

FIGURE 7.2 FUNDING SOURCES



The largest sources of funding in the Bank Group are covered bonds and deposits, representing 46% and 35%, respectively.

FIGURE 7.3 FUNDING BY CURRENCY

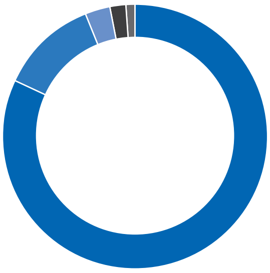
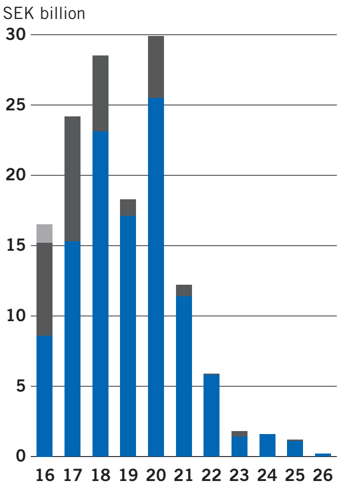


FIGURE 7.4 MATURITY STRUCTURE



7.2.2 Risk measurement

Liquidity risk is quantified using daily liquidity forecasts based on all contracted cash flows and expected business volumes of deposits and lending. The central measure in the management of liquidity risk comprises the “survival horizon,” meaning the period of time during which the Bank Group is able to meet its commitments without requiring access to new financing.

Figure 7.5 illustrates the Bank Group’s survival horizon as of 31 December 2015. The graph shows that contractual undertakings can be satisfied within 29 months (14) by utilising the liquidity reserve alone. Wholesale funding primarily takes place in the Swedish market and in SEK.

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

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

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

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

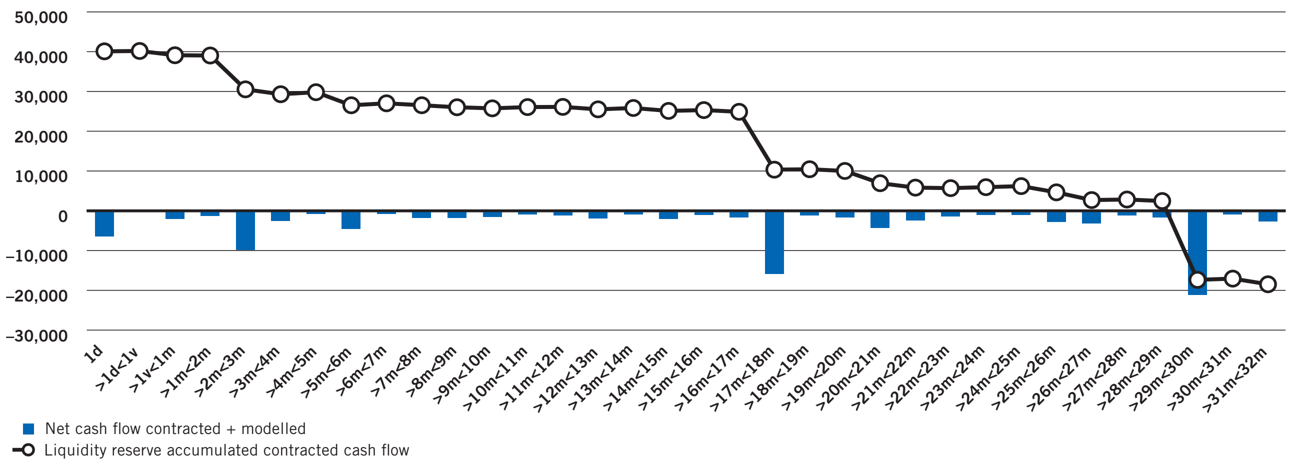
The analysis is prospective and based on measurement methods accepted in the market, including analysis of future cash flows, scenario analyses and key figures stipulated by authorities.

The Consolidated Situation’s Liquidity Coverage Ratio (LCR), as defined by the Financial Supervisory Authority’s regulation, amounted to 251% (221) at the end of 2015. The LCR in EUR amounted to 139,989% (68,580) on 31 December 2015.

7.2.3 Monitoring and reporting

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

FIGURE 7.5 SURVIVAL HORIZON



7.2.4 Encumbered assets

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

Except the encumbered assets in the cover pool due to the issuance of covered bonds, asset encumbrance is generally low.

TABLE 7.1 EMCUMBERED ASSETS

SEK M	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Consolidated Situation's assets	**126,050**		**135,820**	
Shares and participations	0	0	37	37
Bonds and other interest-bearing instruments	9,487	9,487	32,795	32,795
Other assets	116,563		102,988	

TABLE 7.2 EMCUMBERED COLLATERAL

SEK M	Fair value of encumbered collateral for received and own issued bonds	Fair value of collateral received or issued own bonds
Consolidated Situation's collateral received		**105**
Bonds and other interest-bearing instruments		105

8 | Operational risk

Operational risk refers to the risk of losses arising due to human error, inappropriate or faulty internal processes, systems or external events, and includes legal and compliance risks.

8.1 Risk appetite

The risk appetite for operational risk is determined by the Board. The Consolidated situation has a low appetite for operational risk, meaning that the Consolidated situation's operational risk should be limited as far as possible.

8.2 Risk management

Operational risk encompasses the entire business. All employees are responsible for actively managing operational risk within their individual area of business. The department that takes the risk owns the risk, which means that the daily management of operational risk primarily takes place in the business operations. Risks are minimised by proactive preventive measures and awareness of operational risk in every decision-making situation. There is also structured monitoring of trends in operational risk.

8.2.1 Risk assessment

Operational risk is mainly categorised as one of the risk types described in Table 8.1, which are the main operational risk types to which the Consolidated situation is exposed.

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

- Consequence – Effect on the operations
- Probability – How likely is it that a risk event will occur?

TABLE 8.1 CONSOLIDATED SITUATION'S TYPES OF OPERATIONAL RISK

Process and product risk	Encompasses the operational risk that may arise in business and support processes in the Consolidated situation. It also includes the risk related to the product offerings to customers.
Personnel risks	This includes risks associated with the Consolidated situation's personnel, such as staffing levels, skills and conflicts of interest.
Legal risks	This include risks faced by the Consolidated situation as a result of legal undertakings, such as risks arising due to agreements or the regulatory compliance of the Consolidated situation (compliance risk).
IT risks	Encompasses the risks that may arise in the Consolidated situation's IT environment, such as the risk of IT failures and IT security risks.
Security risks	Encompasses the risk of the Consolidated situation and its customers being exposed to external crime, such a fraud or threats. The risk of internal fraud is also included in this risk area.

8.2.2 Risk management process

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

Self-assessment and monitoring controls for assessing operational risk

All significant processes in the business perform a self-assessment of the operational risk associated with the processes to highlight changes in the operations, external business environment or threat scenarios. Process analyses, incidents and implemented and future changes in the process are part of each business area's self-assessment. These analyses are part of the business overall risk assessment. Self-assessments are one of the tools used to identify operational risks and to plan risk-mitigating actions.

Risk indicators

The aim of using risk indicators is to create conditions for better insight into the Consolidated situation's risk profile and the risks that are increasing or reducing at that point in time and over time. The Consolidated Situation has established a number of risk indicators suited for the Consolidated situation's operations. The Consolidated situation works continuously on adjusting and improving these risk indicators and they are updated at least once annually.

Approval process

For 2015, the Consolidated situation has a revised process for approving new or significantly changed products, services, markets, processes, IT systems and for major changes to the Consolidated situation's operations and organisation. The purpose of the Consolidated situation's approval process is to achieve efficient and appropriate management of the risks that may arise when changes occur, to ensure compliance with applicable regulations and to create customer value. The established risk model is applied to the assessment of each individual risk, as it is to all operational risks. Risk Management and Compliance are two of the stakeholders in implementing the approval process.

Incident reporting

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

Risk Management continuously monitors incidents reported in the business activities. Reported incidents are categorised in one of the following established incident types:

- Clients, Products, and Business Practice
- Business Disruption and Systems Failures
- Execution, Delivery, and Process Management
- Employment Practices and Workplace Safety
- Damage to physical assets
- Internal fraud
- External fraud

Active monitoring takes place to detect, for example, money laundering and financing terrorist activities. Other attempts at fraud, for example, card fraud, are monitored, and a system for deviation reporting is in place.

Continuity management

Serious incidents may lead to a crisis. A crisis may arise, for example, due to fire, IT failure or other serious incident. The Consolidated situation works proactively to prevent this type of incident from arising. Relevant plans have been produced to support employees and managers in a crisis situation. Crisis training is conducted periodically to ensure that the plans are efficient. In November 2015, Länsförsäkringar Bank AB participated in the FSPOS (Financial Sector Private-Public Cooperation) sector exercise. This exercise also involved the subsidiaries within the Group.

8.2.3 Monitoring and reporting

Risk Management reports continuously on trends in the Consolidated situation's operational risks to the CEO and business managers concerned. In addition, an aggregated operational risk report is submitted to the Board and relevant committees every quarter.

9 | Remuneration policy

The company's remuneration policy was designed in accordance with the supervisory authority's guidelines for operations in Länsförsäkringar AB and its subsidiaries (Länsförsäkringar AB Group). The internal policy contains guidelines on how to identify and manage conflicts of interest that may arise in connection with remuneration issues.

Länsförsäkringar's internal remuneration policy is designed to promote sound and efficient risk management and counteract excessive risk-taking. The basis of the remuneration model is that it must contribute to generating favourable conditions for the Länsförsäkringar AB Group to satisfactorily perform its task from the owners. The policy applies to all employees in the Länsförsäkringar AB Group and encompasses all forms of remuneration and benefits in the scope of employment. Variable remuneration is a rarely utilised form of remuneration at the Länsförsäkringar AB Group that is paid in the form of a bonus.

Separate limitations apply to employees who work duties have a material impact on the company's risk profile and to employees who can influence the company's risk level. If variable remuneration were to be paid to this employee category, it could be withheld and paid at 60% only after three years, on the condition that the company's financial situation is sufficient enough to make such a payment.

The Board of Länsförsäkringar AB and its subsidiaries, which are subject to the supervision of the Financial Supervisory Authority, are to each appoint a Remuneration Committee with the task of preparing Board decisions in certain remuneration issues.

The composition and duties of the Remuneration Committee are regulated in the formal work plan of each Board. The Remuneration Committee meets at least once a year and additional meetings may be held if new appointments are made to senior executives or if an executive leaves the company. Employees in control functions are not entitled to any form of variable remuneration.

Furthermore, the company performs an annual analysis to identify risk individuals. Decisions on changes to the remuneration system and material changes to the remuneration policy are always preceded by an analysis of the risk associated with the remuneration system and remuneration policy. The risk analysis is prepared by the company's Risk Control function.

No variable remuneration, shares or operations were paid during the year to employee categories that can significantly influence the risk profile in the institution or to senior executives. No remuneration of this type was paid to employees in this category who were recently recruited or who left the company. For further information about salaries and remuneration, refer to Länsförsäkringar Bank AB's 2015 Annual Report.

In accordance with the Financial Supervisory Authority's regulation FFFS 2007:5, information pertaining to the Remuneration Policy of Länsförsäkringar Bank AB and its application must be published on the bank's website.